Sun East Technology (Holdings) Limited
(Incorporated in Bermuda with limited liability)
Stock Code: 365

ANNUAL REPORT 2012

28 Years

Together We Accomplished Our Dreams

Contents

Expressed in Hong Kong dollars ("HK$")

Corporate Information

Board of Directors

Executive Directors

Mr. BUT Tin Fu *(Chairman)*

Mr. BUT Tin Hing

Mr. LEUNG Cheong *(Chief Executive Officer)*

Mr. LEUNG Kuen, Ivan

Independent Non-executive Directors

Mr. SEE Tak Wah

Prof. XU Yang Sheng

Mr. LI Wanshou

Members of the Audit Committee

Mr. SEE Tak Wah

Prof. XU Yang Sheng

Mr. LI Wanshou

Company Secretary

Mr. TSE Ka Yi

Registered Office

Clarendon House

2 Church Street

Hamilton HM 11

Bermuda

Principal Place of Business

Unit H, 1st Floor, Phase 4

Kwun Tong Industrial Centre

Nos. 436 – 446 Kwun Tong Road

Kwun Tong

Kowloon

Hong Kong

Principal Banker

DBS Bank (Hong Kong) Limited

Units 1208-18 Miramar Tower

132-134 Nathan Road

Tsimshatsui, Kowloon

Hong Kong

Auditor

BDO Limited

Certified Public Accountants

25th Floor, Wing On Centre

111 Connaught Road Central

Hong Kong

Principal Share Registrar and Transfer Office

HSBC Securities Services (Bermuda) Limited

6 Front Street

Hamilton HM 11

Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Tricor Tengis Limited

26/F., Tesbury Centre

28 Queen's Road East

Hong Kong

Chairman's Statement

Last year proved to be challenging year for Sun East, with the earthquake and tsunami in Japan affecting the electronic industries and the tightening of credit and continued inflation in China. Despite these challenges, we are pleased with the performance in 2012.

The sales of Sun East mainly derived from China and the overall demand of the Chinese equipment market is declining, however, the sale amount is still within our expectation. The Pearl River Delta area had been affected by the macroeconomic shocks in the oversea markets while our strategically distributed sales network was able to capture the opportunities rising in the Yangtze River Delta and other parts of China caused by continuing trend of urbanization and relocation of factories to the central and western regions of China to lower the operational cost.

During times when the economic growth is slow and operating cost continued to increase, we see this as an opportunity to increase our market share and maintaining our turnover by collaborating closely with our business partners to share the resources, operating cost and risks.

China is now stepping into the new era of the automation which Sun East is well placed to benefit from this expanding market, a market that we have accumulated many experiences in the past years. The introduction of the Labour Law of the People's Republic of China and the high inflation in China drove up labour and rental costs. Our customers are looking into reducing labour cost with highly automated equipment and robots to improve productivity as well as product quality, hence, there will be substantial growth in the automation industry.

The global economic recovery conditions remain grim, we expect to continue to face a demanding and competitive market environment. However, our outlook for the future remains positive that we will have a slow stable growth. This growth mainly originate from the positive prospects in the automation industry and the launch of Samsung's high speed chip mounter which can further increase our market share in the SMT industry. We will also continue to grow our sales network in the North, Central and South China region from 18 sales points to 23 sale points, in addition to searching for more potential collaborative partners to achieve market diversification increase and redefining the word "service" in the equipment industry.

Chairman's Statement

Our persistent investment in research and development in the past difficult years have proved to be foresighted, when the Chinese market as well as oversea market is demanding low cost yet better technology equipment, which gives Sun East advantages over our competitors in China and overseas. In our efforts of further strengthening our business, we are directing our energies in three areas. We will continue R&D investment, in addition to collaboration with well-known universities and our business partners. Simultaneously, we are working at attracting outstanding human capital from around the world. Thirdly, we are strongly reinforcing group-wide measures to lower our cost structure.

Acknowledgement

2012 marked an important milestone for Sun East as we commemorate 28 years in the China and Hong Kong equipment industry. On behalf of the Board, I would like to thank our employees for their hard work over the years and their perseverance in current demanding market environment. I would also like to thank our customers, partners and shareholders for putting their trust in us.

But Tin Fu
Chairman

Hong Kong, 26 June 2012

FINANCIAL RESULTS

A summary of the financial results of the Group for the year ended 31 March 2012 is as follows:

– Turnover was approximately HK$632.8 million (2011: HK$845.3 million).

– Profit before income tax was approximately HK$17.1 million (2011: HK$20.4 million).

– Profit for the year was approximately HK$13.0 million (2011: HK$12.2 million).

– Basic earnings per share was approximately HK2.48 cents (2011: HK2.34 cents).

Financial review

Turnover and Gross Profit

During the year, turnover of the Group reached approximately HK$632.8 million, representing a decrease of approximately 25.1%, as compared with approximately HK$845.3 million in the last year 2011. The decrease was primarily attributable to the big drop in the sale of brand name production equipment which is approximately HK$248.2 million. The main reason of the declining was that the PRC's government used a tight monetary policy, which rose twelve times of reserve requirement ratio and five times of benchmark deposits and loan interest rate during the period from January 2010 to July 2011, to check the economic overheating and to reduce the fixed asset investment.

The gross profit ratio (GP ratio) for the year was approximately 15.9%, representing an increase of approximately 2.5%, as compared with last year approximately 13.4%. The increase of the GP ratio was driven predominantly by the increasing contribution and improving performance from Automatic Warehouse ("AW") and Logistics Equipments ("LE"), which enjoyed a higher gross profit margin than other products in the Group.

Moreover during the year under review, the price of our major raw material-iron plate declined 13.2% from approximately HK$5,300 to HK$4,600 per ton. This was favorable to our profit margin. Labor cost increases due to minimum wage adjustments and a shortage of workers continue to create margin pressures. However, these cost issues were managed successfully.

Management Discussion and Analysis

Other Income and Gains

During the year, the Group recorded a substantial increase in other income at approximately HK$24.7 million, which represented an increase of approximately HK$18 million as compared with approximately HK$6.7 million last year. The significant increase was largely due to the recovery of trade receivable of approximately HK$7.3 million and interest income and exchange gains of approximately HK$11.8 million.

Selling and Distribution Costs

The Group has formed a strategy to expand its number of sales point in order to soar the density of its distribution network in China and let our customers find that there must be our branch nearby and provide timely service to them. Therefore, the selling and distribution cost for the year were approximately HK$48.3 million, representing an increase of approximately HK$4.6 million or approximately 10.5%, as compared to approximately HK$43.7 million in corresponding year. This was a result of spending on new market development initiatives, the improvement of remuneration package for salesman and advertising cost in PRC.

General and Administrative Expenses

The management of the Group implemented various methods to control its general and administrative expenses including departmental cost budgeting and enhancement of the efficiency by reviewing manpower. So, administrative expenses during the year under review were kept at a steady level. The increment of approximately HK$4 million or approximately 10%, as compared to approximately HK$40.3 million in last year was principally representing the increase in fair value loss on the derivative financial instruments.

Finance Costs

Finance costs for the year under review amounted to approximately HK$3.2 million, representing an increase of approximately HK$2.4 million, as compare with approximately HK$0.8 million in the year 2011. The boost was mainly attributable to the interest expenses payable for bank borrowings which are secured by pledged deposits. Actually this interest expense will be compensated by interest income from pledged deposits of approximately HK$4.5 million.

Taxation

During the year under review, the 日東電子科技(深圳)有限公司, a member of the Group, was designated of 2011 National High-Tech Enterprise after the process of application. With this certification the entity is entitled to a preferential corporate income tax rate of 15%, which is substantially lower than China's ordinary 25% corporate tax rate.

Profit for the year

As a result of the foregoing, the profit attributable to the owners of the Company for the year under review was approximately HK$13 million, representing a slight increase of approximately HK$0.7 million, as compared with approximately HK$12.3 million in corresponding year. The net profit margin was approximately 2.1% for the period under review as compared with approximately 1.4% in corresponding year.

EBITDA

The following table illustrates the Group's EBITDA for the respective years. The Group's EBITDA margin was 5.2% for the year under review as compared with 4.1% in corresponding year.

	Year ended 31 March	
	2012	2011
	HK$'000	HK$'000
Profit for year attributable to owners of the Company	**12,997**	12,306
Finance costs	**3,180**	775
Income tax expenses	**4,113**	8,163
Depreciation and amortisation	**12,744**	13,171
EBITDA	**33,034**	34,415

Management Discussion and Analysis

Financial Resource, Liquidity and Gearing Ratio

During the year, there was no material change in the Group's funding and treasury policy. As at 31 March 2012, the Group had sufficient cash and banking facilities from its main bankers to finance ongoing working capital requirements. The Group maintained high value of net current assets at approximately HK$156.7 million and healthy liquidity ratio at 1.6 times (both are adjusted by excluding of pledged deposits HK$106.5 million and bank borrowings HK$105.3 million which are for the purpose of minimising the exchange and interest rate risk exposure). Finance lease obligations were fully repaid during the year. The Group's gearing ratio, calculated by reference to the ratio of total borrowings (excluding of borrowings as stated above) to total equity attributable to the owners of the Company as at 31 March 2012, was 0.00% (2011: 0.01%).

Working Capital Management

The Group continued to maintain a sound financial position. As at 31 March 2012, the Group held approximately HK$172.7 million cash and bank balances which declined HK$13.6 million from HK$186.3 million at the beginning of the year. The Group's average inventory turnover days was approximately 51 days (2011: 35 days). The Group's average debtors turnover days was approximately 85 days (2011: 52 days). The Group's average creditors turnover days was approximately 91 days (2011: 73 days). The Group remains confident that the net cash position will improve further given continuing profitability and management's continued focus on close working control.

Capital Expenditure on Property, Plant and Equipment

Total capital expenditure for the year was approximately HK$9.5 million, out of which approximately HK$ 7.5 million was spent on the acquisition of machinery and equipment, approximately HK$1 million on acquisition of furniture, fixture and leasehold improvement and approximately HK$1 million on acquisition of motor vehicles.

Exchange Rate Risk

Most of the transactions of the Group were made in Hong Kong dollars, Renminbi and US dollars. In order to limit the capital risk associated with the fluctuations of exchange rate for these foreign currency transactions, the Group newly entered into non-deliverable forward contract ("NDF") of US$15.1 million transaction in the year under review. NDF is used to minimise the exchange rate risk by fixing a forward exchange rate on the notional amount during the term of the contract.

In order to limit the risk associated with the fluctuations of interest, the Group newly entered to interest rate swap agreement ("IRS") of US$14.4 million floating rate foreign currency loan during the period under review. The Group would charge the counterparty an interest according to a floating rate, in order to pay the floating-rate interest to the original lender, while a fixed rate to the counterparty.

The effect of the change in the all NDF value on the Group's profit or loss during the year under review amounted to loss of approximately HK$3.2 million. The fair value of the NDF was determined with reference to the market rate of NDF which matured on the same day; the effect to the change in all IRS value on the Group's profit or loss during the year under review amounted to loss of approximately HK$1.6 million. The value of the IRS was determined based on the price quoted in the agreement.

It is the Group's policy not to engage in speculative activities. The management continues to actively monitor foreign exchange exposure to minimize the impact of adverse currency movements.

Charges on Group Assets

As at 31 March 2012, the Group's banking facilities including its import/export, letter of credit documentary credits, and trust receipt and bank borrowings are secured by:

(i) a first legal charge on certain of the Group's leasehold land and buildings, which had an aggregate net carrying amount at the reporting date of HK$7.2 million (2011: HK$6.2 million);

(ii) bank deposits approximately HK$106.5 million (2011: HK$118.5 million); and

(iii) Corporate guarantees provided by the Company.

