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# **SOUTH EAST GROUP LIMITED**

**( 東南國際集團有限公司 ) \***

*(Incorporated in Bermuda with limited liability)*

(Stock Code: 726)

## **MAJOR TRANSACTION DISPOSAL OF THE ENTIRE EQUITY INTERESTS IN A SUBSIDIARY AND RESUMPTION OF TRADING**

On 26 March 2009, the Company entered into a conditional sale and purchase agreement with the Purchaser pursuant to which the Company agreed to sell and the Purchaser agreed to acquire the Sale Shares for a consideration of HK\$1,600,000.

The Disposal constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is subject to the Shareholders' approval.

A circular containing, among other things, further details of the Disposal and notice of the SGM will be dispatched to the Shareholders as soon as practicable.

Trading in the Shares of the Company on the Stock Exchange was suspended at the request of the Company with effect from 9:30 a.m. on Friday, 27 March 2009 pending the release of this announcement. The Company has applied to the Stock Exchange for the resumption of trading in the Shares of the Company with effect from 9:30 a.m. on 2 April 2009.

### **SALE AND PURCHASE AGREEMENT**

**Date:** 26 March 2009

**Parties:** (1) Vendor : the Company

(2) Purchaser : 羅成山 (Luo Chengshan)

The Purchaser is a PRC citizen and a merchant.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Purchaser is an Independent Third Party, and is not related to the Agent.

*\* For identification purposes only*

The Purchaser was introduced to the Company by the Agent, being a Hong Kong resident who is an Independent Third Party having no relationship with the Company and does not have any shareholding in the Company, and is not related to the Purchaser. The Agent is a personal friend of Mr. Chen Yuan Shou, Budiman, a non-executive director of the Company, and was introduced to the Company when the Company was in the course of identifying potential purchaser for the Disposal. The Agent shall be entitled to receive from the Company a commission on the Consideration as detailed in the section headed “Consideration” below.

### **Asset subject to the disposal**

The Company has agreed to dispose of and the Purchaser has agreed to acquire the Sale Shares, which represent the entire issued share capital of South Perfect, a wholly owned subsidiary of the Company. The Sale Shares will be transferred to the Purchaser or a transferee (the “Transferee”) as specified by the Purchaser pursuant to the Sale and Purchase Agreement. To the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, each of the Purchaser, the Transferee and the ultimate beneficial owner(s) of the Transferee (if applicable) is an Independent Third Party.

### **Consideration**

The Consideration is HK\$1,600,000, which shall be settled in cash by the Purchaser to the Company on/before 15 April 2009. Upon receipt of the Consideration by the Company (or its wholly owned subsidiary in the PRC), 50% of the Consideration shall be placed in an escrow account with a bank in the PRC agreed by both parties to the Sale and Purchase Agreement. The Company (through its wholly owned subsidiary in the PRC) will be able to access the funds in the escrow account after Completion.

If the condition of the Sale and Purchase Agreement cannot be fulfilled, payment of the Consideration shall be refunded to the Purchaser by the Company in the following manner:

- (i) Under an escrow agreement to be entered with the PRC bank for operating the abovementioned escrow account, the amount under escrow (i.e. HK\$800,000 or its equivalent in RMB) shall be paid to the Purchaser; and
- (ii) the remaining balance of the Consideration (i.e. HK\$800,000 or its equivalent in RMB) shall be refunded to the Purchaser by the Company.

The Consideration was determined between the parties to the Sale and Purchase Agreement after arm’s length negotiations taking into consideration of various factors, in particular, the current financial situation of the Disposal Group as detailed in the section headed “Information on the Disposal Group” below; and also with reference to the negative capital of approximately RMB124,736 of Fushiwang at 30 June 2008 according to the business appraisal carried out on a going concern basis by an independent valuer, Shanghai Shenwei Appraisal Company Limited.

Taking into account of the above factors and the reasons and benefits of the Disposal as stated in the section headed “Reasons for and benefits of the Disposal” below, the Directors consider that the terms and conditions of the Sale and Purchase Agreement and the transactions contemplated thereunder are on normal commercial terms, and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

To explore the opportunity for the disposal of the investment in Fushiwang by the Company, an agency agreement (the “Agency Agreement”) was negotiated at arm’s length and executed between the Company and the Agent on 18 December 2008. Under the Agency Agreement, the Agent is entitled to receive a commission of 50% of the gross sale proceeds of the Sale Shares from the Company on success basis. The Agency Agreement is conditional upon, among others, the passing by the Shareholders of the necessary resolution(s) to approve the Sale and Purchase Agreement and the transactions contemplated thereunder. By a supplemental agreement dated 30 March 2009 entered into between the parties to the Agency Agreement, the commission of HK\$800,000 shall be payable to the Agent within three Business Days after Completion when the Company has free access to the Consideration (including the HK\$800,000 (or its equivalent in RMB) in the escrow account as mentioned above). Hence, the commission shall be paid to the Agent only after the Consideration has become non-refundable. As the Sale Shares (being shares of a private company) are not freely traded in the open market, there is no reference readily available as to the rate of commission charged for successfully introducing a purchaser for the Sales Shares. In view of the adverse global financial situation and the financial position and operating environment of Fushiwang, it is believed that the Disposal has to be done as expeditiously as possible to avoid further deterioration of the position of Fushiwang. The Disposal will be a one-off solution to the issues relating to Fushiwang. As the Agent is able to procure a purchaser who is willing to pay for a considerable amount for the Disposal Group despite of its negative assets value, the Directors believe that the rate of commission is justifiable under such circumstance. Giving consideration to the above factors including poor marketability of the Sale Shares, the consideration offered by the Purchaser and the expected gain arising therefrom, the Directors believe that the commission is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **Condition to the Sale and Purchase Agreement**

