



Sun East Technology (Holdings) Limited

日東科技（控股）有限公司*

(incorporated in Bermuda with limited liability)

(Stock code: 365)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

The Board of Directors (“the Board”) of Sun East Technology (Holdings) Limited (“the Company”) announces the unaudited consolidated results (“the Unaudited Results”) of the Company and its subsidiaries (collectively, “the Group”) for the six months ended 30 September 2008 (“the Period”). The Unaudited Results have not been audited, but have been reviewed by the Company’s Audit Committee on 20 December 2008:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended 30 September	
		2008	2007
		(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000
REVENUE	3	251,328	271,352
Cost of sales		(211,922)	(227,144)
Gross profit		39,406	44,208
Other income and gains		746	393
Selling and distribution expenses		(21,777)	(16,551)
General and administrative expenses		(25,044)	(21,039)
Finance costs	4	(765)	(985)
Share of results of:			
A jointly-controlled entity		(800)	(1,679)
An associate		(1)	—
(LOSS)/PROFIT BEFORE TAX	5	(8,235)	4,347
Tax	6	(66)	(830)
(LOSS)/PROFIT FOR THE PERIOD ATTRIBUTABLE TO EQUITY HOLDERS		(8,301)	3,517
Interim dividend	7	—	—
(LOSSES)/EARNINGS PER SHARE	8		
— Basic		(1.58 cent)	0.67 cent
— Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

		30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		151,582	154,148
Prepaid land lease payment		9,933	10,007
Interest in a jointly-controlled entity		5,200	6,000
Interest in an associate		1,019	1,020
		<u>167,734</u>	<u>171,175</u>
CURRENT ASSETS			
Inventories		98,901	115,559
Trade and bill receivables	10	108,988	116,825
Prepayments, deposits and other receivables		17,134	12,877
Pledged cash and bank balances		2,284	2,261
Cash and cash equivalents		104,671	76,430
		<u>331,978</u>	<u>323,952</u>
CURRENT LIABILITIES			
Trade and bills payables	11	104,117	88,797
Accruals and other payables		57,872	51,211
Interest-bearing bank and other borrowings		18,096	25,752
Tax payable		19,252	19,127
		<u>199,337</u>	<u>184,887</u>
NET CURRENT ASSETS		<u>132,641</u>	<u>139,065</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>300,375</u>	<u>310,240</u>
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings		—	390
Deferred tax liabilities		6,038	6,038
		<u>6,038</u>	<u>6,428</u>
		<u>294,337</u>	<u>303,812</u>
CAPITAL AND RESERVES			
Issued capital		52,500	52,500
Reserves		241,837	251,312
		<u>294,337</u>	<u>303,812</u>

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. PRINCIPAL ACTIVITIES

The principal activities of the Group comprise the design, manufacture and distribution of production line and production equipment and distribution of brand name production equipment.

2. PRINCIPAL ACCOUNTING POLICIES

This unaudited condensed consolidated interim financial information is prepared in accordance with Hong Kong Accounting Standard (HKAS) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 of the Listing Rules of The Stock Exchange of Hong Kong Limited.

The accounting policies and methods of computation used in the preparation of this condensed consolidated interim financial information are consistent with those used in the annual financial statements for the year ended 31 March 2008, except that the Group adopted all the new standards, amendments to standards and interpretations (new/revised HKFRSs) which are effective for accounting periods commencing on 1 April 2008. The adoption of these new/revised HKFRSs did not have material financial impact to the result of the Group.

3. SEGMENT INFORMATION

The following table presents revenue and results for the Group’s business segments.

	Production lines and production equipment		Brand name production equipment		Consolidated	
	Six months ended		Six months ended		Six months ended	
	30 September		30 September		30 September	
	(Unaudited)		(Unaudited)		(Unaudited)	
	2008	2007	2008	2007	2008	2007
	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Segment revenue	<u>127,026</u>	<u>161,717</u>	<u>124,302</u>	<u>109,635</u>	<u>251,328</u>	<u>271,352</u>
Segment results	<u>(11,300)</u>	<u>1,900</u>	<u>3,739</u>	<u>4,614</u>	<u>(7,561)</u>	<u>6,514</u>
Interest and unallocated income					892	497
Unallocated expenses					–	–
Finance costs					(765)	(985)
Share of results of						
a jointly-controlled entity					(800)	(1,679)
an associate					(1)	–
Tax					(66)	(830)
Net (loss)/profit for the period					<u>(8,301)</u>	<u>3,517</u>

4. FINANCE COSTS

	Six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on bank loans and overdrafts wholly repayable within five years	746	905
Interest on finance leases	19	80
	<u>765</u>	<u>985</u>

5. (LOSS)/PROFIT BEFORE TAX

	Six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit before tax has been arrived at after charging:		
Cost of inventories sold and services provided	211,922	227,144
Depreciation	7,716	7,729
Amortisation of technical know-how	–	467
Staff costs (including directors' remunerations)		
– wages and salaries	24,158	20,507
– retirement benefits scheme contributions	230	1,070
	<u>230</u>	<u>1,070</u>

6. TAX

	Six months ended 30 September	
	2008	2007
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Hong Kong	66	830
Elsewhere	–	–
Deferred	–	–
	<u>66</u>	<u>830</u>
Tax charge for the period	<u>66</u>	<u>830</u>

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the period (2007: 17.5%). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

As at 30 September 2008, there was no significant unprovided deferred tax liability (2007: Nil).