Capital Commitments and Contingent liabilities

As at 31 March 2012 and 2011, the Group had capital commitments as follow:

	2012	2011
	HK$'000	HK$'000
Contracted but not provided in consolidated financial statements	**1,429**	–

There were no material contingent liabilities as at 31 March 2012 and 2011 of the Group.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2012, the Group employed approximately 1,241 full time employees in the PRC and approximately 20 were employed in Hong Kong.

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

Corporate Governance Practices

The Board of Directors and the management of the Company recognize the importance and benefits of good corporate governance practices and have adopted certain corporate governance and disclosure practices aiming at a high level of transparency and accountability. The Company is committed to continuously improving its corporate governance practices as part of its own corporate culture.

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices which was in effect before 1 April 2012 (the 'CG Code') under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 March 2012 except for the deviations from the code provision A.4.1 as set out below.

The Board

The Board, headed by the Chairman, is responsible for the oversight of the management of the business and affairs of the Company with the objective of enhancing shareholder value. It is responsible for the formulation and the approval of the Group's development and business strategies and policies, approval of annual budgets and business plans, recommendation of dividend, and supervision of management in accordance with the governing rules. The management of the Company is responsible for the day-to-day operations of the Group under the leadership of the Chief Executive Officer.

The Board of the Company comprises a total of 7 Directors, with four Executive Directors and three Independent Non-executive Directors. More than one-third of the Board is Independent Non-executive Directors and more than one of them have appropriate professional qualifications or accounting or related financial management expertise. The composition of the Board is shown on page 12 under the subject Board Meeting attendance records. Biographies of the Directors which include relationship among members of the Board are set out on pages 17 to 18 under the subject Directors Profile.

Each of the Independent Non-executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Board has assessed their independence and concluded that all the Independent Non-executive Directors are independent in accordance with the Listing Rules.

The Board (Continued)

Code Provision A.4.1 stipulates that non-executive directors should be appointed for a specific term and subject to re-election. The Company's non-executive directors are not appointed for a specific term but are subject to retirement by rotation in accordance with the Company's Bye-Laws. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are comparable with those in the CG Code.

Regular Board meetings are scheduled to be held at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company.

Details of Directors' attendance records of Board meetings held during the year are as follows:

Composition of the Board	**Attended**
Executive Directors	
Mr. But Tin Fu *(Chairman)*	4/4
Mr. But Tin Hing	4/4
Mr. Leung Cheong *(Chief Executive Officer)*	4/4
Mr. Leung Kuen, Ivan	4/4
Independent Non-executive Directors	
Mr. See Tak Wah	4/4
Prof. Xu Yang Sheng	3/4
Mr. Li Wanshou	3/4

The Board (Continued)

All Directors have full access to accurate, relevant and timely information of the Group through management and are able to obtain independent professional advices on issues whenever deemed necessary by the Directors.

Chairman and Chief Executive Officer

Code provision A.2.1 stipulates that the role of chairman and chief executive officer should be separated. Mr. But Tin Fu is the Chairman and Mr. Leung Cheong is the Chief Executive Officer of the Group.

Nomination Committee

On 2 March 2012, the Company has established a nomination committee in accordance with the requirement of the CG Code for the purpose of reviewing the structure, size and composition of Board, identifying individuals suitably qualified to become Board members and assessing the independence of independent non-executive directors. The committee currently comprises three members, namely Mr. Li Wanshou (Chairman of the Committee) and Mr. See Tak Wah who are independent non-executive directors and Mr. Leung Kuen, Ivan who is an executive director.

Remuneration Committee

The Company has a remuneration committee which was established in accordance with the requirements of the CG Code for the purpose of reviewing the remuneration policy and fixing the remuneration package for all Directors. Effective from 2 March 2012, Mr. But Tin Fu has ceased to be Chairman of remuneration committee and Prof. Xu Yang Sheng has been appointed as the Chairman. The remuneration committee currently comprises three members, namely Prof. Xu Yang Sheng (Chairman of the Committee) and Mr. Li Wanshou who are independent non-executive directors, and Mr. But Tin Fu, who is an executive director. The committee has met once during the year with all members present to review the remuneration packages for all Directors.

Audit Committee

The existing Audit Committee comprises three Independent Non-executive Directors, namely, Mr. Li Wanshou, Mr. See Tak Wah (Chairman of the Committee) and Prof. Xu Yang Sheng.

Audit Committee (Continued)

The principal duties of the Audit Committee include the review of the financial reporting and internal control system of the Group, review of half-yearly and annual reports and accounts, review and monitor the appointment of the auditors and their independence, monitor compliance with statutory and listing requirements, and to engage independent legal or other advisers as it determines necessary.

During the year, two meetings were held. All members of the Audit Committee attended all the Audit Committee meetings.

In discharging its responsibility, the Audit Committee has performed the following work during the year:

(i) reviewed the draft annual and interim financial statements and draft results announcements during the year;

(ii) reviewed, in conjunction with the auditor, the development of accounting standards and assessed their potential impacts on the Group's financial statements.

Model Code For Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by Directors of the Company. Having made specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard as set out in the Model Code for the year.

Auditor's Remuneration

For the year ended 31 March 2012, the remuneration paid to the Company's auditor, BDO Limited, is set out as follows:

Services rendered	**Fee paid/payable** HK$'000
Audit services	900
Non-audit services	–
	900

Financial Reporting

The Directors acknowledge their responsibility for preparing financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the Group's results and its cash flows.

The auditor's responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 25 to 26.

The Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future and it is appropriate to adopt the going concern basis in preparing the financial statements.

Internal Control

The Board is responsible for maintaining effective internal control systems of the Group. The Group's system of internal control includes a defined management structure with limits of authority, is designed to evaluate the Group's risk, achieve the division goals and business objectives, maintain proper accounting records for the provision of financial information for internal analysis or for publication, comply with relevant legislation and regulations.

During the year, the Directors had conducted a review of the effectiveness of the systems of internal control in respect of the financial, operational ,compliance controls and risk management function of the Group.

Five Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

	Year ended 31 March				
	2012	2011	2010	2009	2008
RESULTS	**HK$'000**	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**632,833**	845,323	455,199	374,860	434,412
Profit/(Loss) before income tax	**17,110**	20,400	(4,114)	(57,825)	(1,011)
Income tax (expense)/credit	**(4,113)**	(8,163)	(4,079)	688	1,516
Profit/(Loss) for the year attributable to owners of the Company	**12,997**	12,306	(8,193)	(57,137)	505

	As at 31 March				
	2012	2011	2010	2009	2008
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
TOTAL ASSETS	**665,921**	698,326	450,842	366,878	495,127
TOTAL LIABILITIES	**(369,817)**	(429,865)	(207,754)	(120,961)	(191,315)
	296,104	268,461	243,088	245,917	303,812

Executive Directors

Mr. BUT Tin Fu, aged 54, is the Chairman of the Group. Mr. But is responsible for overall strategic planning and the management of the Group. He joined the Group in May 1987 and has over 25 years of experience in the electronics industry. He is a brother of Mr. But Tin Hing.

Mr. BUT Tin Hing, aged 56, is a Technical Director of the Group. He established the Group in 1984 and is responsible for the Group's product development. Mr. But has over 28 years of experience in the electronics industry. He is a brother of Mr. But Tin Fu.

Mr. LEUNG Cheong, aged 51, is the Managing Director and the Chief Executive Officer of the Group and is responsible for the sales and marketing of the Group in the PRC and Hong Kong. Mr. Leung joined the Group in May 1987 and has over 25 years of experience in the electronics industry. He is a brother of Mr. Leung Kuen, Ivan.

Mr. LEUNG Kuen, Ivan, aged 55, is the Marketing Director of the Group and is responsible for market research and development of production equipment and lines. He joined the Group in August 1991 and has over 21 years of experience in the mechanical engineering field. Mr. Leung holds a masters degree in precision engineering from the Hong Kong Polytechnic University. He is a brother of Mr. Leung Cheong.

Independent Non-executive Directors

Mr. LI Wanshou, aged 48, obtained PhD in Economics from China Academy of Social Sciences and PhD in Philosophy from Xi'an Jiaotong University. He is currently guest professor of Nankai University, part time professor at Shenzhen Graduate School, Chinese Academy of Social Sciences and deputy director of the Venture Capital Research Center at Fudan University. Mr. Li is currently the President of Shenzhen Capital Group Co., Ltd.

Independent Non-executive Directors (Continued)

Prof. XU Yang Sheng, aged 54, graduated from the Zhejiang University in 1982 with a bachelor's degree in mechanical engineering and a master degree in mechanical engineering therefrom in 1984. Prof. Xu obtained his doctorate degree from the University of Pennsylvania of the United States in 1989. From 1989 to 1997, he worked in Carnegie Mellon University in the United States. Prof. Xu is Professor of Automation and Computer-Aided Engineering of the Chinese University of Hong Kong. Prof. Xu is an Academician of Chinese Academy of Engineering, Academician of International Eurasian Academy of Sciences and fellow of Institute of Electrical and Electronics Engineers.

Mr. SEE Tak Wah, aged 49, graduated from the Management School of Waikato University of New Zealand with a first class honour in Bachelor of Management Studies and is a member of the Institute of Chartered Accountants of New Zealand and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. See has over 21 years' experience in financial and general management where he previously worked as the regional business controller of Nokia Mobile Phones Asia Pacific, the managing director of Nokia Mobile Phones Hong Kong, the chief operating officer of First Mobile Group Holdings Ltd and held key management position in the North Asia office of Philips and Siemens. Mr. See at present is an independent non-executive director of First Mobile Group Limited. On 29 June 2012, Mr. See retired from the office independent non-executive director of Buildmore International Limited. Save as disclosed, Mr. See does not have any directorship in any listed company within last 3 years.

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 2012.

Principal Activities

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise the design, manufacture and distribution of production lines and production equipment, and the distribution of brand name production equipment. There were no significant changes in the nature of the Group's principal activities during the year.

Results and Dividends

The Group's profit for the year ended 31 March 2012 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 27 to 102.

The directors do not recommend the payment of any dividend in respect of the year.

Summary Financial Information

A summary of the published results and assets and liabilities of the Group for the last five financial years, is set out on page 16.

Property, Plant and Equipment

Details of movements in the property, plant and equipment of the Group during the year is set out in note 13 to the financial statements.

Share Capital

Details of movements in the Company's share capital during the year are set out in note 27 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 28(b) to the financial statements and in the consolidated statement of changes in equity, respectively.

Distributable Reserves

At 31 March 2012, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to approximately HK$87,802,000. In addition, the Company's share premium account, in the amount of approximately HK$87,728,000, may be distributed in the form of fully paid bonus shares.

Major Customers and Suppliers

In the year under review, aggregate sales attributable to the Group's five largest customers were less than 30% of the total sales for the year. Purchases from the Group's five largest suppliers accounted for approximately 48% 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*
Mr. Li Wanshou*

* Members of the audit committee

Directors (Continued)

In accordance with clauses 87 and 88 of the Company's bye-laws, Messrs But Tin Hing, See Tak Wah, Prof. Xu Yang Sheng and Li Wanshou 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' Biographies

Biographical details of the directors of the Company are set out on pages 17 to 18 of the annual report.

Directors' Service Contracts

Each of the executive directors has entered into a service contract with the Company for a term of three years commencing from 1 September 2000 which has continued thereafter until termination by three months' notice in writing served by either party to the other.

