



SOUTH EAST GROUP LIMITED

(東南國際集團有限公司)*

(Incorporated in Bermuda with limited liability)

(Stock Code: 726)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2007

RESULTS

The Board of Directors of South East Group Limited (the “Company”) announces the unaudited condensed consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 September 2007 together with the comparative figures for the corresponding period in 2006. These interim financial statements have not been audited, but have been reviewed by the Company’s audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

For the six months ended 30 September 2007

		For six months ended 30 September	
	Note	2007 HK\$'000	2006 HK\$'000
Turnover	3	2,016	2,639
Cost of inventories sold		(3,060)	(1,790)
Gross (loss)/profit		(1,044)	849
Other revenues		4,750	1,350
Selling and distribution costs		(628)	(845)
Administrative expenses		(6,887)	(5,314)
Other expenses		(122)	(2,431)
Loss from operations	4	(3,931)	(6,391)
Finance costs	5	(171)	(134)
Loss before taxation		(4,102)	(6,525)
Taxation	6	(26)	165
Loss for the period		(4,128)	(6,360)
Attributable to:			
Equity holders of the Company		(4,128)	(5,249)
Minority interests		—	(1,111)
		(4,128)	(6,360)
Interim dividend per share		Nil	Nil
Loss per share (HK cents)	7	(1.23)	(1.59)

* For identification purposes only

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

As at 30 September 2007

		30 September 2007 (unaudited) HK\$'000	31 March 2007 (audited) HK\$'000
	Note		
Non-current assets			
Property, plant and equipment			
— Other property, plant and equipment		7,619	8,903
— Interests in leasehold land held for own use		2,134	2,160
		<u>9,753</u>	<u>11,063</u>
Available-for-sale investments		184	184
		<u>9,937</u>	<u>11,247</u>
Current assets			
Properties held for sale		23,917	25,962
Non-current assets held for sale		505	5,606
Inventories		5,121	2,614
Held-to-maturity investments		780	38,150
Trade and other receivables	8	629	4,004
Tax refundable		590	444
Cash and cash equivalents		50,100	6,860
		<u>81,642</u>	<u>83,640</u>
Current liabilities			
Trade and other payables	9	23,851	22,614
Bank loan, secured		4,797	4,797
Amount due to a director		—	2,010
		<u>28,648</u>	<u>29,421</u>
Net current assets		<u>52,994</u>	<u>54,219</u>
Net assets		<u>62,931</u>	<u>65,466</u>
Capital and reserves			
Share capital		34,102	33,057
Reserves		28,829	32,409
Shareholders' funds		<u>62,931</u>	<u>65,466</u>
Minority interests		<u>—</u>	<u>—</u>
		<u>62,931</u>	<u>65,466</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

The unaudited condensed financial statements should be read in conjunction with the Annual Report of the Group for the year ended 31 March 2007.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared under the historical cost basis except for certain properties and financial instruments, which are measured at fair values, as appropriate.

The accounting policies adopted in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2007.

The Group has not early applied the following new standards and interpretations (hereafter collectively referred to as the “new HKFRSs”) that have been issued by the HKICPA but are not yet effective. The Group is in the process of assessing the potential impact of these new HKFRSs but not yet in a position to determine whether these new HKFRSs will have a significant impact on how its results of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial positions are prepared and presented.

HK(IFRIC)-Interpretation 12	Service concession arrangements ¹
HK(IFRIC)-Interpretation 14	HKAS19-The limit on a defined benefit asset, minimum funding requirements and their interaction ¹
HK(IFRIC)-Interpretation 13	Customer loyalty programmes ²
HKFRS 8	Operating segments ³
HKAS 23 (Revised)	Borrowing cost ³

¹ Effective for annual periods beginning on or after 1 January 2008

² Effective for annual periods beginning on or after 1 July 2008

³ Effective for annual periods beginning on or after 1 January 2009

3. TURNOVER AND SEGMENT INFORMATION

Turnover represents the aggregate of the net amounts received and receivable for goods sold to outside customers, less trade discounts and returns, for the six months ended 30 September 2007.