The Sale and Purchase Agreement is conditional upon fulfillment of the following:

- the passing of the necessary resolution(s) by the Shareholders at the SGM to be convened to approve the Sale and Purchase Agreement and the transactions contemplated thereunder.

If the condition above shall not have been fulfilled in its entirety within one hundred Business Days from the date of the Sale and Purchase Agreement (or such later date as the parties may agree), the Sale and Purchase Agreement shall cease and terminate and thereafter neither party shall have any obligations and liabilities towards each other, save for any antecedent breaches of the terms of the Sale and Purchase Agreement. Under such circumstance, payment of the Consideration shall be refunded to the Purchaser in the manner as stated in the section headed “Consideration” above.

### **Transitional arrangement in respect of Fushiwang**

Pursuant to the Sale and Purchase Agreement, on the next Business Day following full settlement of the Consideration by the Purchaser, representatives nominated by South Perfect shall resign from Fushiwang, and representatives nominated by the Purchaser shall be appointed to fill such vacancies. By then, management of Fushiwang shall be handed over to the Purchaser who shall have all rights and bear all liabilities in respect of Fushiwang thereafter. In the event that the Sale and Purchase Agreement shall cease and terminate and the transactions contemplated thereunder fall through, the Purchaser’s right of management of Fushiwang shall be reversed. The Purchaser shall be responsible for any liabilities incurred in respect of Fushiwang since the date of handover until the reversal of management of Fushiwang.

## Completion

Completion will take place on the second Business Day after fulfillment of the condition as set out above, or such later date as the parties may agree but not exceeding twenty eight Business Days after such fulfillment. If all necessary procedures in relation to the handover of management in Fushiwang and the transfer of the entire equity interest in South Perfect contemplated under the Sale and Purchase Agreement cannot be duly completed within this period, the Sale and Purchase Agreement shall cease and terminate, and the defaulting party shall be responsible for any loss incurred by the other party.

Upon Completion, South Perfect will cease to be a wholly owned subsidiary of the Company and the Company will cease to have any interests in South Perfect; and hence the Disposal Group (including Fushiwang) will no longer form part of the Group and its financial results will be deconsolidated from those of the Group.

The principal activities of the remaining Group (i.e. excluding the Disposal Group) following completion of the Disposal will be property development and investment. According to the audited consolidated financial statements of the Group for the year ended 31 March 2008, the turnover of the property business was approximately HK\$3,495,000, representing approximately 48.4% of the Group's turnover for the year ended 31 March 2008; the turnover of the Disposal Group was HK\$2,206,000, approximately 30.6% of the turnover of the Group of that year.

## INFORMATION ON THE DISPOSAL GROUP

South Perfect was incorporated on 31 October 1997 in Hong Kong and its principal activity is investment holding. The major assets of South Perfect are attributable to its investment in Fushiwang. Fushiwang is a Sino-foreign equity joint venture incorporated in the PRC on 12 October 1998 and is owned as to 55% by South Perfect and 45% by Yimin. Fushiwang is principally engaged in wine production and distribution in the PRC.

Financial information of the Disposal Group according to its audited consolidated financial statements which were prepared in accordance with Hong Kong Financial Reporting Standard issued by the Hong Kong Institute of Certified Public Accountants, for the two financial years ended 31 March 2007 and 31 March 2008 is as follows:

	Year ended 31 March	
	2007	2008
	HK\$	HK\$
Turnover	9,425,401	2,206,363
Net (loss)/profit before taxation	(8,190,314)	26,214
Net (loss)/profit after taxation	(8,190,314)	26,214
Net Liabilities	(22,507,420)	(20,419,949)

The total assets of the Disposal Group as at 31 March 2008 were approximately HK\$14,306,255.

## **REASONS FOR AND BENEFITS OF THE DISPOSAL**

At the time of this announcement, the Group is principally engaged in the business of property development and investment, and manufacturing and trading of wine products.

As reported in the Group's interim report for the six months ended 30 September 2008, the Group's wine business conducted by Fushiwang continued to be disappointing. Fushiwang was in serious financial distress due to lower demand, increasing market competition, upsurge of operating costs and inadequate financial resources. The Directors believe that with reference to the financial position of the Disposal Group, in particular the losses on operations and the size of net liabilities, it is highly unlikely for the Disposal Group to contribute positively to the profitability of the Group in short and medium term.