Apart from the foregoing, no director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' Interests in Contracts

No director had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

Directors' Interests in Shares and Underlying Shares

At 31 March 2012, 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 position in the shares

Name of Directors	Number of the ordinary shares beneficially held	Capacity/ Nature	Approximate percentage of total shareholding %
But Tin Fu ("BTF")	39,916,000	Beneficial owner	7.60
But Tin Hing ("BTH")	1,050,000	Beneficial owner	0.20
	220,605,840	Interest of controlled corporation (Note)	42.02
	221,655,840		42.22
Leung Cheong ("LC")	1,442,280	Beneficial owner	0.27
Leung Kuen, Ivan ("LKI")	4,536,520	Beneficial owner	0.86

Note:

BTH is the beneficial owner of 50% of the issued shares in Mind Seekers Investment Limited ("Mind Seekers") and therefore BTH is deemed, or taken to be interested in the 220,605,840 Shares held by Mind Seekers for the purposes of the SFO. The entire issued share capital of Mind Seekers is beneficially owned by BTH, BTF, LC and LKI, as to 50%, 20%, 20% and 10% respectively.

Save as disclosed above, as at 31 March 2012, 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 2012, so far as was known to the Directors or chief executive of the Company, the following persons (other than the Directors or chief executive of the Company) had an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follow:

Long position in the shares

Name of Shareholder	Nature of interest	Number of the ordinary shares held	Approximate percentage of total shareholding %
Substantial Shareholder			
Mind Seekers	Beneficial owner	220,605,840	42.02

Save for the interests disclosed above, the directors are not aware of any person who had, directly or indirectly, registered an interest in the issued share capital and underlying shares of the Company that was required to be recorded under Section 336 of the SFO.

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

Directors' Remuneration

The directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the directors, the directors confirmed that at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

Auditor

The financial statements for the year ended 31 March 2010 were audited by Grant Thornton ("GTHK"), now known as JBPB & Co. Due to a merger of the business of GTHK and BDO Limited ("BDO") to practise in the name of BDO as announced on 7 December 2010, GTHK resigned and BDO was appointed as auditor of the Company effective from 18 January 2011. The financial statements for the years ended 31 March 2011 and 31 March 2012 were audited by BDO. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint BDO as auditor of the Company.

ON BEHALF OF THE BOARD

But Tin Fu

Chairman

Hong Kong

26 June 2012

Independent Auditor's Report

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To the shareholders of Sun East Technology (Holdings) Limited

日東科技（控股）有限公司

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Sun East Technology (Holdings) Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 27 to 102, which comprise the consolidated and company statements of financial position as at 31 March 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

Auditor's Responsibility (Continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2012 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

BDO Limited
Certified Public Accountants
Cheung Or Ping
Practising Certificate Number: P05412

Hong Kong, 26 June 2012

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
Revenue	6	**632,833**	845,323
Cost of sales		**(532,429)**	(732,223)
Gross profit		**100,404**	113,100
Other income and gains	6	**24,682**	6,650
Selling and distribution costs		**(48,349)**	(43,667)
Administrative expenses		**(44,197)**	(40,260)
Other expenses		**(12,250)**	(14,648)
Finance costs	7	**(3,180)**	(775)
Profit before income tax	8	**17,110**	20,400
Income tax expense	10	**(4,113)**	(8,163)
Profit for the year		**12,997**	12,237
Other comprehensive income, including reclassification adjustments			
Surplus on revaluation of properties held for own use	13	**12,771**	10,873
Deferred tax relating to revaluation surplus	26	**(3,015)**	(2,419)
Exchange gain on translation of financial statements of foreign operations		**4,890**	4,613
Other comprehensive income for the year, including reclassification adjustments and net of tax		**14,646**	13,067
Total comprehensive income for the year		**27,643**	25,304
Profit for the year attributable to:			
Owners of the Company	11	**12,997**	12,306
Non-controlling interests		**–**	(69)
		12,997	12,237
Total comprehensive income for the year attributable to:			
Owners of the Company		**27,643**	25,373
Non-controlling interests		**–**	(69)
		27,643	25,304
Earnings per share for profit attributable to owners of the Company	12		
– Basic		**HK2.48 cents**	HK2.34 cents
– Diluted		**N/A**	N/A

Consolidated Statement of Financial Position

As at 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	**139,210**	130,193
Prepaid land lease payments	14	**10,006**	9,895
		149,216	140,088
Current assets			
Inventories	16	**70,447**	77,611
Trade and bills receivables	17	**143,807**	150,033
Prepayments, deposits and other receivables		**19,474**	22,365
Tax reserve certificates		**3,600**	3,300
Taxes recoverable		**191**	191
Pledged deposits	18	**106,480**	118,482
Cash and bank balances	19	**172,706**	186,256
		516,705	558,238
Current liabilities			
Trade and bills payables	20	**100,843**	164,161
Other payables and accruals		**119,817**	111,488
Finance lease obligations	21	**–**	28
Bank borrowings	22	**105,282**	114,076
Derivative financial instruments	24	**2,134**	1,209
Due to directors	25	**1,610**	3,408
Taxes payable		**29,134**	27,513
		358,820	421,883
Net current assets		**157,885**	136,355
Total assets less current liabilities		**307,101**	276,443
Non-current liabilities			
Deferred tax liabilities	26	**10,997**	7,982
Net assets		**296,104**	268,461

Consolidated Statement of Financial Position

As at 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	27	**52,500**	52,500
Reserves	28(a)	**243,604**	215,961
Total equity		**296,104**	268,461

But Tin Fu
Director

Leung Cheong
Director

Statement of Financial Position

As at 31 March 2012

	Notes	2012 HK$'000	2011 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	13	**77**	97
Interests in subsidiaries	15	**115,668**	115,668
		115,745	115,765
Current assets			
Due from subsidiaries	15	**112,242**	114,514
Prepayments		**316**	313
Cash and bank balances	19	**1,447**	624
		114,005	115,451
Current liabilities			
Due to a subsidiary	15	**470**	2,097
Other payables and accruals		**1,250**	1,069
		1,720	3,166
Net current assets		**112,285**	112,285
Net assets		**228,030**	228,050
EQUITY			
Share capital	27	**52,500**	52,500
Reserves	28(b)	**175,530**	175,550
Total equity		**228,030**	228,050

But Tin Fu
Director

Leung Cheong
Director

Consolidated Statement of Changes in Equity

For the year ended 31 March 2012

	Attributable to owners of the Company								Non-controlling interests	Total equity
	Share capital	Share premium*	Contributed surplus*	Asset revaluation reserve*	Exchange reserve*	Statutory reserve and enterprise expansion funds*	Retained profits*	Total		
	HK$'000	HK$'000	HK$'000 (note 28(a))	HK$'000	HK$'000	HK$'000 (note 28(a))	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1 April 2010	52,500	87,728	4,800	16,250	11,552	3,659	66,599	243,088	–	243,088
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	11,636	11,636
Disposal of a subsidiary (note 32)	–	–	–	–	–	–	–	–	(11,567)	(11,567)
Transactions with owners	–	–	–	–	–	–	–	–	69	69
Profit for the year	–	–	–	–	–	–	12,306	12,306	(69)	12,237
Other comprehensive income:										
Surplus on revaluation on leasehold land and buildings	–	–	–	10,873	–	–	–	10,873	–	10,873
Exchange gain on translation of financial statements of foreign operations	–	–	–	–	4,613	–	–	4,613	–	4,613
Deferred tax relating to revaluation of leasehold land and buildings (note 26)	–	–	–	(2,419)	–	–	–	(2,419)	–	(2,419)
Total comprehensive income for the year	–	–	–	8,454	4,613	–	12,306	25,373	(69)	25,304
Appropriations to statutory reserve	–	–	–	–	–	2,356	(2,356)	–	–	–
Balance at 31 March 2011	52,500	87,728	4,800	24,704	16,165	6,015	76,549	268,461	–	268,461

Consolidated Statement of Changes in Equity

For the year ended 31 March 2012

	Attributable to owners of the Company								Non-controlling interests	Total equity
	Share capital HK$'000	Share premium* HK$'000	Contributed surplus* HK$'000 (note 28(a))	Asset revaluation reserve* HK$'000	Exchange reserve* HK$'000	Statutory reserve and enterprise expansion funds* HK$'000 (note 28(a))	Retained profits* HK$'000	Total HK$'000	HK$'000	HK$'000
Balance at 1 April 2011	52,500	87,728	4,800	24,704	16,165	6,015	76,549	268,461	-	268,461
Profit for the year	-	-	-	-	-	-	12,997	12,997	-	12,997
Other comprehensive income:										
Surplus on revaluation on leasehold land and buildings	-	-	-	12,771	-	-	-	12,771	-	12,771
Exchange gain on translation of financial statements of foreign operations	-	-	-	-	4,890	-	-	4,890	-	4,890
Deferred tax relating to revaluation of leasehold land and buildings (note 26)	-	-	-	(3,015)	-	-	-	(3,015)	-	(3,015)
Total comprehensive income for the year	-	-	-	9,756	4,890	-	12,997	27,643	-	27,643
Appropriations to statutory reserve	-	-	-	-	-	681	(681)	-	-	-
Balance at 31 March 2012	52,500	87,728	4,800	34,460	21,055	6,696	88,865	296,104	-	296,104

* These reserve accounts comprise the consolidated reserves of HK$243,604,000 (2011: HK$215,961,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

For the year ended 31 March 2012

	2012 HK$'000	2011 HK$'000
Cash flows from operating activities		
Profit before income tax	**17,110**	20,400
Adjustments for:		
Finance costs	**3,180**	775
Interest income	**(5,917)**	(1,746)
Depreciation	**12,485**	12,925
Amortisation of prepaid land lease payments	**259**	246
Fair value loss on derivative financial instrument	**4,768**	1,209
Loss on disposal of property, plant and equipment	**12**	–
Gain on disposal of a subsidiary (note 32)	**–**	(71)
Provision for impairment of trade and bills receivables	**8,122**	8,963
Provision for impairment of other receivables	**117**	553
Write-down of inventories to net realisable value	**6,616**	4,358
Write-off of property, plant and equipment	**4,011**	5,132
Operating profit before working capital changes	**50,763**	52,744
Decrease/(Increase) in inventories	**548**	(20,715)
Increase in trade and bills receivables	**(1,898)**	(68,154)
Decrease/(Increase) in prepayments, deposits and other receivables	**2,787**	(30,638)
Purchase of tax reserve certificates	**(300)**	(300)
(Decrease)/Increase in trade and bills payables	**(63,318)**	36,881
Increase in other payables and accruals	**8,329**	62,007
Changes in derivative financial instruments	**(3,843)**	–
Cash (used in)/generated from operations	**(6,932)**	31,825
Interest paid	**(3,180)**	(775)
Hong Kong profits tax refunded	**–**	200
Overseas taxes paid	**(2,880)**	(3,073)
Net cash (used in)/generated from operating activities	**(12,992)**	28,177

Consolidated Statement of Cash Flows

For the year ended 31 March 2012

	2012 HK$'000	2011 HK$'000
Cash flows from investing activities		
Interest received	**5,917**	1,746
Disposal of a subsidiary, net of cash disposed (note 32)	**–**	(237)
Increase in bank deposits with original maturity over three months	**(7,396)**	–
Proceeds from disposal of property, plant and equipment	**329**	–
Purchases of property, plant and equipment	**(9,538)**	(2,344)
Decrease/(Increase) in pledged deposits	**12,002**	(118,482)
Net cash generated from/(used in) investing activities	**1,314**	(119,317)
Cash flows from financing activities		
Proceeds from bank borrowings	**105,282**	114,076
Repayment of bank borrowings	**(114,076)**	–
Capital contribution from non-controlling interests of a subsidiary	**–**	11,636
Increase in amount due to non-controlling interests of a subsidiary	**–**	12,110
(Decrease)/Increase in amounts due to directors	**(1,798)**	436
Capital element of finance lease rental payments	**(28)**	(108)
Net cash (used in)/generated from financing activities	**(10,620)**	138,150
Net (decrease)/increase in cash and cash equivalents	**(22,298)**	47,010
Cash and cash equivalents at beginning of the year	**186,256**	139,224
Effect of foreign exchange rate changes, net	**1,352**	22
Cash and cash equivalents at end of the year	**165,310**	186,256

1. General Information

Sun East Technology (Holdings) Limited (the "Company") is a limited liability company incorporated and domiciled in Bermuda. Its registered office is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its principal place of business is located at Unit H, 1st Floor, Phase 4, Kwun Tong Industrial Centre, 436-446 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activities of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 15 to the financial statements. The Company and its subsidiaries are collectively referred to as the "Group" hereafter. There were no significant changes in the operations during the year.