An analysis of turnover and contribution to the Group's results by principal activity and geographical location and the Group's financial positions is set out below:

(a) By principal activity

	Turnover Six months ended 30 September		Segment Results Six months ended 30 September	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Sales of data storage media products and related equipment	571	1,634	(1,438)	(742)
Sales of property held for sale	731	500	(4,340)	(1,928)
Sales of wine	714	505	(2,782)	(2,640)
	<u>2,016</u>	<u>2,639</u>	<u>(8,560)</u>	<u>(5,310)</u>
Other revenues/(expenses)			<u>4,629</u>	<u>(1,081)</u>
Operating loss before finance costs			<u>(3,931)</u>	<u>(6,391)</u>

(b) By geographical location

	Turnover Six months ended 30 September		Segment Results Six months ended 30 September	
	2007 HK\$'000	2006 HK\$'000	2007 HK\$'000	2006 HK\$'000
Hong Kong	—	26	(1,180)	(801)
USA and Canada	388	909	(1,029)	(916)
People's Republic of China	1,454	1,544	(5,890)	(3,432)
Others	174	160	(461)	(161)
	<u>2,016</u>	<u>2,639</u>	<u>(8,560)</u>	<u>(5,310)</u>
Other revenues/(expenses)			<u>4,629</u>	<u>(1,081)</u>
Operating loss before finance costs			<u>(3,931)</u>	<u>(6,391)</u>

(c) **Financial positions**

	As at 30 September	
	2007	2006
	HK\$'000	HK\$'000
Assets		
Sales of data storage media products and related equipment	524	3,311
Sales of property held for sale	26,485	73,736
Sales of wine	15,505	19,970
Unallocated corporate assets	49,065	7,440
	91,579	104,457
Liabilities		
Sales of data storage media products and related equipment	1,474	2,946
Sales of property held for sale	6,586	16,224
Sales of wine	19,520	19,006
Unallocated corporate liabilities	1,068	5,940
	28,648	44,116
Net assets	62,931	60,341

4. LOSS FROM OPERATIONS

Loss from operations is arrived at after crediting and charging the following:

	For six months ended 30 September	
	2007	2006
	HK\$'000	HK\$'000
Crediting:		
Interest income	16	61
Investment income	2,079	—
Write back of provisions	334	536
Write back of obsolete inventories	—	609
Gain on disposal of property, plant and equipment	2,273	144
Charging:		
Cost of inventories sold	3,060	1,790
Depreciation	822	1,032
Directors' remuneration		
— Fees	60	30
— Salaries and allowances	1,503	652
— Retirement benefits scheme contributions	60	64
Net exchange loss	—	3
Reversal of accrued income	—	2,313
Operating lease payments	208	293
Employee benefits expenses (excluding directors' remuneration)		
— Salaries and allowances	1,632	1,609
— Retirement benefits scheme contributions	29	6

5. FINANCE COST

	For six months ended 30 September	
	2007	2006
	HK\$'000	HK\$'000
Interest on other loans without fixed repayment terms	<u>171</u>	<u>134</u>

6. TAXATION

	For six months ended 30 September	
	2007	2006
	HK\$'000	HK\$'000
Hong Kong		
The Company and subsidiaries	—	—
PRC enterprise income tax		
Subsidiaries		
Overprovision in prior year	—	165
Current period provision	<u>(26)</u>	<u>—</u>
	<u>(26)</u>	<u>165</u>

No provision for Hong Kong Profits Tax is made as the Group companies operating in Hong Kong do not have any assessable profits for the current period. Certain of the Group's subsidiaries operating in the PRC are eligible for tax exemptions and concessions. The PRC enterprise income tax is calculated at the rates applicable to respective subsidiaries.

7. LOSS PER SHARE

The calculation of loss per share for the period is based on the unaudited consolidated loss attributable to shareholders of approximately HK\$4,128,000 (six months ended 30 September 2006: loss of HK\$5,249,000) and on the weighted average number of 334,921,355 (2006: 330,571,880) shares in issue during the period.