Taking into account of the negative net asset value of the Disposal Group and the accumulated losses recorded by the Disposal Group, which were mainly due to the operating losses of the Disposal Group in the past years, the Directors consider it is in the best interest of the Company and the Shareholders as a whole to dispose of the entire issued share capital of South Perfect, and hence the investment in Fushiwang, pursuant to the terms and conditions of the Sale and Purchase Agreement. After the Disposal, the Company will be able to deplore its resources to new business opportunities which could generate good revenue for the Group.

Based on the audited consolidated financial statements of the Disposal Group for the year ended 31 March 2008, it is estimated that, upon completion of the Disposal, the Group will record a gain on Disposal of approximately HK\$21,000,000 for the year ending 31 March 2010, after deducting the commission payable to the Agent and other expenses. Such gain is estimated based on (i) the consideration under the Sale and Purchase Agreement and (ii) reversal of net liabilities attributable to the deconsolidation of the Disposal Group. The final amount of the actual gain as a result of the Disposal will be determined upon completion of the Disposal and subject to review by the Company's auditors.

## **INTENDED USE OF PROCEEDS**

The sale proceeds from the Disposal will be applied to general working capital of the Group.

## **GENERAL**

The Disposal constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is subject to the Shareholders' approval at the SGM. To the best of the Directors' knowledge and information, no Shareholders have a material interest in the Disposal and accordingly, no Shareholder is required to abstain from voting in the SGM.

A circular containing, among other things, further details of the Disposal and notice of the SGM will be dispatched to the Shareholders as soon as practicable.

## **RESUMPTION OF TRADING**

Trading in the Shares on the Stock Exchange was suspended at the request of the Company with effect from 9:30 a.m. on 27 March 2009 pending the release of this announcement. The Company has applied to the Stock Exchange for the resumption of trading in the Shares with effect from 9:30 a.m. on 2 April 2009.

## DEFINITIONS

In this announcement, the following expressions shall have the following meanings unless the context requires otherwise:

“Agent”	Yu Kwok Ho, Russell, the intermediary through whom the Purchaser was introduced to the Company
“Business Day”	any day (excluding Saturday and Sunday) on which banks in Hong Kong are open for business
“Company”	South East Group Limited, a company incorporated in Bermuda with limited liability whose shares are listed on the Stock Exchange
“Completion”	completion of the Sale and Purchase Agreement in accordance with the terms and conditions of the Sale and Purchase Agreement
“Consideration”	HK\$1,600,000, being the total consideration payable by the Purchaser to the Company (or its wholly owned subsidiary in the PRC) for the Disposal
“Directors”	the directors of the Company
“Disposal”	the disposal of the entire issued share capital of South Perfect by the Company pursuant to the Sale and Purchase Agreement
“Disposal Group”	South Perfect and its subsidiaries
“Fushiwang”	Qingdao Fushiwang Grape Wine Co., Ltd., a company incorporated in the PRC with limited liability, the equity capital of which is owned as to 55% by South Perfect and as to 45% by Yimin
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party”	any person or company and their respective ultimate beneficial owner(s) which, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, are third parties independent of the Company and its connected persons (as defined under the Listing Rules)
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China
“Purchaser”	羅成山 (Luo Chengshan), the purchaser to the Sale and Purchase Agreement and an Independent Third Party

“Sale and Purchase Agreement”	the conditional sale and purchase agreement entered into between the Company and the Purchaser on 26 March 2009 in relation to the sale and purchase of the Sales Shares
“Sale Shares”	two (2) shares of HK\$1.00 each in the share capital of South Perfect, representing the entire issued share capital of South Perfect, which will be transferred from the Company to the Purchaser or a transferee as specified by the Purchaser pursuant to the Sale and Purchase Agreement
“SGM”	the special general meeting of the Company to be convened to consider and, if thought fit, to approval the Disposal, the Sale and Purchase Agreement and the transactions contemplated thereunder
“Shares”	ordinary shares of HK\$0.10 each in the share capital of the Company
“Shareholders”	registered holders of the Shares of the Company
“South Perfect”	South Perfect International Limited, a wholly owned subsidiary of the Company incorporated in Hong Kong with limited liability
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Yimin”	青島益民葡萄酒廠 (Qingdao Yimin Grape Wine Factory), a state-owned enterprise established in the PRC
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“%”	per cent.

By order of the Board  
**South East Group Limited**  
**Chan Sau Chee**  
*Company Secretary*

Hong Kong, 1 April 2009

*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. Eduard William Rudolf Helmuth Will as non-executive directors; Mr. Lo Yuk Lam, Mr. Wong Kam Wah and Mr. David R. Peterson as independent non-executive directors.*

*The English translation of the Chinese name(s) in this announcement, where applicable, is for information purpose only, and should not be regarded as the official English name(s) for such Chinese name(s).*