The financial statements for the year ended 31 March 2012 were approved for issue by the board of directors on 26 June 2012.

2. Summary of Significant Accounting Policies

2.1 Basis of preparation

The financial statements on pages 27 to 102 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated. The adoption of new and amended HKFRSs and the impacts on the Group's financial statements, if any, are disclosed in note 3.

The financial statements have been prepared under historical cost convention except for land and buildings and derivative financial instruments, which are stated at their fair values. The measurement bases are fully described in the accounting policies below.

2. Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (Continued)

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgment of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

2.2 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries. Inter-company transactions and balances between group companies together with unrealised profits are eliminated in full in preparing the consolidated financial statements. Unrealised losses area also eliminated unless the transaction provides evidence of impairment on the asset transferred, in which case the loss is recognised in profit or loss.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective dates of acquisition or up to the effective dates of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

Acquisition of subsidiaries or businesses is accounted for using the acquisition method. The cost of an acquisition is measured at the aggregate of the acquisition-date fair value of assets transferred, liabilities incurred and equity interests issued by the Group, as the acquirer. The identifiable assets acquired and liabilities assumed are principally measured at acquisition-date fair value. The Group's previously held equity interest in the acquiree is re-measured at acquisition-date fair value and the resulting gains or losses are recognised in profit or loss. The Group may elect, on a transaction-by-transaction basis, to measure the non-controlling interest either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs incurred are expensed.

2. Summary of Significant Accounting Policies (Continued)

2.2 Basis of consolidation (Continued)

Any contingent consideration to be transferred by the acquirer is recognised at acquisition-date fair value. Subsequent adjustments to consideration are recognised against goodwill only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interest and the non-controlling interest are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interest is adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interest. Amounts previously recognised in other comprehensive income in relation to the subsidiary are accounted for in the same manner as would be required if the relevant assets or liabilities were disposed of.

Subsequent to acquisition, the carrying amount of non-controlling interest is the amount of those interests at initial recognition plus the non-controlling interest's share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

2.3 Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has the power to control, directly or indirectly, the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

2. Summary of Significant Accounting Policies (Continued)

2.3 Subsidiaries (Continued)

In the Company's statement of financial position, subsidiaries are carried at cost less any impairment loss unless the subsidiary is held for sale or included in a disposal group. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

2.4 Foreign currency translation

The financial statements are presented in Hong Kong Dollars (HK$), which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At the reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the reporting date retranslation of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into HK$. Assets and liabilities have been translated into HK$ at the closing rates at the reporting date. Income and expenses have been converted into the HK$ at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt recognised in other comprehensive income and accumulated separately in the exchange reserve in equity.

2. Summary of Significant Accounting Policies (Continued)

2.5 Borrowing costs

Borrowing costs incurred for acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

2.6 Research and development costs

Costs associated with research activities are expensed in profit or loss as they occur. Costs that are directly attributable to development activities are recognised as intangible assets provided they meet the following recognition requirements:

(i) demonstration of technical feasibility of the prospective product for internal use or sale;

(ii) the Group has the intention to complete the development and use or sell the new products;

(iii) the Group's ability to use or sell the intangible asset is demonstrated;

(iv) the intangible asset will generate probable economic benefits through internal use or sale;

(v) sufficient technical, financial and other resources are available for completion; and

(vi) the expenditure attributable to the intangible asset can be reliably measured

2. Summary of Significant Accounting Policies (Continued)

2.6 Research and development costs (Continued)

Direct costs include employee costs incurred on development activities along with an appropriate portion of relevant overheads. The costs of development of internally generated software, products or knowhow that meet the above recognition criteria are recognised as intangible assets. They are subject to the same subsequent measurement method as acquired intangible assets.

All other development costs are expensed as incurred.

2.7 Property, plant and equipment

Leasehold land and buildings (where the fair value of the leasehold interest in the land and buildings cannot be measured separately at the inception of the lease and the building is not clearly held under an operating lease) are stated at revalued amounts, being fair value at the date of revaluation less subsequent accumulated depreciation and any subsequent impairment losses. Fair value is determined through appraisals by external professional valuers on a regular basis to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at acquisition cost less accumulated depreciation and impairment losses.

Any surplus arising on revaluation of leasehold land and buildings is recognised in other comprehensive income and is accumulated in asset revaluation reserve in equity, unless the carrying amount of that asset has previously suffered a revaluation decrease or impairment loss as described in note 2.9. To the extent that any decrease has previously been recognised in profit or loss, a revaluation increase is credited to profit or loss with the remaining part of the increase dealt with in the other comprehensive income. A decrease in net carrying amount of leasehold land and buildings arising on revaluation is recognised in other comprehensive income to the extent of the revaluation surplus in asset revaluation reserve relating to the same asset and the remaining decrease is recognised in profit or loss.

2. Summary of Significant Accounting Policies (Continued)

2.7 Property, plant and equipment (Continued)

Depreciation is provided to write off the cost or revalued amounts less their residual values over their estimated useful lives. Except for leasehold land and buildings which are depreciated on straight-line method, all other property, plant and equipment are depreciated on the reducing balance basis. The principal annual rates used for this purpose are as follows:

Leasehold land and buildings	The shorter of the lease terms and 22 years
Machinery and equipment	9% to 25%
Furniture, fixtures and leasehold improvements	18% to 25%
Motor vehicles	25%

The assets' estimated residual values, depreciation methods and estimated useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Assets held under finance lease are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss. Any revaluation surplus remaining in equity is transferred to retained profit on the disposal of leasehold land and buildings.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

2.8 Prepaid land lease payments

Prepaid land lease payments represent up-front payments to acquire long term interest in the usage of the land. The payments are stated at cost less accumulated amortisation and any impairment loss. Amortisation is calculated on straight-line method to write off the up-front payments over the lease terms.

2. Summary of Significant Accounting Policies (Continued)

2.9 Impairment of non-financial assets

Property, plant and equipment, prepaid land lease payments and interests in subsidiaries are subject to impairment testing. All assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount unless the relevant asset is carried at a revalued amount under the Group's accounting policy, in which case the impairment loss is treated as a revaluation decrease according to that policy (refer to note 2.7 for details). The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit ("CGU")). As a result, some assets are tested individually for impairment and some are tested at CGU level.

Impairment losses recognised for CGUs is charged pro rata to the assets in the CGU, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value-in-use, if determinable.

An impairment loss is reversed if there has been a favorable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2. Summary of Significant Accounting Policies (Continued)

2.10 Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions apply:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of the employees of the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of key management personnel of the entity (or of a parent of the entity).

2. Summary of Significant Accounting Policies (Continued)

2.10 Related parties (Continued)

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

2.11 Leases

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

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets is included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases.

2. Summary of Significant Accounting Policies (Continued)

2.11 Leases (Continued)

(ii) Assets acquired under finance leases (Continued)

Subsequent accounting for assets held under finance lease agreements corresponds to those applied to comparable acquired assets. The corresponding finance lease liability is reduced by lease payments less finance charges.

Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges as the lessee

Where the Group has the right to use of assets held under operating leases, payments made under the leases are charged to profit or loss on straight-line method over the lease terms except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rental are charged to profit or loss in the period in which they are incurred.

(iv) Assets leased out under operating leases as the lessor

Assets leased out under operating leases are measured and presented according to the nature of the assets. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the rental income.

Rental income receivable from operating leases is recognised in profit or loss on straight-line method over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

2. Summary of Significant Accounting Policies (Continued)

2.12 Financial assets

The Group mainly classifies its financial assets into loans and receivables. Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at each reporting date.

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

Derecognition of financial assets occurs when the rights to receive cash flows from the receivables/investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any of such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are subsequently measured at amortised cost using the effective interest rate method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

At each reporting date, financial assets are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

2. Summary of Significant Accounting Policies (Continued)

2.12 Financial assets (Continued)

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

For financial assets other than trade receivables that are stated at amortised cost, impairment losses are written off against the corresponding assets directly. Where the recovery of trade receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of trade receivables is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

2. Summary of Significant Accounting Policies (Continued)

2.13 Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is determined using the first-in, first-out basis, where work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and applicable selling expenses.

2.14 Cash and cash equivalents

Cash and cash equivalents include cash at banks and in hand, time deposits with banks with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

2.15 Accounting for income taxes

Income tax comprises current and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the reporting date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

2. Summary of Significant Accounting Policies (Continued)

2.15 Accounting for income taxes (Continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged or credited to other comprehensive income or directly in equity.

Current tax assets and tax liabilities are presented in net if, and only if,

(a) the Group has the legally enforceable right to set off the recognised amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Group presents deferred tax assets and deferred tax liabilities in net if, and only if,

(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and

(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:

   (i) the same taxable entity; or

   (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2. Summary of Significant Accounting Policies (Continued)

2.16 Revenue recognition

Revenue comprises the fair value for the sale of goods and the use by others of the Group's assets yielding interest and dividends, net of rebates and discounts. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised as follows:

Sales of goods are recognised upon transfer of the significant risks and rewards of ownership to the customer. This is usually taken as the time when the goods are delivered and the customer has accepted the goods.

Interest income is recognised on a time-proportion basis using the effective interest method.

Rental income is recognised on a time-proportion basis over the lease terms.

2.17 Employee benefits

Defined contribution plan

Retirement benefits to employees are provided through defined contribution plans.

The Group operates a defined contribution retirement benefit plan (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all of its employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries.

The employees of the Group's subsidiaries which operate in PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of the payroll costs to the central pension scheme.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Group's obligations under these plans are limited to the fixed percentage contributions payable.

2. Summary of Significant Accounting Policies (Continued)

2.17 Employee benefits (Continued)

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the reporting date.

Non-accumulating compensated absences such as sick leave and maternity leave are not recognised until the time of leave.

2.18 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisation, if appropriate.

2. Summary of Significant Accounting Policies (Continued)

2.19 Financial guarantees issued

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount i.e. the amount initially recognised less accumulated amortisation, where appropriate.

2.20 Financial liabilities

The Group's financial liabilities include trade and bills payables, other payables and accruals, bank borrowings, derivative financial instruments, amounts due to directors and finance lease obligations.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs (note 2.5).

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

2. Summary of Significant Accounting Policies (Continued)

2.20 Financial liabilities (Continued)

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

(i) *Finance lease liabilities*

Finance lease liabilities are measured at initial value less the capital element of lease repayments.

(ii) *Borrowings*

Borrowings are recognised initially at fair value, net of transaction costs incurred. Financial liabilities are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method.

Bank borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

(iii) *Trade and bills payables, amounts due to directors, other payables and accruals*

These are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

(iv) *Derivative financial instruments*

Derivative financial instruments, in individual contracts or separated from hybrid financial instruments, are initially recognised at fair value on the date the derivative contract is entered into and subsequently remeasured at fair value. Derivatives that are not designated as hedging instruments are accounted for as financial assets or financial liabilities at fair value through profit or loss. Gains or losses arising from changes in fair value are taken directly to profit or loss for the year.

2. Summary of Significant Accounting Policies (Continued)

2.21 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from share premium reserve (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

2.22 Segment reporting

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product lines.

Each of the operating segments is managed separately as each of the product lines requires different resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies the Group uses for reporting segment results under HKFRS 8 are the same as those used in its financial statements prepared under HKFRSs, except that:

- rental income and rental costs;
- income tax;
- corporate income and expenses which are not directly attributable to the business activities of any operating segment are not included in arriving at the operating results of the operating segment.

