



South East Group Limited 東南國際集團有限公司*

(Incorporated in Bermuda with limited liability)

Stock Code: 726

Interim Report 2008

* For identification purpose only

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 2008 together with the comparative figures for the corresponding period in 2007. 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 2008

	Note	For six months ended 30 September	
		2008 HK\$'000	2007 HK\$'000
Turnover	3	2,023	2,016
Cost of inventories sold		(1,978)	(3,060)
Gross profit/(loss)		45	(1,044)
Other revenues		239	4,750
Selling and distribution costs		(465)	(628)
Administrative expenses		(7,162)	(6,887)
Other expenses		—	(122)
Loss from operations	4	(7,343)	(3,931)
Finance costs	5	(689)	(171)
Loss before taxation		(8,032)	(4,102)
Taxation	6	(109)	(26)
Loss for the period		(8,141)	(4,128)
Attributable to:			
Equity holders of the Company		(8,141)	(4,128)
Interim dividend per share		Nil	Nil
Loss per share (HK cents)	7	(2.39)	(1.23)

The notes on pages 5 to 11 form an integral part of these condensed interim financial statements.

CONDENSED CONSOLIDATED BALANCE SHEET (UNAUDITED)

As at 30 September 2008

	Note	30 September 2008 (unaudited) HK\$'000	31 March 2008 (audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		11,242	10,233
Interests in leasehold land held for own use		2,247	2,459
		13,489	12,692
Available-for-sale investments		184	184
Total non-current assets		13,673	12,876
CURRENT ASSETS			
Short-term investments		3,974	780
Properties held for sale		25,583	25,768
Inventories		1,690	2,271
Trade and other receivables	8	1,240	2,867
Tax refundable		582	611
Cash and cash equivalents		99,591	46,992
		132,660	79,289
Non-current assets held for sale		550	550
Total current assets		133,210	79,839
CURRENT LIABILITIES			
Trade and other payables	9	12,244	18,441
Bank loans and borrowings		5,225	5,225
Total current liabilities		17,469	23,666
NET CURRENT ASSETS		115,741	56,173
TOTAL ASSETS LESS CURRENT LIABILITIES		129,414	69,049
Long-term liability		68,000	—
NET ASSETS		61,414	69,049
EQUITY			
Share capital	10	34,102	34,102
Reserves		27,312	34,947
TOTAL EQUITY		61,414	69,049

The notes on pages 5 to 11 form an integral part of these condensed interim financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 September 2008

	Share capital HK\$'000	Share premium HK\$'000	Contributed surplus account HK\$'000	Exchange reserve HK\$'000	Employee share-based repayment reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1 April 2008	34,102	10,063	131,166	8,667	4,087	(119,036)	69,049
Share option expenses	–	–	–	–	506	–	506
Translation difference	–	–	(1)	1	–	–	–
Loss for the period	–	–	–	–	–	(8,141)	(8,141)
Balance at 30 September 2008	<u>34,102</u>	<u>10,063</u>	<u>131,165</u>	<u>8,668</u>	<u>4,593</u>	<u>(127,177)</u>	<u>61,414</u>
Balance at 1 April 2007	33,057	10,000	131,166	4,903	470	(114,130)	65,466
Exercise of share option	1,045	63	–	–	(149)	149	1,108
Share option expenses	–	–	–	–	464	–	464
Translation difference	–	–	–	21	–	–	21
Loss for the period	–	–	–	–	–	(4,128)	(4,128)
Balance at 30 September 2007	<u>34,102</u>	<u>10,063</u>	<u>131,166</u>	<u>4,924</u>	<u>785</u>	<u>(118,109)</u>	<u>62,931</u>

The notes on pages 5 to 11 form an integral part of these condensed interim financial statements.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT (UNAUDITED)

For the six months ended 30 September 2008

	For six months ended 30 September	
	2008 HK\$'000	2007 HK\$'000
Net cash used in operating activities	(9,032)	(4,556)
Net cash (used in)/generated from investing activities	(5,684)	46,839
Net cash generated from financing activities	67,315	936
Net increase in cash and cash equivalents	52,599	43,219
Cash and cash equivalents at the beginning of the period	46,992	6,860
Effect of foreign exchange rates changes	—	21
Cash and cash equivalents at the end of the period	99,591	50,100

The notes on pages 5 to 11 form an integral part of these condensed interim financial statements.

