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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 2011

The Board of Directors (“the Board”) of Sun East Technology (Holdings) Limited (“the Company”) is pleased to announce the unaudited consolidated results (“the Unaudited Results”) of the Company and its subsidiaries (collectively, “the Group”) for the six months ended 30 September 2011 (“the Period”). The Unaudited Results have not been audited but they have been reviewed by the Company’s Audit Committee on 22 November 2011:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2011

		Six months ended 30 September	
		2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
	Notes		
Revenue	4	387,953	405,934
Cost of sales		(325,987)	(349,825)
Gross profit		61,966	56,109
Other income and gains		5,865	3,180
Selling and distribution expenses		(22,123)	(18,559)
General and administrative expenses		(24,756)	(21,488)
Other expenses		(12,377)	(14,254)
Finance costs	5	(2,150)	(13)
Profit before income tax	6	6,425	4,975
Income tax expense	7	(1,201)	(975)
Profit for the period attributable to owners of the Company		5,224	4,000
Other comprehensive income, including reclassification adjustments and net of tax			
Exchange differences on translation of financial statements of foreign operations		4,006	1,459
Total comprehensive income for the period attributable to owners of the Company		9,230	5,459
Earnings per share for profit attributable to owners of the Company	8		
– Basic		0.99 cents	0.76 cents
– Diluted		N/A	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2011

		30 September 2011 (Unaudited) HK\$'000	31 March 2011 (Audited) HK\$'000
	Notes		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		123,695	130,193
Prepaid land lease payments		10,434	9,895
Pledged deposits		48,150	—
		<u>182,279</u>	<u>140,088</u>
Current assets			
Inventories		77,915	77,611
Trade and bills receivables	9	132,710	150,033
Prepayments, deposits and other receivables		18,484	22,365
Tax reserve certificates		3,600	3,300
Taxes recoverable		191	191
Time deposits with maturities over three months		13,474	—
Pledged deposits		188,401	118,482
Cash and cash equivalents		167,749	186,256
		<u>602,524</u>	<u>558,238</u>
Current liabilities			
Trade and bills payables	10	125,403	164,161
Other payables and accruals		112,975	111,488
Finance lease obligations		—	28
Bank borrowings		228,485	114,076
Derivative financial instruments		3,068	1,209
Due to directors		1,502	3,408
Taxes payable		27,697	27,513
		<u>499,130</u>	<u>421,883</u>
Net current assets		<u>103,394</u>	<u>136,355</u>
Total assets less current liabilities		<u>285,673</u>	<u>276,443</u>
Non-current liabilities			
Deferred tax liabilities		7,982	7,982
Net assets		<u>277,691</u>	<u>268,461</u>
EQUITY			
Equity attributable to owners of the Company			
Share capital	11	52,500	52,500
Reserves		225,191	215,961
Total equity		<u>277,691</u>	<u>268,461</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

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”).

2. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 September 2011 have been prepared in accordance with the applicable disclosure requirements set out in Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (HKICPA).

3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated interim financial statements have been prepared on the historical cost basis, except for leasehold land and buildings and derivative financial instruments, which are stated at revalued amounts and fair value, as appropriate.

Except as described below, the accounting policies used in the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2011.

In the Period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretation issued by the HKICPA which are relevant to and effective for the Group’s financial statements for the annual period beginning on 1 April 2011.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
HKAS 32 (Amendments)	Classification of Rights Issues
HK(IFRIC) – Int 14 (Amendments)	Payments of a Minimum Funding Requirement
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the new and revised standards, amendments and interpretation in the Period has had no material effect on the results and financial position of the Group.

The Group has not early applied the following new and revised standards, amendments and interpretations that have been issued but are not yet effective:

HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income ⁴
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets ³
HKAS 19 (Revised 2011)	Employee Benefits ²
HKAS 27 (2011)	Separate Financial Statements ²
HKAS 28 (2011)	Investments in Associates and Joint Ventures ²
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets ¹
HKFRS 9	Financial Instruments ²
HKFRS 10	Consolidated Financial Statements ²
HKFRS 11	Joint Arrangements ²
HKFRS 12	Disclosure of Interests in Other Entities ²
HKFRS 13	Fair Value Measurement ²

¹ Effective for annual periods beginning on or after 1 July 2011

² Effective for annual periods beginning on or after 1 January 2013

³ Effective for annual periods beginning on or after 1 January 2012

⁴ Effective for annual periods beginning on or after 1 July 2012

The Directors of the Company anticipate that the application of these new or revised standards, amendments and interpretation will have no material impact on the results and financial position of the Group.