7. INTERIM DIVIDEND

The Board has resolved not to declare any interim dividend for the six months ended 30 September 2008 (2007: Nil).

8. (LOSSES)/EARNINGS PER SHARE

The calculation of basic (losses)/earnings per share is based on the net (loss)/profit attributable to equity holders for the period of approximately HK\$(8,301,000) (2007: HK\$3,517,000), and the weighted average number of 525,000,000 (2007: 525,000,000) shares in issue during the period. Diluted earnings per share has not been calculated as no diluting event existed during the period.

9. RELATED PARTY TRANSACTIONS

There is no significant related party transaction during the period ended 30 September 2008.

10. TRADE AND BILL RECEIVABLES

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The normal credit period granted by the Group to its customers ranges from 30 to 180 days.

An ageing analysis of the trade and bill receivables as at the balance sheet date, based on invoice date and net of provision, is as follows:

	30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
Within 90 days	50,144	58,805
91 to 120 days	6,041	12,203
121 to 180 days	13,477	12,891
181 to 360 days	26,181	24,297
Over 360 days	13,145	8,629
	<u>108,988</u>	<u>116,825</u>

11. TRADE AND BILLS PAYABLE

An ageing analysis of the trade and bills payables as at the balance sheet date, based on invoice date, is as follows:

	30 September 2008 (Unaudited) HK\$'000	31 March 2008 (Audited) HK\$'000
Within 90 days	78,049	68,661
91 to 120 days	4,114	6,825
Over 120 days	21,954	13,311
	<u>104,117</u>	<u>88,797</u>

BUSINESS REVIEW AND OUTLOOK

During the six months ended 30 September 2008, turnover of the Company amounted to approximately HK\$251 million (30 September 2007: HK\$271 million), representing a decrease of 7% as compared to that of the same period of the previous year. Gross profit amounted to HK\$39 million, decreased HK\$5 million or 11% as compared to that of the previous year. (Loss)/profit attributable to equity holders amounted to (HK\$8,301,000) (30 September 2007: HK\$3,517,000).

During the period, the Group's operating results were impacted in a more significant manner by the spiraling costs of raw materials and energy, the appreciation of Renminbi, the increase in employees' salary and benefits, the sub-prime loan crisis in the United States as well as the declining customers' demands. In face of the current changing economic environment and conditions, the Group adjusted operational objectives and strategies in a timely manner and enhanced its internal management and risk control, so as to ensure the enterprise can grasp new opportunities for business development under stable operation and establish a solid foundation for the Company's future growth.

BUSINESS REVIEW

The Group enjoys a leading position in China as a manufacturing enterprise of intelligent electronic equipment and a solution provider for industrial automatic systems. The Group has strived to continuously enhance competitiveness and profitability through:

1. Actively expanding its market reach, implementing professional teams and developing an extensive sales network, improving and establishing a system for after-sales service

To increase the market share of our products, the Group has developed an active sales policy, strengthened technical training and appraisal, and enhanced the quality of staff responsible for providing sales and after-sales service throughout China. Sales staff was re-grouped according to products they are responsible for in order to set up professional advisory sales teams and start building a sales system based on a network platform. The Group has stepped up its marketing efforts in the PRC markets by enhancing its sales force in regions that are less impacted by the economic turmoil, and hence the sales of the northern region during the first half of the year increased 34% over the previous corresponding period. The Group continued to organize a series of activities under the name of “2008年日東中國質量萬里行－高端SMT巡迴報告會” in the southern, eastern and central regions and a good and interactive relationship with the clients was established as a result. Not only did such activities help understanding the clients' needs and the latest market trend, they also spread the influence of the Sun East brand. The implementation of the “1-2-1” service strategy means to respond to the clients' needs in an hour, arrive on-site in two hours and solve the problem in one day. The establishment of client error files and a client problem solving mechanism has significantly raised client satisfaction levels and strengthened the good working relationship with old clients.