2. Summary of Significant Accounting Policies (Continued)

2.22 Segment reporting (Continued)

Segment assets include all assets but cash and bank balances, tax recoverable, tax reserve certificates, operating cash and corporate assets which are not directly attributable to the business activities of any operating segment which primarily applies to the Group's headquarter.

Segment liabilities include all liabilities but deferred tax liabilities, amounts due to directors and certain corporate liabilities. Corporate liabilities which are not directly attributable to the business activities of any operating segment and are not allocated to a segment, which primarily applies to the Group's headquarters. Deferred tax liabilities are attributable to revaluation of leasehold land and buildings.

3. Adoption of New or Amended HKFRSs

During the year, the Group has adopted all the new and amended HKFRSs which are first effective for the reporting year and relevant to the Group. Except as explained below, the adoption of these new and amended HKFRSs did not result in material changes to the Group's accounting policies.

HKAS 24 (Revised) – Related Party Disclosures

HKAS 24 (Revised) amends the definition of related party and clarifies its meaning. This may result in changes to those parties who are identified as being related parties of the reporting entity. The Group has revised its accounting policy for the identification of its related parties and has reassessed counterparties of transactions in accordance with the revised definition. The reassessment did not result in new related parties being identified. Related parties identified in prior years remain unchanged under the new accounting policy and the Group concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous years.

HKAS 24 (Revised) also introduces simplified disclosure requirements applicable to related party transactions where the Group and the counterparty are under the common control, joint control or significant influence of a government, government agency or similar body. These new disclosures are not relevant to the Group because the Group is not a government related entity.

3. Adoption of New or Amended HKFRSs (Continued)

At the date of this report, certain new and amended HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

The directors anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. The Directors are currently assessing the impact of the new and amended HKFRSs upon initial application. So far, the Directors have preliminarily concluded that the initial application of these HKFRSs will not result in material financial impact on the consolidated financial statements. Information on new and amended HKFRSs that are expected to have an impact on the Group's accounting policies is provided below.

Amendments to HKAS 1 (Revised) – Presentation of Items of Other Comprehensive Income

This standard is effective for accounting periods beginning on or after 1 July 2012. The amendments change the disclosure of items presented in other comprehensive income in the statement of comprehensive income and require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be recycled to profit or loss in the future. Items that will not be recycled will be presented separately from items that may be recycled in the future. Entities that choose to present other comprehensive income items before tax will be required to show the amount of tax related to the two groups separately. The title used by HKAS 1 for the statement of comprehensive income has changed to "Statement of profit or loss and other comprehensive income". However, HKAS 1 permits entities to use other titles.

HKFRS 9 Financial instruments

This standard is effective for accounting periods beginning on or after 1 January 2015. Under HKFRS 9, financial assets are classified into financial assets measured at fair value or at amortised cost depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Fair value gains or losses will be recognised in profit or loss except for those non-trade equity investments, which the entity will have a choice to recognise the gains and losses in other comprehensive income. HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities that are designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of that liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for de-recognition of financial assets and financial liabilities.

3. Adoption of New or Amended HKFRSs (Continued)

HKFRS 10 Consolidated Financial Statements

This standard is effective for accounting periods beginning on or after 1 January 2013. HKFRS 10 introduces a single control model for consolidation of all investee entities. An investor has control when it has power over the investee (whether or not that power is used in practice), exposure or rights to variable returns from the investee and the ability to use the power over the investee to affect those returns. HKFRS 10 contains extensive guidance on the assessment of control. For example, the standard introduces the concept of “de facto” control where an investor can control an investee while holding less than 50% of the investee’s voting rights in circumstances where its voting interest is of sufficiently dominant size relative to the size and dispersion of those of other individual shareholders to give it power over the investee. Potential voting rights are considered in the analysis of control only when these are substantive, i.e. the holder has the practical ability to exercise them. The standard explicitly requires an assessment of whether an investor with decision making rights is acting as principal or agent and also whether other parties with decision making rights are acting as agents of the investor.

An agent is engaged to act on behalf of and for the benefit of another party and therefore does not control the investee when it exercises its decision making authority. The implementation of HKFRS 10 may result in changes in those entities which are regarded as being controlled by the Group and are therefore consolidated in the financial statements. The accounting requirements in the existing HKAS 27 on other consolidation related matters are carried forward unchanged. HKFRS 10 is applied retrospectively subject to certain transitional provisions.

4. Critical Accounting Estimates and Judgments

Estimates and judgments are continually evaluated and are based on historical experiences and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

4. Critical Accounting Estimates and Judgments (Continued)

(i) Impairment of property, plant and equipment

Property, plant and equipment (note 13) is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts of property, plant and equipment have been determined based on value-in-use calculations. These calculations and valuations require the use of judgments and estimates. The carrying amounts of property, plant and equipment of the Group as at 31 March 2012 were approximately HK$139,210,000 (2011: HK$130,193,000).

(ii) Impairment of trade and other receivables

The Group's management determines impairment of trade and other receivables on a regular basis. This estimate is based on the credit history of its customers/borrowers and current market conditions. Management reassesses the impairment of receivables at the reporting date.

(iii) Income taxes

The Group is subject to income taxes in Hong Kong and Mainland China. Significant judgment is required in determining the amount of the provision for income taxes and the timing of payment of related taxes. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which the tax outcome is finalised.

(iv) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management reassesses the estimations at the reporting date to ensure inventories are stated at the lower of cost and net realizable value.

5. Segment Information

The executive directors have identified the Group's two product lines as reportable segments:

(i) Production lines and production equipment – Design, manufacture and sale of production lines and production equipment

(ii) Brand name production equipment – Trading and distribution of brand name production equipment

	Production lines and production equipment		Brand name production equipment		Consolidated	
	2012	2011	**2012**	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Segment revenue:						
Sales to external customers	**347,045**	311,288	**285,788**	534,035	**632,833**	845,323
Other revenue – external	**12,917**	3,450	**–**	–	**12,917**	3,450
Reportable segment revenue	**359,962**	314,738	**285,788**	534,035	**645,750**	848,773
Reportable segment results	**18,770**	15,176	**2,750**	10,059	**21,520**	25,235
Depreciation and amortisation	**12,744**	13,171	**–**	–	**12,744**	13,171
Loss on disposal of property, plant and equipment	**12**	–	**–**	–	**12**	–
Provision for impairment of trade and bills receivables	**7,310**	8,963	**812**	–	**8,122**	8,963
Provision for impairment of other receivables	**117**	553	**–**	–	**117**	553
Write-down of inventories to net realisable value	**6,616**	4,358	**–**	–	**6,616**	4,358
Write-off of property, plant and equipment	**4,011**	5,132	**–**	–	**4,011**	5,132
Reportable segment assets	**322,256**	278,652	**58,644**	108,009	**380,900**	386,661
Capital expenditure	**9,538**	2,344	**–**	–	**9,538**	2,344
Reportable segment liabilities	**162,349**	140,104	**56,125**	128,907	**218,474**	269,011

5. Segment Information (Continued)

The totals presented for the Group's operating segments reconcile to the Group's key financial figures as presented in the financial statements as follows:

	2012 **HK$'000**	2011 HK$'000
Reportable segment results	**21,520**	25,235
Rental income	**11**	23
Interest and other corporate income	**11,754**	3,177
Corporate expenses	**(12,995)**	(7,264)
Finance costs on bank borrowings	**(3,180)**	(771)
Profit before income tax	**17,110**	20,400

5. Segment Information (Continued)

	2012 HK$'000	2011 HK$'000
Segment assets		
Production lines and production equipment	**322,256**	278,652
Brand name production equipment	**58,644**	108,009
	380,900	386,661
Tax reserve certificates	**3,600**	3,300
Taxes recoverable	**191**	191
Pledged deposits	**106,480**	118,482
Cash and bank balances	**172,706**	186,256
Other corporate assets	**2,044**	3,436
Total assets	**665,921**	698,326
Segment liabilities		
Production lines and production equipment	**162,349**	140,104
Brand name production equipment	**56,125**	128,907
	218,474	269,011
Bank borrowings	**105,282**	114,076
Derivative financial instruments	**2,134**	1,209
Due to directors	**1,610**	3,408
Deferred tax liabilities	**10,997**	7,982
Other corporate liabilities	**31,320**	34,179
Total liabilities	**369,817**	429,865

5. Segment Information (Continued)

The Group's revenue from external customers and segment assets are divided into the following geographical areas:

	Revenue from external customers		Non-current assets	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Mainland China (domicile)	**520,076**	622,329	**132,226**	122,744
Hong Kong	**86,446**	195,374	**16,990**	17,344
Europe (principally Spain and Germany)	**16,334**	20,198	**–**	–
Others (principally Japan and Singapore)	**9,977**	7,422	**–**	–
	632,833	845,323	**149,216**	140,088

The geographical location of customers is based on the location at which the goods delivered. The geographical location of non-current assets is based on the physical location of the assets. The Company is an investment holding company where the Group has majority of its operation and workforce in Mainland China, and therefore, Mainland China is considered as the Group's country of domicile for the purpose of the disclosures as required by HKFRS 8 "Operating Segments".

6. Revenue, Other Income and Gains

The Group's turnover, represents revenue from its principal activities, measured at the net invoiced value of goods sold, after allowances for returns and trade discounts during the year.

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

	2012 HK$'000	2011 HK$'000
Revenue – sale of goods	**632,833**	845,323
Other income:		
Rental income	**11**	23
Bank interest income	**5,917**	1,746
Impairment loss on trade receivables written back	**2,387**	922
Recovery of trade receivables previously written off	**4,898**	–
Government grant*	**1,716**	462
Sales of scrap	**2,482**	1,674
Others	**1,434**	392
	18,845	5,219
Gains:		
Exchange gain, net	**5,837**	1,360
Gain on disposal of a subsidiary (note 32)	**–**	71
	5,837	1,431
Other income and gains	**24,682**	6,650

* Non-refundable government subsidies were received from the PRC government for subsidising the Group in conducting and launching projects relating to research and development activities. There are no unfulfilled conditions or contingencies relating to these grants.

7. Finance Costs

	2012 HK$'000	2011 HK$'000
Interest on bank borrowings, which contain a repayment on demand clause, wholly repayable within five years	**3,179**	771
Interest on finance leases	**1**	4
Total interest on financial liabilities stated at amortised cost	**3,180**	775

8. Profit before Income Tax

	2012 HK$'000	2011 HK$'000
The Group's profit before income tax is arrived at after charging:		
Cost of inventories sold	**438,305**	704,175
– including write-down of inventories to net realisable value	**6,616**	4,358
Depreciation		
– owned assets	**12,477**	12,866
– leased assets	**8**	59
Fair value loss on derivative financial instruments	**4,768**	1,209
Research and development costs	**3,990**	3,469
Minimum lease payments under operating leases in respect of leasehold land and buildings	**820**	555
Loss on disposal of property, plant and equipment	**12**	–
Auditor's remuneration	**900**	900
Staff costs (including directors' remuneration (note 9))		
– Wages and salaries	**82,649**	72,879
– Defined contribution scheme	**4,984**	3,452
	87,633	76,331
Amortisation of prepaid land lease payments	**259**	246
Provision for impairment of trade and bills receivables	**8,122**	8,963
Provision for impairment of other receivables	**117**	553
Write-off of property, plant and equipment	**4,011**	5,132

9. Directors' Remuneration and Five Highest Paid Employees

Remuneration of the directors disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	2012 HK$'000	2011 HK$'000
Fees:		
Independent non-executive directors	**360**	360
Other emoluments of executive directors:		
Salaries, allowances and benefits in kind	**4,531**	4,301
Defined contribution scheme	**48**	48
	4,939	4,709

(a) Independent non-executive directors

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

	2012 HK$'000	2011 HK$'000
Mr. See Tak Wah	**120**	120
Prof. Xu Yang Sheng	**120**	120
Mr. Li Wanshou	**120**	120
	360	360

There were no other emoluments payable to the independent non-executive directors during the year (2011: Nil).