4. SEGMENT INFORMATION

	Production lines and production equipment		Brand name production equipment		Six months ended 30 September (Unaudited)	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Segment revenue:						
Sales to external customers	208,073	187,939	179,880	217,995	387,953	405,934
Other revenue – external	1,948	1,280	–	–	1,948	1,280
Reportable segment revenue	210,021	189,219	179,880	217,995	389,901	407,214
Reportable segment result	(2,924)	(4,778)	7,582	7,866	4,658	3,088
Depreciation and amortisation	7,151	8,724	–	–	7,151	8,724
Provision for impairment of trade and bills receivables	7,846	2,768	409	–	8,255	2,768
Provision for impairment of other receivables	–	6,420	–	–	–	6,420
Write-off of property, plant and equipment	4,122	5,066	–	–	4,122	5,066

The totals presented for the Group's segment result reconcile to the Group's key financial figures as presented in the condensed interim financial statements as follows:

	Six months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Reportable segment results	4,658	3,088
Rental income	–	23
Interest and other income	3,917	1,877
Finance costs	(2,150)	(13)
Profit before income tax	6,425	4,975

5. FINANCE COST

	Six months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Interest on bank borrowings wholly repayable within five years	2,149	—
Interest on finance lease	1	13
	<u>2,150</u>	<u>13</u>

6. PROFIT BEFORE INCOME TAX

	Six months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Profit before income tax has been arrived at after charging:		
Cost of inventories sold	325,987	349,825
Depreciation		
– owned assets	6,981	8,534
– leased assets	26	52
Staff costs (including directors' remunerations)		
– wages and salaries	39,109	29,521
– defined contribution scheme	2,295	1,894
Amortisation of prepaid land lease payments	144	138
Minimum lease payments under operation lease in respect of leasehold land and buildings	342	278
Fair value loss on derivative financial instruments	1,859	—
Provision for impairment of trade and bills receivables	8,255	2,768
Provision for impairment of other receivables	—	6,420
Write-off of property, plant and equipment	4,122	5,066
	<u>325,987</u>	<u>349,825</u>

7. INCOME TAX EXPENSE

	Six months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Hong Kong	—	—
Elsewhere	1,201	975
	<u>1,201</u>	<u>975</u>
Total income tax expense	<u>1,201</u>	<u>975</u>

No Hong Kong profits tax was provided as the Group did not generate any assessable profits arising from its operation in Hong Kong during the Period (2010: Nil). Taxes assessable in elsewhere have been calculated at the prevailing rates of tax based on existing legislation, interpretations and practices.

8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit for the Period of approximately HK\$5,224,000 (2010: HK\$4,000,000) attributable to the owners of the Company and 525,000,000 (2010: 525,000,000) ordinary shares in issue during the Period. Diluted earnings per share has not been presented as there were no potential ordinary shares in issue during the Period.

9. TRADE AND BILLS 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.

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

	30 September 2011 (Unaudited) HK\$'000	31 March 2011 (Audited) HK\$'000
Within 90 days	105,979	107,122
91 to 120 days	9,982	5,283
121 to 180 days	6,460	12,928
181 to 360 days	10,289	17,202
Over 360 days	—	7,498
	<u>132,710</u>	<u>150,033</u>

10. TRADE AND BILLS PAYABLES

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

	30 September 2011 (Unaudited) HK\$'000	31 March 2011 (Audited) HK\$'000
Within 90 days	113,088	144,723
91 to 120 days	2,854	6,259
Over 120 days	9,461	13,179
	<u>125,403</u>	<u>164,161</u>

11. SHARE CAPITAL

	As at 30 September 2011 (Unaudited) HK\$'000	As at 31 March 2011 (Audited) HK\$'000
Authorised:		
2,000,000,000 ordinary shares of HK\$0.10 each	<u>200,000</u>	<u>200,000</u>
Issued and fully paid:		
525,000,000 (2010: 525,000,000) ordinary shares of HK\$0.10 each	<u>52,500</u>	<u>52,500</u>

CHAIRMAN'S STATEMENT

The economic environment in the first half of 2011 was what I expected in the previous year, the European countries and the USA started to be affected by the unfavourable factors resulted from subprime mortgages and weakened property market. Looking ahead to the second half of the year, the unstable development trend of the global economy, sustained credit crisis and increasing inflationary pressure will continue to cause problems to the economy of China, and the risk of a slowdown in future growth is rising. Under the impact of the weak US economy and the tightening of monetary policies by the Chinese government, the economy of the Mainland showed signs of cooling down.