No diluted loss per share for the two periods has been respectively presented as the conversion of the company outstanding options would result in a decrease in net loss per share.

8. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables of approximately HK\$64,000 (31 March 2007: HK\$1,499,000). The group maintains a defined credit policy.

For sales of data storage media products and wine, the Group allows an average credit period of 30 days to 90 days to its customers. The aging analysis of trade receivables at the balance sheet date is as follows:

	As at 30 September 2007 HK\$'000	As at 31 March 2007 HK\$'000
Less than 30 days	64	1,129
1 to 3 months	—	120
Over 3 months	—	250
	<u>64</u>	<u>1,499</u>

9. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of approximately HK\$6,867,0000 (31 March 2007: HK\$4,485,000). The aging analysis of trade payables at the balance sheet date is as follows:

	As at 30 September 2007 HK\$'000	As at 31 March 2007 HK\$'000
Less than 30 days	100	—
1 to 3 months	51	—
Over 3 months	6,716	4,485
	<u>6,867</u>	<u>4,485</u>

10. APPROVAL OF THE INTERIM FINANCIAL REPORT

This interim financial report was approved by the Board of Directors on 14 December 2007.

INTERIM DIVIDEND

The Directors have decided not to declare any interim dividend for the six months ended 30 September 2007 (six months ended 30 September 2006: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the six months ended 30 September 2007, the Group recorded a turnover of approximately HK\$2,016,000, representing a decrease of approximately 23.6% from approximately HK\$2,639,000 for the corresponding period last year. Of the total turnover, approximately 36.3% was derived from sales of property, approximately 35.4% was derived from sales of wine products, and approximately 28.3% was derived from sales of data storage media products and related equipment. The Group's loss attributable to shareholders was narrowed to approximately HK\$4,128,000 for the six months period ended 30 September 2007, compared with a loss of approximately HK\$5,249,000 for the previous corresponding period. The loss was mainly due to stagnant sales of properties and data storage media products and higher production costs and running expenses because of diminishing scale of operation.

Business Review

For the six months ended 30 September 2007, the Group was mainly engaged in property development and investment, trading of data storage media products and wine businesses. On the whole, the Group's businesses have been encountering keener competition and sluggish markets, hence affecting its turnover and results.

During the period under review, the Group continued to offer its completed properties for sale in the People's Republic of China (the "PRC"). The properties held for sale included the shops for commercial use located in Zouping, Shangdong and the car park units in Pudong, Shanghai. Turnover and segment loss attributable to the property development and investment business amounted to approximately HK\$731,000 (2006 comparative figure for the same period: HK\$500,000) and HK\$4,340,000 (2006 comparative figure for the same period: HK\$1,928,000) respectively. At 30 September 2007, approximately 50% of the commercial properties in Zouping, Shangdong remained unsold. There was increasing market competition in the vicinity. As a result, property prices and number of sales have been significantly affected during the period. No sales were recorded for the car park units at the Group's property project in Pudong, Shanghai. For the six months ended 30 September 2007, the increase in other revenues was mainly due to benefit from a gain on disposal of interests in the residential property in Zouping, Shangdong. An income of approximately HK\$2,273,000 was recorded in the income statement during this period.

The business segment of data storage media products recorded a turnover of approximately HK\$571,000 (2006 comparative figure for the same period: HK\$1,634,000) and a loss of approximately HK\$1,438,000 (2006 comparative figure for the same period: HK\$742,000) for the six months ended 30 September 2007. Demand for the data storage media products slackened and the scale of operation has been diminishing, that eroded the profit margins of this business segment.

The Group's wine business recorded a half year turnover and segment loss of approximately HK\$714,000 (2006 comparative figure for the same period: HK\$505,000) and HK\$2,782,000 (2006 comparative figure for the same period: HK\$2,640,000) respectively. Keen competition from peer companies and rising cost of raw materials and operating expenses attributed to the continued loss of the business.

For the past few years, the businesses of data storage media products and wine products have not proved to be profitable. The Group will take steps to restructure these businesses.