9. Directors' Remuneration and Five Highest Paid Employees

(Continued)

(b) Executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Defined contribution scheme HK$'000	Total HK$'000
2012				
Mr. But Tin Fu	**–**	**1,001**	**12**	**1,013**
Mr. But Tin Hing	**–**	**1,330**	**12**	**1,342**
Mr. Leung Cheong	**–**	**1,003**	**12**	**1,015**
Mr. Leung Kuen, Ivan	**–**	**1,197**	**12**	**1,209**
	–	**4,531**	**48**	**4,579**
2011				
Mr. But Tin Fu	–	961	12	973
Mr. But Tin Hing	–	1,263	12	1,275
Mr. Leung Cheong	–	947	12	959
Mr. Leung Kuen, Ivan	–	1,130	12	1,142
	–	4,301	48	4,349

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

There was no emolument paid by the Group to its directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year.

9. Directors' Remuneration and Five Highest Paid Employees

(Continued)

(c) Five highest paid employees

The five highest paid employees during the year included four (2011: four) directors, details of whose remuneration are reflected in the above analysis. The remuneration of the remaining one (2011: one) highest paid employee for the year, which fell within the emolument band of nil to HK$1,000,000 for each of the years ended 31 March 2012 and 2011, is set out as follows:

	2012 HK$'000	2011 HK$'000
Salary, allowances and benefits in kind	595	575
Defined contribution scheme	–	5
	595	580

There was no emolument paid by the Group to these five highest individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the year.

10. Income Tax Expense

	2012 HK$'000	2011 HK$'000
Current tax – Hong Kong		
Over-provision in respect of prior years	–	(200)
Current tax – Elsewhere		
Tax for the year	4,113	7,977
Deferred tax – current year (note 26)	–	386
Total income tax expense	4,113	8,163

10. Income Tax Expense (Continued)

No Hong Kong profits tax was provided as the Group did not generate any assessable profits arising from its operations in Hong Kong during the current and prior years. Taxes assessable in elsewhere have been calculated at the prevailing rates of tax based on existing legislation, interpretations and practices.

The PRC enterprise income tax for foreign enterprises have been calculated on the estimated assessable profits for the year at 25% except that 日東電子科技(深圳)有限公司 is granted the tax benefit for the National High-Tech Enterprise for three years starting from the year ended 31 December 2011. It is subject to income tax rate of 15%.

A reconciliation of the income tax expense applicable to profit before income tax using the statutory rates for the tax jurisdictions in which the Company and majority of its subsidiaries are domiciled to the income tax expense at the effective tax rates is as follows:

	2012 **HK$'000**	2011 HK$'000
Profit before income tax	**17,110**	20,400
Tax at the statutory tax rates	**3,854**	5,368
Different tax rate for specific provinces or local authority	**–**	(590)
Over-provision in respect of prior years	**–**	(200)
Non-taxable income	**(1,418)**	(741)
Non-deductible expenses	**3,058**	4,026
Tax losses utilised from previous years	**(1,805)**	(78)
Unrecognised tax losses	**424**	115
Others	**–**	263
Income tax expense	**4,113**	8,163

11. Profit attributable to Owners of the Company

Of the consolidated profit for the year attributable to owners of the Company of approximately HK$12,997,000 (2011: HK$12,306,000), loss of approximately HK$20,000 (2011: profit of HK$1,000) which has been dealt with in the financial statements of the Company.

12. Earnings per Share

The calculation of basic earnings per share is based on the profit for the year of approximately HK$12,997,000 (2011: HK$12,306,000) attributable to owners of the Company, and 525,000,000 (2011: 525,000,000) ordinary shares in issue during the year.

Diluted earnings per share for the year ended 31 March 2012 and 2011 are not presented as there were no potential ordinary shares in issue during the year.

13. Property, Plant and Equipment

Group

	Leasehold land and buildings HK$'000	Machinery and equipment HK$'000	Furniture, fixtures and leasehold improvements HK$'000	Motor vehicles HK$'000	Total HK$'000
2012					
At 1 April 2011					
Cost or valuation	105,150	78,330	33,191	9,842	226,513
Accumulated depreciation	–	(60,984)	(29,045)	(6,291)	(96,320)
Net carrying amount	105,150	17,346	4,146	3,551	130,193
Year ended 31 March 2012					
Opening net carrying amount	105,150	17,346	4,146	3,551	130,193
Additions	–	7,464	1,005	1,069	9,538
Disposal	–	(77)	(13)	(251)	(341)
Write-off	–	(3,344)	(570)	(97)	(4,011)
Surplus on revaluation	12,771	–	–	–	12,771
Depreciation	(6,417)	(4,234)	(1,370)	(464)	(12,485)
Exchange realignment	2,706	614	119	106	3,545
Closing carrying amount	114,210	17,769	3,317	3,914	139,210
At 31 March 2012					
Cost or valuation	114,210	63,794	28,886	8,801	215,691
Accumulated depreciation	–	(46,025)	(25,569)	(4,887)	(76,481)
Net carrying amount	114,210	17,769	3,317	3,914	139,210
Analysis of cost or valuation:					
At cost	–	63,794	28,886	8,801	101,481
At 2012 valuation	114,210	–	–	–	114,210
	114,210	63,794	28,886	8,801	215,691

13. Property, Plant and Equipment (Continued)

Group (Continued)

	Leasehold land and buildings HK$'000	Machinery and equipment HK$'000	Furniture, fixtures and leasehold improvements HK$'000	Motor vehicles HK$'000	Total HK$'000
2011					
At 1 April 2010					
Cost or valuation	97,010	91,234	32,544	9,652	230,440
Accumulated depreciation	–	(66,592)	(25,946)	(6,353)	(98,891)
Net carrying amount	97,010	24,642	6,598	3,299	131,549
Year ended 31 March 2011					
Opening net carrying amount	97,010	24,642	6,598	3,299	131,549
Additions	–	536	1,268	540	2,344
Write-off	–	(4,839)	(230)	(63)	(5,132)
Surplus on revaluation	10,873	–	–	–	10,873
Disposal of a subsidiary (note 32)	–	–	(861)	–	(861)
Depreciation	(6,086)	(3,641)	(2,846)	(352)	(12,925)
Exchange realignment	3,353	648	217	127	4,345
Closing net carrying amount	105,150	17,346	4,146	3,551	130,193
At 31 March 2011					
Cost or valuation	105,150	78,330	33,191	9,842	226,513
Accumulated depreciation	–	(60,984)	(29,045)	(6,291)	(96,320)
Net carrying amount	105,150	17,346	4,146	3,551	130,193
Analysis of cost or valuation:					
At cost	–	78,330	33,191	9,842	121,363
At 2011 valuation	105,150	–	–	–	105,150
	105,150	78,330	33,191	9,842	226,513

13. Property, Plant and Equipment (Continued)

The Group's leasehold land and buildings situated in Hong Kong and Mainland China were revalued individually at the reporting date by RHL Appraisal Limited, independent professional qualified valuers, at fair value of HK$14,000,000 (2011: HK$12,150,000) on an open market basis and at fair value of HK$100,210,000 (2011: HK$93,000,000) on depreciated replacement cost. Open market basis was estimated based on recent market transactions, which were then adjusted for specific conditions relating to the land and buildings. Depreciated replacement cost method was estimated on the current cost of replacement of the buildings and improvements less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. Revaluation surplus of approximately HK$12,771,000 (2011: HK$10,873,000), resulting from the above valuations, during the year, have been credited to asset revaluation reserve. Deferred tax relating to the revaluation of leasehold land and buildings, of approximately HK$3,015,000 (2011: HK$2,419,000) had been debited to asset revaluation reserve.

Had these leasehold land and buildings been carried at historical cost less accumulated depreciation, their carrying amounts would have been approximately HK$72,323,000 (2011: HK$78,444,000).

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

	2012	2011
	HK$'000	HK$'000
Hong Kong	**14,000**	12,150
Mainland China	**100,210**	93,000
	114,210	105,150

As at 31 March 2012, certain of the Group's leasehold land and buildings with net carrying amount of approximately HK$7,200,000 (2011: HK$6,200,000) were pledged to secure general banking facilities granted to the Group (note 23).

As at 31 March 2011, the net carrying amount of the Group's property, plant and equipment held under finance leases include motor vehicles of approximately HK$237,000. These finance lease obligations were fully repaid during the year.

13. Property, Plant and Equipment (Continued)

Company

	Machinery and equipment HK$'000
2012	
At 1 April 2011	
Cost	299
Accumulated depreciation	(202)
Net carrying amount	97
Year ended 31 March 2012	
Opening net carrying amount	97
Depreciation	(20)
Closing carrying amount	77
At 31 March 2012	
Cost	299
Accumulated depreciation	(222)
Net carrying amount	77

13. Property, Plant and Equipment (Continued)

Company (Continued)

	Machinery and equipment HK$'000
2011	
At 1 April 2010	
Cost	299
Accumulated depreciation	(178)
Net carrying amount	121
Year ended 31 March 2011	
Opening net carrying amount	121
Depreciation	(24)
Closing carrying amount	97
At 31 March 2011	
Cost	299
Accumulated depreciation	(202)
Net carrying amount	97

14. Prepaid Land Lease Payments

	Group	
	2012	2011
	HK$'000	HK$'000
Carrying amount at beginning of the year	**10,141**	9,945
Charged to profit or loss during the year	**(259)**	(246)
Exchange realignment	**383**	442
Carrying amount at end of the year	**10,265**	10,141
Current portion included in prepayments, deposits and other receivables	**(259)**	(246)
Non-current portion	**10,006**	9,895

Prepaid land lease payments are held under medium term leases and the balance relates to the land situated in Mainland China.

15. Interests in Subsidiaries

	Company	
	2012	2011
	HK$'000	HK$'000
Unlisted shares, at cost	**115,668**	115,668
Due from subsidiaries	**175,666**	177,938
Less: Provision for impairment	**(63,424)**	(63,424)
	112,242	114,514
Due to a subsidiary	**(470)**	(2,097)

Amounts due from/(to) subsidiaries are unsecured, interest-free and repayable on demand. The carrying amounts of these amounts due from/(to) subsidiaries approximate to their fair values.

15. Interests in Subsidiaries (Continued)

Particulars of the principal subsidiaries at 31 March 2012 are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
i-System Investment Company Limited	British Virgin Islands ("BVI")	US$2,000	100	–	Investment holding
Sun East Electronic Equipment Company Limited	Hong Kong	HK$5,000,000	–	100	Trading of machinery
Fureach Precision Limited	Hong Kong	HK$10,000	–	100	Trading of machinery
日東電子發展(深圳)有限公司#	Mainland China	HK$81,000,000	–	100	Manufacture and trading of machinery
Eastern Century Speed Inc.	BVI	US$1	–	100	Inactive
Frontier Precision System Co., Ltd	Hong Kong	HK$10,000	–	100	Investment holding
Sun East Tech Development Limited	Hong Kong	HK$10,000	–	100	Trading of machinery
天力精密系統(深圳)有限公司#	Mainland China	HK$15,300,000	–	100	Manufacture and trading of machinery
日東電子科技(深圳)有限公司#	Mainland China	HK$25,000,000	–	100	Manufacture and trading of machinery
日東自動化設備(上海)有限公司#	Mainland China	US$2,750,000	–	100	Inactive
富運精密設備(深圳)有限公司#	Mainland China	HK$5,000,000	–	100	Manufacture and trading of machinery

15. Interests in Subsidiaries (Continued)

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Registered as a wholly-owned foreign investment enterprise in Mainland China.