In the first half of 2011, as both domestic and foreign demands were weakened, the development of the solar energy and photovoltaic industries were also restrained. Our reasonable analysis of the economic situation and our understanding of market changes have helped us to achieve the targeted results in the first half of the year.

It is expected that signs of decline in the market would continue in the second half of the year. During this period of uncertainty, the Group will rely on its diversified products as well as sound operating and financial conditions to achieve steady development. By closely following the guidelines of the State's Twelfth Five Year Plan, we have invested more on people and increased capital in the logistics and automation business to create new growth areas for the enterprise. The Group is confident about the future. Under the macro trend of globalization, faithful and innovative employees are the Group's most valuable resources.

BUSINESS REVIEW

We will continue to recruit excellent talents, put more effort in product research and development and raise the level of standardization. Through adjustments to operation strategies, we will proactively adapt to market development and changes.

We will embrace the advancement in technology as the basis of our core competitiveness, and a series of incentive policies have been implemented internally to encourage technological innovation. At the same time, we will further promote technological exchanges with universities, colleges and research institutes, more actively apply for national technological projects, and adequately rely on government technologies and financial support to raise the Group's technological capability. Positive results have been achieved from the government's technological support and subsidized projects.

The logistics and automation business showed good development momentum in the first half of the year. The turnover of logistics and automation business recorded a surge of 165% as compared with last corresponding period, which exceeded our expectation. The results of the traditional SMT business started to decline in August 2011 under the impact of factors such as a fall in deposit reserve, increase of interest rate and capital turnover issues in the Mainland. However, we still achieved our business target, and a steady growth was attained in the ODM business.

OUTLOOK

We will keep on our customer-oriented policy and set our goal of creating value for shareholders. We will actively rely on our team of high quality talents in the course of expanding our businesses, we will also focus on maintaining a sound financial position and enhancing our ability to avoid operational risks. Sun East is committed to creating a brand with diversified businesses, and we will establish a vast sales network at the same time. In the future, we will invest significantly in technological innovation, talent team-building and the purchase of advanced equipment, etc, so as to build up a new and innovative Sun East.

FINANCIAL REVIEW

Turnover and Gross Profit

During the Period, the Group's turnover is approximately HK\$388 million, representing a decrease of approximately 4.4%, as compared with approximately HK\$406 million in the corresponding period in 2010. The decrease was primarily attributable to the decrease in the sale amount of brand name production equipment approximately HK\$38 million, as the demand of SMT in second quarter was weak in PRC market.

The gross profit ratio (GP ratio) for the Period was approximately 16%, representing an increase of approximately 2.2%, as compared with last period approximately 13.8%. The increase of the GP ratio was mainly attributable to the increase of sale portion of Automatic Warehouse ("AW") of the Group. The average GP ratio of AW is higher than other products of the Group.

Selling and Distribution Expenses

Selling and distribution expenses for the Period were approximately HK\$22.1 million, representing an increase of approximately HK\$3.5 million or approximately 18.8%, as compared to approximately HK\$18.6 million in corresponding period of 2010. The increase was mainly attributable to the increase in commissions and salaries payable to salesman.

General and Administrative Expenses

General and administrative expenses during the Period were approximately HK\$24.8 million, representing an increase of approximately HK\$3.3 million or approximately 15.3%, as compared to approximately HK\$21.5 million in corresponding period in 2010. The increase representing the fair value loss approximately HK1.8 million on the derivative financial instruments and the increase of labour costs in PRC.

Finance Costs

Finance costs for the Period amounted to approximately HK\$2.2 million, representing an increase of approximately HK\$2.1 million, as compared with approximately HK\$13,000 in 2010. The increase was mainly attributable to the interest expenses payable for bank borrowings under the non-delivery forward contract (“NDF”). But actually this interest expenses will be compensated by HK\$2.6 million interest income from pledged deposits under the respective contracts.