2. Creating more advanced products and enhancing competitiveness based on market demand at various stages

1. Electronics Assembly Equipment:

Aiming at enhancing competitiveness, the Group specializes in researching and developing customized and non-standardized products for its clients so as to accommodate their different demands and continues to lower the structural costs of products based on the current market demand. The Group develops customized products according to large clients' needs and by leveraging on its strength on research and development, the Group also develops new products of high value for money. WMSI brought us with modularized and low-cost wave soldering machines and accelerated its pace in developing a new generation of high-end magnetic pump products.

2. Semiconductor Packaging Equipment:

Amidst the increasing market demand for ICM modules in the PRC, standards for the size of laminates and chips, and the techniques in attaching and assembling components are getting higher, as such, further upgrade in the Group's processing procedures, the technology and technique in COG equipment has become necessary, and the development of equipment with several larger chips with multi-spots has become a trend. At the present stage, the Group is designing automatic COG equipment, which is expected to be launched on the market within a year. Such product will help satisfy the needs of the middle to high-end customers and increase the Group's influence in the industry.

3. Automated Equipment Mainly for Automobile Manufacturing Industry:

To provide complete ancillary services, in addition to the supply of electronics assembly equipment, the Group adjusted the business of its subsidiary Suneast Electronics Development (Shenzhen) Co., Ltd., implemented active economic policies and established the automobile equipment sales department. During the first half of 2008, the Group focused on the promotion of its core assembly lines for automobile motors and gearboxes with high added-value, as well as the assembly line for key components, in an attempt to increase the profits of the automated equipment business.

4. Automatic Storage and Logistics Equipment:

The Group has strongly developed its capability in system integration based on its original automatic warehouse and logistic equipment. Such integration capability has been greatly enhanced by initiatives such as upgrading the Group's capability in planning, project management and software. As for the market area, the Group has entered into emerging industries upon strengthening its existing advantages. The Group has solidified its leading position in the domestic pharmaceutical industry by completing the most complicated pharmaceutical logistics centre project in the PRC this year. Concurrently, the Group also tapped into the iron and steel industry, introduced its automatic delivery concept to the

electronics industry and entered into a project in relation to the first production logistics delivery centre of the PRC's electronics industry. The Group has reached new heights in the logistics system industry during the first half of 2008.

3. For sheet metal fabrication, the Group strengthened its development in the PRC market upon maintaining its business in Japan and Europe, such strategy has allowed the Group to successfully avert the risks arising from the appreciation of Renminbi

The Group concentrates on operations such as office automation, finance and communication, and is transforming from an OEM (Original Equipment Manufacturer) solely responsible for sheet metal processing to an ODM (Original Design Manufacturer), which will be indispensable in the industry chain. In the first half of the year, the Group cooperated with the largest ATM manufacturer of the PRC, forming a strong team to complete a project of the 2008 Olympic Games, namely the ticketing machines project for the Beijing-Tianjin Light Rail.

4. Implementation of in-depth budget management to lower costs. Further enhancing internal supervision and audit management, improving the internal control system, and conducting audits on operating procedures and specific projects to effectively prevent risks:

While implementing budget management system, the Group assigned various business targets to each department and related staff and combined target management and performance management to ensure the cost of the Group was controlled effectively. Income and expenditure of our subsidiaries are monitored and controlled to ensure the Company has maintained a sufficient level of cash flow. The Group has effectively prevented the impact of the financial crisis by relying on its solid financial strategies. It also strengthened its centralized management on the finance of its subsidiaries, regulated and standardized the financial management system, optimized the accounting procedures, increased the overall operating efficiency and profitability by sharing and optimizing the allocation of resources. The Group has also further improved the internal audit system and internal control process, and regularly conducted internal audit, risk assessment and business process audit towards our subsidiaries to effectively prevent operational risks against enterprises.

5. For raising the implementation capability, the Group streamlined its structure and attracted talents to join the Group despite the negative market conditions

While actively dealing with market changes, the Group streamlined its headcount from 2,000 in 2005 to the current 1,200. The Group eliminates those staff who failed to cope with the changing environment and emphasizes the continuous perfection of strategic human resources, and promotes the growth and maturation of staff through the establishment of promotion system for the talent pool, performance appraisal system, personnel training and development system and remuneration allocation and incentive system. The Group attracted talents with high calibers despite the negative market conditions under the financial crisis and is well positioned for the opportunities ahead.

Prospects

During the first half of 2008, the impact of global financial turbulence on EMS (Electronic Manufacturing Services) and OEM was significant. The Group's leading business – SMT production line, which accounts for a considerable proportion of the revenue, decreased by 20% compared to last year. To tackle this situation, the Group has actively tapped into other industries, such as the financial equipment industry, which are expected to contribute 30% growth to the Group and help the Group to realize a diversified industrial model and expand its economic scale in one to three years. In recent years, a majority of packaging companies have shifted their production lines and opened factories in the PRC with a view to lowering the transportation cost and labour cost, etc. Given the aforesaid reasons, the Group has capitalized on its own advantages and cooperated with a renowned international company KAIJO to assemble the advanced wire bonding machines and die bonders itself, and is expected to contribute 15-20% economic growth to the Group. Under the plight resulting from the sweeping financial tsunami, the Group will continue to consolidate its advantages on various resources, take proactive measures, speed up its response to the market demand and after-sales services, as well as enhance its corporate management and elevate its market positioning to boost the Group's overall profitability, so as to provide desirable returns for its shareholders.