16. Inventories

	Group	
	2012	2011
	HK$'000	HK$'000
Raw materials	**21,245**	26,598
Work in progress	**29,950**	25,842
Finished goods	**19,252**	25,171
	70,447	77,611

17. Trade and Bills Receivables

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

	Group	
	2012	2011
	HK$'000	HK$'000
Within 90 days	**57,307**	107,122
91 to 120 days	**8,705**	5,283
121 to 180 days	**27,356**	12,928
181 to 360 days	**38,711**	17,202
Over 360 days	**11,728**	7,498
	143,807	150,033

17. Trade and Bills Receivables (Continued)

Impairment losses in respect of trade and bills receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and bills receivables directly. Movements in provision for impairment of trade and bills receivables are as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
At beginning of the year	**50,184**	41,006
Impairment loss recognised	**8,122**	8,963
Impairment loss reversed	**(2,387)**	(922)
Exchange realignment	**1,061**	1,137
At end of the year	**56,980**	50,184

The normal credit period granted by the Group to its customers, each of which has a maximum credit limit, ranges from 30 to 180 days (2011: 30 to 180 days).

The carrying value of trade and bills receivables is considered as reasonable approximation of its fair value. Impairment of trade and bills receivables is established when there is objective evidence that the Group is not able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtors and default or delinquency in payments are considered indicators that the trade and bills receivables are impaired. As at 31 March 2012, the Group had determined trade and bills receivables of approximately HK$56,980,000 (2011: HK$50,184,000) as impaired and as a result, impairment loss of HK$8,122,000 for the year ended 31 March 2012 (2011: HK$8,963,000) have been recognised. The impaired trade and bills receivables are mostly due from customers in the Group business-to-business market that encounter financial difficulties.

The Group does not hold any collateral over the impaired trade and bills receivables, whether determined on an individual or collective basis.

17. Trade and Bills Receivables (Continued)

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

	Group	
	2012	2011
	HK$'000	HK$'000
Neither past due nor impaired	**92,642**	88,766
1 to 30 days past due	**11,140**	26,119
31 to 90 days past due	**12,899**	25,269
91 to 270 days past due	**20,824**	8,730
271 to 360 days past due	**4,078**	40
Over 360 days past due	**2,224**	1,109
Total trade and bills receivables, net	**143,807**	150,033

Trade receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Trade and bills receivables that were past due but not impaired related to a large number of diversified customers that had a good track record of credit with the Group. Based on past credit history, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable. The Group did not hold any collateral in respect of trade and bills receivables past due but not impaired.

18. Pledged Deposits

The deposits are pledged to banks to secure the bank facilities granted to the Group (as detailed in notes 22 and 23 to the financial statements). These deposits earn interest at 0.55% to 3.90% (2011: 1.80% to 2.51%) per annum.

19. Cash and Bank Balances

	Group		Company	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Cash at banks and in hand	**152,620**	156,364	**1,447**	624
Time deposits classified as cash and cash equivalents	**12,690**	29,892	**–**	–
Total cash and cash equivalents	**165,310**	186,256	**1,447**	624
Time deposits with original maturity over three months	**7,396**	–	**–**	–
Total cash and bank balances	**172,706**	186,256	**1,447**	624

At the reporting date, cash and bank balances of the Group denominated in RMB amounted to HK$147,757,000 (2011: HK$149,421,000). RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through the banks authorised to conduct foreign exchange businesses.

Cash at bank earns interest at floating rates based on the daily bank deposits rates ranging between 0.1% and 5.0% (2011: 0.1% and 4.0%) per annum. Short term time deposits are made for varying periods of between one month and four months (2011: one day and three months) depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates.

20. Trade and Bills Payables

Ageing analysis of trade and bills payables as at the reporting dates, based on invoice date, is as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Within 90 days	**87,131**	144,723
91 to 120 days	**2,424**	6,259
Over 120 days	**11,288**	13,179
	100,843	164,161

Trade and bills payables are non-interest bearing and are normally settled within 90 to 180 days (2011: 90 to 180 days).

21. Finance Lease Obligations

	Effective interest rate per annum		Maturity		Group	
	2012	2011	**2012**	2011	**2012**	2011
	(%)	(%)			**HK$'000**	HK$'000
Current						
Finance lease liabilities	**–**	3	**–**	2011	**–**	28

As at 31 March 2011, the Group leased motor vehicles for its production lines and equipment business of which were classified as finance leases and had remaining lease terms less than one year. These finance lease obligations were fully repaid during the year.

21. Finance Lease Obligations (Continued)

At 31 March 2012, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments		Present value of finance lease liabilities	
	2012	2011	**2012**	2011
	HK$'000	HK$'000	**HK$'000**	HK$'000
Total minimum finance lease payments Within one year	**–**	29	**–**	28
Future finance charges	**–**	1		

22. Bank Borrowings

	Group	
	2012	2011
	HK$'000	HK$'000
Current portion		
– Bank loans due for repayment within one year	**56,986**	114,076
– Bank loans due for repayment after one year which contain a repayment on demand clause	**48,296**	–
	105,282	114,076

The current portion includes bank borrowings of approximately HK$48,296,000 (2011: Nil) that are not scheduled to repay within one year. They are classified as current liabilities as the related loan agreements contain a clause that provides the lenders with an unconditional right to demand repayment at any time at its own discretion. None of the portion of these bank loans due from repayment after one year which contain a repayment on demand clause and that is classified as a current liability is expected to be settled within one year.

22. Bank Borrowings (Continued)

Assuming that the banks do not request the clause for repayment on demand and based on the repayment dates as scheduled in the loan agreements, the Group's bank borrowings are due for repayment, as at each of the reporting dates, as follows:

	Group	
	2012	2011
	HK$'000	HK$'000
Within one year	**56,986**	114,076
In the second year	**48,296**	–
Wholly repayable within five years	**105,282**	114,076

The interest-bearing bank borrowings are carried at amortised cost.

As at 31 March 2012, the bank borrowings included bank loans with principal amounts of approximately USD13,559,000 (2011: HK$24,082,000 and USD11,564,000). All bank borrowings are secured by pledged deposits of HK$103,893,000 (2011: HK$113,228,000).

Effective interest rate of the bank borrowings ranged from 0.78% to 2.29% (2011: from 1.81% to 2.22%) per annum for the year.

23. Banking Facilities

As at the reporting date, apart from the bank borrowings as stated in note 22 to the financial statement, the Group's other banking facilities including its import/export loan, letter of credit, documentary credits and trust receipts are secured by:

(i) a first legal charge on certain of the Group's leasehold land and buildings, which had an aggregate net carrying amount at the reporting date of HK$7,200,000 (2011: HK$6,200,000) (note 13);

23. Banking Facilities (Continued)

(ii) corporate guarantees provided by the Company (note 29); and

(iii) pledged deposits of HK$2,587,000 (2011: HK$5,254,000).

The Group's banking facilities amounting to HK$181,630,000 (2011: HK$120,000,000), of which approximately HK$20,131,000 (2011: HK$68,059,000) had been utilised as at the reporting date.

24. Derivative Financial Instruments

	Group	
	2012	2011
	HK$'000	HK$'000
Forward foreign exchange contracts (note (a))	**461**	726
Interest rate swaps (note (b))	**1,673**	483
	2,134	1,209

(a) The Group uses forward foreign exchange contracts to mitigate exchange rate exposure. The forward foreign exchange contracts are considered by management to be part of economic hedge arrangements but have not been formally designated as hedges in accordance with HKAS 39. These foreign exchange contacts were stated at fair value. The fair value of these contracts has been measured as described in note 33.

(b) The Group entered into interest rate swaps during the year to fix the interest rate of most of the Group's bank borrowings. The interest rate swaps will mature within one year. These interest rate swaps were stated at fair value. The fair value of these contracts has been measured as described in note 33.

25. Due to Directors – Group

The balance is unsecured, interest-free and repayable on demand and its carrying amounts approximate to their fair values.

26. Deferred Tax Liabilities

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

	Accelerated tax depreciation HK$'000	Revaluation of leasehold land and buildings HK$'000	Total HK$'000
At 1 April 2010	389	4,788	5,177
Charged to profit or loss during the year (note 10)	386	–	386
Deferred tax relating to revaluation of property, plant and equipment	–	2,419	2,419
At 31 March 2011 and 1 April 2011	775	7,207	7,982
Deferred tax relating to revaluation of property, plant and equipment	–	3,015	3,015
At 31 March 2012	**775**	**10,222**	**10,997**

At 31 March 2012, the Group has tax losses of the subsidiaries operating in Hong Kong and Mainland China of approximately HK$13,580,000 and HK$11,475,000 (2011 : HK$19,017,000 and HK$13,414,000) respectively.

Deferred tax asset in respect of unused tax losses has not been recognised in the financial statements due to the unpredictability of future profit streams against which the tax losses can be utilised. Tax losses of the subsidiaries operating in Mainland China can be carried forward for 5 years whereas those of the companies within the Group operating in Hong Kong will not expire under the current tax legislation.

26. Deferred tax Liabilities (Continued)

At the reporting date, deferred tax liabilities amounted to approximately of HK$2,604,000 (2011 : HK$1,850,000) in respect of aggregate amount of temporary differences associated with unremitted earnings of subsidiaries have not been recognised. No deferred tax liabilities have been recognised in respect of these differences because the Group is in a position to control the dividend policies of these subsidiaries and it is probable that such differences will not reverse in the foreseeable future. Such unremitted earnings for investments in subsidiaries amounted to HK$26,041,000 at 31 March 2012 (2011 : HK$18,500,000).

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

27. Share Capital

	Group and Company	
	2012	2011
	HK$'000	HK$'000
Authorised :		
2,000,000,000 ordinary shares of HK$0.10 each	**200,000**	200,000
Issued and fully paid :		
525,000,000 ordinary shares of HK$0.10 each	**52,500**	52,500

28. Reserves

(a) Group

The amounts of the Group's reserves and the movements therein for the current and previous years are presented in the consolidated statement of changes in equity on pages 31 to 32 of the financial statements.

The Group's contributed surplus represents the difference between the nominal value of the shares of the subsidiaries acquired, over the nominal value of the Company's shares issued in exchange therefor.

Statutory reserve and enterprise expansion funds

(i) *Statutory reserve*

In accordance with the relevant laws and regulations of the PRC and the articles of association of the Company, upon distributing the net profit of the Company each year, the Company is required to transfer 10% of its profit after tax, being prepared in accordance with the accounting regulations in the PRC, to the statutory surplus reserve until the reserve balance reaches 50% of the Company's registered capital. Such reserve may be used to reduce any losses incurred by the Company or to be capitalised as paid-up capital of the Company.

(ii) *Enterprise expansion fund*

Certain subsidiaries in the PRC are required to set up an enterprise expansion fund. Transfers to this fund are made at the discretion of the respective board of directors of the subsidiaries. This fund can only be utilised on capital items for the collective benefit of the subsidiaries employees. This fund is non-distributable other than on liquidation. The transfer to this fund must be made before distribution of a dividend to shareholders.

28. Reserves (Continued)

(b) Company

	Share premium HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 April 2010	87,728	115,468	(27,647)	175,549
Total comprehensive income for the year	–	–	1	1
At 31 March 2011 and 1 April 2011	87,728	115,468	(27,646)	175,550
Total comprehensive income for the year	–	–	(20)	(20)
At 31 March 2012	**87,728**	**115,468**	**(27,666)**	**175,530**

The Company's contributed surplus represents the excess of the then combined net asset value of the subsidiaries acquired over the nominal value of the Company's shares issued in exchange therefor. Under the Companies Act 1981 of Bermuda, the Company may make distributions to its members out of its contributed surplus in certain circumstances.