During the six months ended 30 September 2007, turnover from the PRC market represented approximately 72% of the total turnover as compared to approximately 58.5% for the corresponding period last year. It mainly represented sales of properties and wine products in the PRC during this period. Turnover from elsewhere accounted for approximately 28% of the total turnover as compared to approximately 41.5% for the same period in 2006. The revenue was mainly derived from trading of data storage media products.

Prospects

The Group's existing principal businesses have not produced promising return to the Group so far. However, the Group expects that the property market in China will continue to grow and prosper. Therefore it will prepare itself to ride on this trend and will continue to identify new opportunities in this business segment to bring a recurring and steady stream of income to the Group.

The Group has invited new directors to the Board recently. The Board will focus on measures to restore business momentum of the Group in the future. The Board considers that its imminent task is to consolidate the Group's operation and to realign its business focus for the efficient use of resources. On the other hand, the Group is looking for new business opportunities with a view to broadening its income base and improving its financial performance and overall profitability. Accordingly, the Group may consider acquisition of new businesses.

Liquidity and Financial Resources

At 30 September 2007, cash and bank balances of the Group amounted to approximately HK\$50,100,000, compared to approximately HK\$6,860,000 at 31 March 2007. Bank borrowings of the Group as at the same date amounted to approximately HK\$4,797,000, which are repayable within one year (HK\$4,797,000 at 31 March 2007).

The Group's bank borrowings were denominated as to 100% in Renminbi. The Group conducted most of its business in Renminbi, United States dollars and Hong Kong dollars and does not have significant exposure to foreign exchange fluctuation. Hedging of currency risk is not considered at the moment.

Shareholders' equity is approximately HK\$62,931,000 at 30 September 2007 (HK\$65,466,000 at 31 March 2007).

The gearing ratio, expressed as the percentage of the Group's bank borrowings over shareholders' equity, was approximately 7.6% at 30 September 2007, as compared with 7.3% at 31 March 2007.

Employees

At 30 September 2007, the total number of employees of the Group was approximately 158 (2006: 264). Employees are basically remunerated based on the nature of their job and their performance as well as prevailing market trend. Year-end discretionary bonus would be granted to reward and motivate those well-performed employees. The Company also adopted a share option scheme in November 2003 to reward employees of the Group for their contributions to the Company.

Charges on Group assets

At 30 September 2007, the Group pledged certain assets including land and buildings with an aggregate net book value of approximately HK\$7,554,000 (HK\$7,644,000 at 31 March 2007) to secure the general banking facilities and bank loan granted to the Group.

Capital commitment and contingent liabilities

At 30 September 2007, the Group had no outstanding capital commitments (nil at 31 March 2007).

There has been no material change in the Group's contingent liabilities since the publication of the last annual report. As noted in the previous years' audited financial statements, a claim was brought against a wholly owned subsidiary of the Group, Benelux Manufacturing Limited (In Liquidation) ("BML"), in July 1998 by its sub-contractor ("Sub-contractor"), Shenzhen Benelux Enterprise Co., Limited ("SBEC"), alleging that BML is liable for the payment of approximately HK\$38 million, comprising charges in connection with the processing and assembling work rendered by SBEC and the breach of an alleged loan agreement relating to certain alleged letters of credit. During the course of exchanging exhibits in the proceedings initiated by SBEC, the Company was first aware of SBEC's allegation that a guarantee was purportedly granted by the Company to SBEC in respect of the alleged BML's indebtedness to SBEC (the "Purported Guarantee") in/around January 1999. Notwithstanding that, SBEC has not initiated any proceedings against the Company based on the Purported Guarantee.

Provisional liquidators were appointed on 25 August 1999 by the High Court following a petition by SBEC for the winding up of BML. BML was put into compulsory liquidation subsequently on 28 April 2000.

The directors, after seeking legal advice, are of the opinion that the liquidation of BML will not have a material adverse effect on the Group, The investments in BML and the amounts due from BML brought forward had been fully provided for in the previous years.