Profit for the Period

As result of the foregoing, the profit attributable to the owners of the Company for the Period was approximately HK\$5.2 million, representing an increase of approximately HK\$1.2 million or approximately 30%, as compared with approximately HK\$4 million in corresponding period in 2010. The net profit margin was approximately 1.3% for the Period as compared with approximately 1% in corresponding period in 2010.

EBITDA

The following table illustrates the Group’s EBITDA for the respective periods. The Group’s EBITDA margin was approximately 4.1% for the Period as compared with approximately 3.4% in corresponding period in 2010.

	Six months ended	
	30 September	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Profit for period attributable to owners of the Company	5,224	4,000
Finance costs	2,150	13
Income tax expenses	1,201	975
Depreciation and amortization	7,151	8,724
EBITDA	15,726	13,712

Financial Resource, Liquidity and Gearing Ratio

The Group continued to fund operations principally with internally generated cash flow. By excluding of current pledged deposits approximately HK\$188 million and bank borrowings approximately HK\$228 million for hedging purpose, the Group maintained high value of net current assets at approximately HK\$143 million and a healthy liquidity ratio at 1.53 times. Finance lease obligations were fully repaid during the Period. The Group's gearing ratio, calculated by reference to the ratio of total borrowings (excluding of bank borrowings for hedging purpose) to total equity attributable to owners of the Company as at 30 September 2011, was 0% (at 31 March 2011: 0.01%).

Working Capital Management

The Group continued to maintain a healthy financial position. As at the end of the Period, the Group held approximately HK\$168 million cash and cash equivalents and approximately HK\$13 million time deposits which is almost the same as the beginning of the period approximately HK\$186 million. The Group's average inventory turnover days was approximately 44 days (31 March 2011: approximately 35 days). The Group's average debtors turnover days was approximately 67 days (31 March 2011: approximately 52 days). The Group's average creditors turnover days was approximately 81 days (31 March 2011: approximately 73 days).

Capital Expenditure on Property, Plant and Equipment

Total capital expenditure for the period was approximately HK\$1.5 million, out of which approximately HK\$0.5 million was spent on the acquisition of machinery and equipment, approximately HK\$0.2 million on acquisition of furniture, fixture and leasehold improvement and approximately HK\$0.8 million on acquisition of motor vehicles.

Exchange Rate Risk and Interest Rate Risk

Most of the transactions of the Group were made in 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 some NDFs to hedge US\$15.1 million transaction in the Period. NDF is used to hedge against the risk arising from the change in exchange rate by fixed 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 ("IRS") agreement to hedge US\$14.4 million floating rate foreign currency loan during the Period. The Company 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.

Charges on Group Assets

As at 30 September 2011, the Group's banking facilities including its import/export, letter of credit documentary credits, trust receipt and bank loan are secured by:

- (i) a first legal charge on certain of the Group's leasehold land and buildings, which had an aggregate net book amount at the reporting date of approximately HK\$5.9 million;
- (ii) bank deposits approximately HK\$236.5 million; and
- (iii) corporate guarantees provided by the Company.

Capital Commitments

As at 30 September 2011, the Group had capital commitments contracted but not provided for of approximately 0.7 million.

EMPLOYEES

At 30 September 2011, the Group employed approximately 1,275 staff and workers in the PRC and approximately 28 staff in the Group's Hong Kong office. The Group remunerates its employees based on industry's practice. In the PRC, the Group provides staff welfare and bonuses to its employees in accordance with the prevailing labour law. In Hong Kong, the Group provides staff benefits including defined contribution scheme and performance related bonuses.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 September 2011 (2010: 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.

MODEL CODE FOR SECURITIES TRANSACTIONS

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 a code of conduct regarding directors' securities transactions. All the members of the Board have confirmed, following specific enquiry by the Company, that they have complied, with the required standards set out in the Model Code throughout the six months ended 30 September 2011.

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 Appendix 14 of the Code on Corporate Governance Practices (the “CG Code”) under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the Period except for the deviations from the code provision A.4.1 as set out below.

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 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 six months ended 30 September 2011 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 (www.hkex.com.hk) and the website of the Company (www.suneasthk.com) and be 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

By Order of the Board of Directors
Sun East Technology (Holdings) Ltd

But Tin Fu
Chairman

Hong Kong, 22 November 2011

* *For identification purpose only*