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 2008.

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 2008.

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 13	Customer loyalty programmes ¹
HKFRS 8	Operating segments ²
HKAS 23 (Revised)	Borrowing cost ²

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

² 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 2008.

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

(a) By principal activities

	Turnover Six months ended 30 September		Segment Results Six months ended 30 September	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
— Sales of data storage media products and related equipment	—	571	(15)	(1,438)
— Sales of properties held for sale	111	731	(601)	(4,340)
— Sales of wine	1,912	714	(1,146)	(2,782)
	<u>2,023</u>	<u>2,016</u>	<u>(1,762)</u>	<u>(8,560)</u>
Other (expenses)/revenues			(5,581)	4,629
Operating loss before finance costs			<u>(7,343)</u>	<u>(3,931)</u>

(b) By geographical markets

	Turnover Six months ended 30 September		Segment Results Six months ended 30 September	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
— Hong Kong	—	—	12	(1,180)
— The United States of America and Canada	—	388	—	(1,029)
— The People's Republic of China (the "PRC")	2,023	1,454	(1,774)	(5,890)
— Others	—	174	—	(461)
	<u>2,023</u>	<u>2,016</u>	<u>(1,762)</u>	<u>(8,560)</u>
Other (expenses)/revenues			(5,581)	4,629
Operating loss before finance costs			<u>(7,343)</u>	<u>(3,931)</u>

3. TURNOVER AND SEGMENT INFORMATION (continued)

(c) Financial positions

	As at 30 September	
	2008 HK\$'000	2007 HK\$'000
Assets		
Sales of data storage media products and related equipment	519	524
Sales of properties held for sale	67,251	26,485
Sales of wine	14,939	15,505
Unallocated corporate assets	64,174	49,065
	<u>146,883</u>	<u>91,579</u>
Liabilities		
Sales of data storage media products and related equipment	437	1,474
Sales of properties held for sale	4,197	6,586
Sales of wine	12,068	19,520
Unallocated corporate liabilities	68,767	1,068
	<u>85,469</u>	<u>28,648</u>
Net assets	<u>61,414</u>	<u>62,931</u>

4. LOSS FROM OPERATIONS

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

	For six months ended 30 September	
	2008 HK\$'000	2007 HK\$'000
Crediting:		
Interest income	66	16
Investment income	—	2,079
Write back of provisions	2,811	334
(Loss)/Gain on disposal of property, plant and equipment	(50)	2,273
Charging:		
Cost of inventories sold	1,978	3,060
Depreciation	1,504	822
Net exchange loss	206	—
Operating lease payments	1,241	208
Donations	2,000	—
Unrealised loss on investments	2,845	—
Directors' remuneration		
— Fees	300	60
— Salaries and allowances	1,260	1,503
— Retirement benefits scheme contributions	12	60
Employee benefits expenses (excluding directors' remuneration)		
— Salaries and allowances	1,587	1,632
— Retirement benefits scheme contributions	68	29

5. FINANCE COSTS

	For six months ended 30 September	
	2008 HK\$'000	2007 HK\$'000
Interest on:		
— convertible bond	685	—
— other loans without fixed repayment terms	—	171
Others	4	—
	689	171

6. TAXATION

	For six months ended 30 September	
	2008 HK\$'000	2007 HK\$'000
Hong Kong		
The Company and subsidiaries	—	—
PRC enterprise income tax		
Subsidiaries		
Current period provision	(109)	(26)
	(109)	(26)

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 equity holders of the Company of approximately HK\$8,141,000 (six months ended 30 September 2007: loss of HK\$4,128,000) and the weighted average number of 341,020,880 (2007: 334,921,355) 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

Trade and other receivables were approximately HK\$1,240,000 (31 March 2008: HK\$2,867,000). 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 was as follows:

	As at 30 September 2008 HK\$'000	As at 31 March 2008 HK\$'000
Less than 31 days	61	75
31-90 days	125	226
Over 90 days	501	198
	<u>687</u>	<u>499</u>