On 9 March 2005, the Company received a writ of summons served by Shenzhen Intermediate People's Court (the "Court"). The claimant 深圳市中朗科技發展有限公司 ("SZL") claims to have the right over the alleged BML's indebtedness to SBEC and the Purported Guarantee. SZL alleged that BML is liable to them in the amount of approximately HK\$36 million and the Company is also liable to the joint and several liabilities thereof.

In April 2006, SZL filed claim for an additional amount of approximately RMB35 million as accrued interest on the alleged indebtedness over the years, making the total amount being claimed at approximately HK\$72 million. A hearing was held in the Court on 22 June 2006 for the purpose of the litigation.

The Company received on 10 October 2007 a judgment awarded by the Court that the claims under the litigation lodged by SZL against the Company for undertaking the joint and several liabilities in relation to the alleged BML's indebtedness in the sum of HK\$36,208,551.99 and the interest accrued thereon are overruled. According to Chinese law, SZL has the right to appeal to Guangdong High People's Court against the first instance judgment made by the Court within 15 days after the judgment has been served. Pursuant to the Notice of Appeal received by the Company on 26 October 2007, SZL as the Appellant has lodged an appeal to Guangdong High People's Court against BML and the Company as the Appellees. In its Petition for Appeal, SZL has asked to revoke the judgment of first instance made by the Court. In the opinion of the Board, after taking into consideration of the advice of the Company's PRC lawyers, the Company, according to Chinese law, should not undertake joint and several liabilities for the alleged BML's indebtedness. Accordingly, the Company will defense vigorously in the appeal proceedings.

The directors are of the opinion that no provision is required to be made for the above amounts being claimed by SZL. However, on the ground of prudence, the Purported Guarantee has been treated by the directors of the Company as contingent liabilities in the Company financial statements.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including a review of the unaudited interim results for the six months ended 30 September 2007. The Audit Committee currently comprises three members including two independent non-executive directors, Mr. Lo Yuk Lam and Mr. Wong Kam Wah, and the non-executive director, Mr. Chen Zhi Yung.

CODE ON CORPORATE GOVERNANCE PRACTICES

Save as disclosed below, the Company has complied with the applicable code provisions of the Code of Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the interim period:

Under Code Provision A.1.7, there should be a procedure agreed by the Board to enable directors to seek independent professional advice at the Company's expense. The Board has not adopted such procedure yet. However, in practice, directors are allowed to seek independent professional advice at the Company's expense if needed.

Under Code Provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. During the interim period up to 25 September 2007, the role of chairman of the Company was performed by Mr. CHEN Yuan Shou, Budiman (formerly named as Mr. Budiman RAHARDHA) ("Mr. Budiman Chen") and the Company does not have a specific post of chief executive officer. On 25 September 2007, Mr. WU Siu Chung ("Mr. Wu") and Mr. CHEN Xiaoping ("Mr. Chen") were appointed as executive directors of the Company. On the same day, Mr. Wu was appointed as the chairman of the Company in place of Mr. Budiman Chen who was re-designated as a non-executive director of the Company. Mr. Chen assumes the role of chief executive officer currently.

Under Code Provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. Currently, the Company's non-executive directors are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws, so accomplishing the same purpose as a specific term of appointment.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a model code regarding securities transactions by directors of the Company on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. Based on the specific enquiries of the Company's directors, the directors have complied with the required standard set out in the Model Code throughout the accounting period under review.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

There was no purchase, sale or redemption by the Company or any of its subsidiaries of its shares during the six months ended 30 September 2007.

By order of the Board
Wu Siu Chung
Chairman

Hong Kong, 14 December 2007

The directors of the Company as at the date of this announcement are Mr. Wu Siu Chung (Chairman) and Mr. Chen Xiaoping as executive directors; Mr. Chen Yuan Shou, Budiman and Mr. Chen Zhi Yung as non-executive directors; Mr. Lo Yuk Lam, Mr. Wong Kam Wah and Mr. Ng Chun Hung, Lawrence as independent non-executive directors.