LIQUIDITY

As at 30 September 2008, the Group had net current assets of HK\$133 million (31 March 2008: HK\$139 million), mainly comprising cash and bank balances of approximately HK\$107 million (31 March 2008: HK\$79 million), prepayments, deposits and other receivables of approximately HK\$17 million (31 March 2008: HK\$13 million), inventories of approximately HK\$99 million (31 March 2008: HK\$116 million), and trade receivables of approximately HK\$109 million (31 March 2008: HK\$117 million) and current liabilities of approximately HK\$199 million (31 March 2008: HK\$184 million). The current ratio was approximately 1.7 as at 30 September 2008 (31 March 2008: 1.8).

As at 30 September 2008, the Group had total assets of approximately HK\$500 million (31 March 2008: HK\$495 million) and total liabilities of approximately HK\$205 million (31 March 2008: HK\$191 million). The gearing ratio calculated as a percentage of debt to equity was 6% (31 March 2008: 9%).

FINANCIAL RESOURCES

As at 30 September 2008, the Group had floating interest-bearing bank borrowings of approximately HK\$18 million (31 March 2008: HK\$25 million), of which HK\$17 million were denominated in Renminbi and HK\$1 million in Hong Kong dollars. The Group's bank borrowings are all repayable within five years. The Group's borrowings were secured by (i) first legal charges on certain of the Group's leasehold land and buildings located in Hong Kong; (ii) pledge of certain bank balances and (iii) guarantees provided by the Company.

As a significant portion of the Group's sales and purchases are denominated in Hong Kong dollars and Renminbi, in view of the stability of exchange rate of Hong Kong dollars and Renminbi, the directors consider the Group has no significant exposure to foreign exchange fluctuation. During the Period under review, the Group did not use any financial instrument for hedging purposes and the Group did not have any hedging instrument outstanding as at 30 September 2008.

As at 30 September 2008, cash and bank balances amounted to HK\$107 million, approximately HK\$33 million are denominated in Renminbi and the majority of the remaining balances are denominated in Hong Kong dollars.

EMPLOYEES

At 30 September 2008, the Group employed approximately 1,200 staff and workers in the PRC and approximately 20 staff in the Group's Hong Kong office. The Group's employees are remunerated in accordance with their work performance, experience and prevailing industry practices. The Group also participates in retirement schemes for its staff in the PRC and Hong Kong.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 September 2008 (2007: Nil).

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

There was no purchase, sale or redemption of the Company's listed securities by the Company or any of its subsidiaries during the Period.

CORPORATE GOVERNANCE

Model Code for Securities Transactions By Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code"). On specific enquiries made, all directors of the Company have confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 September 2008.

Compliance with the Code on Corporate Governance Practices

In the opinion of the directors, the Company has complied with the applicable code provisions of the Code on Corporate Governance Practices (the "CG Code"), as set out in Appendix 14 of the Listing Rules during the interim period; except that CG Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term and subject to re-election. All the existing non-executive directors of the Company do not have a specific term of appointment but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Bye-laws of the Company. As such, the Board considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

Audit Committee

The Company has an Audit Committee (the “Committee”) which was established in accordance with the requirements of the CG Code, for the purpose of reviewing and providing supervision over the Group’s financial reporting process and internal controls. The Committee comprises three independent non-executive directors of the Company. The Group’s interim results for the period ended 30 September 2008 has been reviewed by the Committee. The Committee is of the opinion that these statements comply with the applicable accounting standards, and the Stock Exchange and legal requirements, and that adequate disclosures have been made.

Remuneration Committee

The Company has established a Remuneration Committee which comprises three members, namely Prof. Xu Yang Sheng and Mr. Li Wanshou, who are independent non-executive directors, and Mr. But Tin Fu, who is an executive director.

PUBLICATION OF INTERIM REPORT ON THE STOCK EXCHANGE’S WEBSITE

The Company’s interim report containing all the information required by the Listing Rules will be published on the website of the Stock Exchange of Hong Kong Limited and despatched to Shareholders in due course.

List of all Directors of the Company as at the date of this announcement:

Executive Directors:

Mr. But Tin Fu (*Chairman*)
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

For and on behalf of the Board

But Tin Fu
Chairman

Hong Kong, 20 December 2008

* *For identification purpose only*