29. Financial Guarantee Contracts-Company

The Company executed guarantees amounting to approximately HK$181,630,000 (2011 : HK$120,000,000) with respect to the bank facilities granted to certain subsidiaries of the Group. Under the guarantees, the Company would be liable to pay the bank if the bank is unable to recover the loan. At the reporting date, no provision for the Company's obligation under the guarantee contract has been made as the directors consider that it is not probable that the repayment of the loan would be in default.

30. Commitments

At the reporting date, the Group had the following outstanding commitments：

(a) Operating lease commitments – as lessee

The Group leases certain of its factory premises under operating lease arrangements. Leases for these assets are negotiated for the terms ranging between one and three years.

At 31 March 2012, the Group had total future minimum lease payments under non cancellable operating leases falling due as follows：

	Group	
	2012	2011
	HK$'000	HK$'000
Within one year	**315**	217
In the second to fifth years, inclusive	**3**	43
	318	260

(b) Capital commitments

	Group	
	2012	2011
	HK$'000	HK$'000
Contracted but not accounted for in respect of acquisition of property, plant and equipment	**1,429**	–

At the reporting date, the Company does not have any significant commitments (2011：Nil).

31. Related Party Transactions

(a) Outstanding balances with related parties

Details of the Group's balances with directors as at the reporting date are disclosed in note 25 to the financial statements.

(b) Compensation of key management personnel of the Group

The remuneration of the directors and other members of key management during the year were as follows：

	Group	
	2012	2011
	HK$'000	HK$'000
Short term employee benefits	**5,334**	4,769
Post-employment benefits	**68**	50
	5,402	4,819

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

32. Disposal of a Subsidiary

On 31 March 2011, the Group disposed of its 51% owned subsidiary, 日東系統裝備(綿陽)有限公司 at the consideration of HK$12,110,000. The net assets of that subsidiary at the date of disposal were as follows：

	HK$'000
Property, plant and equipment	861
Prepayments, deposits and other receivables	22,803
Cash and bank balances	237
Other payables and accruals	(295)
Non-controlling interests	(11,567)
	12,039
Gain on disposal of a subsidiary	71
Total consideration	12,110
Satisfied by	
Amount due to non-controlling interests of a subsidiary	12,110

An analysis of net outflow of cash and cash equivalents in respect of the disposal of a subsidiary was as follows：

	HK$'000
Cash consideration	–
Cash and bank balance disposed	(237)
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	(237)

33. Financial Risk Management and Fair Value Measurements

The Group does not have written risk management policies and guidelines. However, the directors meet periodically to analyse and formulate measures to manage the Group's exposure to market risk (including principally changes in interest rates, and currency exchange rates), credit risk and liquidity risk. Generally, the Group employs conservative strategy regarding its risk management.

The Group's principal financial instruments comprise cash and bank balances, pledged deposits, trade and bills receivables, other receivables, trade and bills payables, other payables and accruals, bank borrowings, derivative financial instruments, amounts due to directors and finance lease liabilities. The most significant financial risks to which the Group is exposed are described below.

Interest rate risk

The Group does not have material exposure to interest rate risk, as the Group has no financial assets and liabilities of material amounts with floating interest rates except for the deposits held in banks and certain bank borrowings. Cash at bank earn interest at floating rates based on the daily bank deposits rate during the year. For bank borrowings with floating interest rates, the Group uses interest rate swaps to hedge their exposure to interest rate risk. Therefore, any change in the interest rate promulgated by banks from time to time is not considered to have significant impact to the Group.

A reasonably possible change in interest rate in the next twelve months is assessed, which could have immaterial change in the Group's profit after tax and retained profits. Changes in interest rates have no material impact on the Group's other components of equity. The Group adopts centralised treasury policies in cash and financial management and focuses on reducing the Group's overall interest expense.

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

33. Financial Risk Management and Fair Value Measurements (Continued)

Foreign currency risk

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

A reasonably possible change in foreign currency exchange rates in the next twelve months is assessed, which could have immaterial change in the Group's profit after tax and retained profits. Changes in foreign currency exchange rates have no material impact on the Group's other components of equity.

The directors are of the opinion that the Group's sensitivity to the change in foreign currency exchange rates is low.

The Company is not exposed to any foreign currency risk.

Credit risk

The Group's exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date.

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

In respect of trade and bills receivables and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. During the year ended 31 March 2012, approximately HK$117,000 (2011：HK$553,000) of other receivables have been determined as individually impaired and irrecoverable. Normally, the Group does not obtain collateral from customers.

33. Financial Risk Management and Fair Value Measurements (Continued)

Credit risk (Continued)

The Group's bank balances are all deposits with State-owned banks in Mainland China and major banks in Hong Kong.

The Company's credit risk is primarily attributable to amount due from subsidiaries, and cash and bank balances.

Fair values

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

Liquidity risk

The Group's objective is to ensure adequate funds to meet commitments associated with its financial liabilities. Cash flows are closely monitored on an ongoing basis. The Group will raise funds from the realisation of its assets if required.

The following table details the remaining contractual maturities at each of the reporting dates of the Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payment computed using contractual rates or, if floating, based on current rates at the reporting date) and the earliest date the Group may be required to pay.

Specifically, for term loans which contain a repayment on demand clause which can be exercised at the bank's sole discretion, the analysis shows the cash outflow based on the earliest period in which the entity is required to pay, that is if the banks were to invoke the unconditional rights to call the loans with immediate effect.

33. Financial Risk Management and Fair Value Measurements

(Continued)

Liquidity risk (Continued)

	Group				
	On demand HK$'000	Less than 3 months HK$'000	3 to less than 6 months HK$'000	6 to less than 12 months HK$'000	Over 1 year HK$'000
At 31 March 2012					
Non-derivative financial liabilities					
Trade and bills payables	–	87,131	2,424	11,288	–
Other payables and accruals	–	63,394	–	–	–
Bank borrowings	105,282	–	–	–	–
Due to directors	1,610	–	–	–	–
	106,892	150,525	2,424	11,288	–
Derivative financial liabilities					
Gross settled forward foreign exchange contracts and interest rate swap					
– cash inflow	–	–	(29)	–	(194)
– cash outflow	–	1,521	–	–	836
	–	1,521	(29)	–	642

33. Financial Risk Management and Fair Value Measurements (Continued)

Liquidity risk (Continued)

	Group				
	On demand HK$'000	Less than 3 months HK$'000	3 to less than 6 months HK$'000	6 to less than 12 months HK$'000	Over 1 year HK$'000
At 31 March 2011					
Non-derivative financial liabilities					
Trade and bills payables	–	144,723	19,438	–	–
Other payables and accruals	–	43,519	–	–	–
Bank borrowings	114,076	–	–	–	–
Due to directors	3,408	–	–	–	–
Finance lease obligations	–	29	–	–	–
	117,484	188,271	19,438	–	–
Derivative financial liabilities					
Gross settled forward foreign exchange contracts and interest rate swap – cash outflow	–	–	285	924	–
	–	–	285	924	–

33. Financial Risk Management and Fair Value Measurements (Continued)

Liquidity risk (Continued)

The following table summarises the maturity analysis of those term loans with repayment-on-demand clause based on the agreed scheduled repayments set out in the loan agreements. The amounts included interest payments computed using contractual rates. As a result, these amounts are greater than the amounts disclosed in the "on demand" time band in the above maturity analysis. Taking into account the Group's financial position, the directors of the Company do not consider that it is probable that the banks will exercise their discretion to demand immediate repayment, the directors of the Company believe that such term loans will be repaid in accordance with the scheduled repayment dates as set out in the loan agreements.

	Group			
	Less than 3 months HK$'000	3 to less than 6 months HK$'000	6 to less than 12 months HK$'000	Over 1 year HK$'000
Term loans subject to a repayment on demand clause based on scheduled repayments:				
31 March 2012	**44,823**	**12,289**	**–**	**50,528**
31 March 2011	–	10,459	105,002	–

33. Financial Risk Management and Fair Value Measurements (Continued)

Liquidity risk (Continued)

	Company				
	On demand HK$'000	Less than 3 months HK$'000	3 to less than 6 months HK$'000	6 to less than 12 months HK$'000	Over 1 year HK$'000
At 31 March 2012					
Other payables and accruals	**–**	**1,250**	**–**	**–**	**–**
Due to a subsidiary	**470**	**–**	**–**	**–**	**–**
	470	**1,250**	**–**	**–**	**–**
Financial guarantees issued					
Maximum amount guaranteed	**–**	**181,630**	**–**	**–**	**–**
At 31 March 2011					
Other payables and accruals	–	1,069	–	–	–
Due to a subsidiary	2,097	–	–	–	–
	2,097	1,069	–	–	–
Financial guarantees issued					
Maximum amount guaranteed	–	120,000	–	–	–

33. Financial Risk Management and Fair Value Measurements (Continued)

Summary of financial assets and liabilities by category

The carrying amounts of the Group's and the Company's financial assets and liabilities recognised at the reporting date may also be categorised as follows. See notes 2.12 and 2.20 for explanations on how the category of financial instruments affects their subsequent measurement.

Financial assets

	Group	
	2012	2011
	HK$'000	HK$'000
Loans and receivables：		
– Trade and bills receivables	**143,807**	150,033
– Other receivables	**10,814**	7,798
Pledged deposits	**106,480**	118,482
Cash and bank balances	**172,706**	186,256
	433,807	462,569

	Company	
	2012	2011
	HK$'000	HK$'000
Loans and receivables：		
– Due from subsidiaries	**112,242**	114,514
Cash and bank balances	**1,447**	624
	113,689	115,138

33. Financial Risk Management and Fair Value Measurements (Continued)

Summary of financial assets and liabilities by category (Continued)

Financial liabilities

	Group	
	2012	2011
	HK$'000	HK$'000
Financial liabilities at fair value through profit or loss, held for trading :		
– Derivative financial instruments	**2,134**	1,209
Financial liabilities measured at amortised cost :		
– Trade and bills payables	**100,843**	164,161
– Other payables and accruals	**63,394**	43,519
– Bank borrowings	**105,282**	114,076
– Due to directors	**1,610**	3,408
– Finance lease obligations	**–**	28
	273,263	326,401

	Company	
	2012	2011
	HK$'000	HK$'000
Financial liabilities measured at amortised cost :		
– Due to a subsidiary	**470**	2,097
– Other payables and accruals	**1,250**	1,069
	1,720	3,166

33. Financial Risk Management and Fair Value Measurements (Continued)

Fair value measurements recognised in the statement of financial position – Group

The hierarchy groups financial assets and liabilities into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets and liabilities. The fair value hierarchy has the following levels：

- Level 1：quoted prices (unadjusted) in active markets for identical assets and liabilities；
- Level 2：inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)；and
- Level 3：inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

The financial liabilities measured at fair value in the consolidated statement of financial position are grouped into the fair value hierarchy as follows：

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
At 31 March 2012				
Derivative financial instruments	**–**	**2,134**	**–**	**2,134**
At 31 March 2011				
Derivative financial instruments	–	1,209	–	1,209

Where derivatives are traded either on exchanges or liquid over-the-counter markets, the Group uses the closing price at the reporting date. As the derivatives entered into by the Group are not traded on active markets, the fair values of such contracts are estimated using a valuation technique that maximise the use of observable market inputs e.g. market currency and interest rates (Level 2). All derivatives entered into by the Group are included in Level 2 and consist of foreign currency forward contracts and interest rate swaps.

34. Capital Management

The Group's objectives when managing capital are：

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

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

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

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

Management regards total equity as capital. The amount of capital as at 31 March 2012 and 2011 amounted to approximately HK$296,104,000 and HK$268,461,000 respectively which management considers as optimal having considered the projected capital expenditures and the projected strategic investment opportunities.

There is no change in the Group's capital management policies and objectives during the year.