9. TRADE AND OTHER PAYABLES

Trade and other payables were approximately HK\$12,244,000 (31 March 2008: HK\$18,441,000). The aging analysis of trade payables at the balance sheet date was as follows:

	As at 30 September 2008 HK\$'000	As at 31 March 2008 HK\$'000
Less than 31 days	1	199
31-90 days	80	30
Over 90 days	1,612	1,503
	<u>1,693</u>	<u>1,732</u>

10. SHARE CAPITAL

	Number of shares		Share capital	
	30 September 2008 '000	31 March 2008 '000	30 September 2008 HK\$'000	31 March 2008 HK\$'000
Ordinary shares of HK\$0.10 each				
Authorised: Balance at the beginning and at the end of the period/year	<u>4,000,000</u>	<u>4,000,000</u>	<u>400,000</u>	<u>400,000</u>
Issued and fully paid: Balance at the beginning and at the end of the period/year	<u>341,021</u>	<u>341,021</u>	<u>34,102</u>	<u>34,102</u>

Under the share option scheme adopted by the Company on 7 November 2003, the directors may, at their discretion, grant to directors and employees of the Group options to subscribe for shares in the capital of the Company. The maximum number of shares in respect of which options may be granted under the scheme may not exceed 10% of the issued share capital of the Company. The movement of share options during the six months period ended 30 September 2008 is as below:

	Number of shares '000
Outstanding at 31 March 2008 and at 30 September 2008	<u>22,608</u>

11. RELATED PARTY TRANSACTIONS

- a) No interest was paid by the Group and the Company for the six months ended 30 September 2008 (six months ended 30 September 2007: HK\$49,000) in relation to the amount due to a director of the Company, as such loan had been fully settled.
- b) The Group entered into an office sharing and management services agreement (effective from 1 October 2007) with Ricco Capital (Holdings) Limited ("Ricco", a company wholly owned by the chairman of the Group), which can be terminated by either party by three months prior notice. Pursuant to the agreement, the office rental in relation to the Group's head office in Hong Kong for the six months ended 30 September 2008 should be reimbursed to Ricco by the Group on a cost basis. The Group paid an amount of HK\$1,078,840 for the period accordingly.

12. COMMITMENTS**Operating lease commitments**

At 30 September 2008, the Group had the total of future minimum lease payments under non-cancelable operating leases for each of the following periods:

	As at 30 September 2008 HK\$'000	As at 31 March 2008 HK\$'000
Not later than one year	14	41
Later than one year and not later than five years	468	684
	482	725

13. PLEDGE OF ASSETS

At 30 September 2008, the Group pledged certain assets as listed below to secure the general banking facilities and bank loan granted to the Group:

	As at 30 September 2008 HK\$'000	As at 31 March 2008 HK\$'000
Net book values of property, plant and equipment and prepaid leasehold land	8,029	8,291

14. COMPARATIVE FIGURES

Certain comparative figures have been re-classified to conform to the current period's presentation.

15. APPROVAL OF THE INTERIM FINANCIAL REPORT

This interim financial report was approved by the Board of Directors on 5 December 2008.

INTERIM DIVIDEND

The Directors have decided not to declare any interim dividend for the six months ended 30 September 2008 (six months ended 30 September 2007: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial review

The Group's consolidated turnover for the six months ended 30 September 2008 was approximately HK\$2,023,000, as compared to approximately HK\$2,016,000 in the corresponding period of last year. The results only reflected that of the property development and investment business and the wine business, as the Group ceased the data storage media products business during the period under review. Other revenues for the review period decreased to approximately HK\$239,000 from HK\$4,750,000 of the previous period which mainly derived from the non-recurring gains from investing activities. The Group recorded a loss attributable to equity holders of the Company of approximately HK\$8,141,000 for the six months ended 30 September 2008, as compared to a loss of approximately HK\$4,128,000 during the same period in 2007.

Business review

The Group had two main business segments during the six months ended 30 September 2008. One is the property development and investment business and the other is the wine business, which made up the total turnover by approximately 5.5% and 94.5% respectively.

The Group's turnover from the property development and investment business comprised property sales of approximately HK\$111,000 (six months ended 30 September 2007: HK\$731,000), and a segment loss of approximately HK\$601,000 was recorded for the six months ended 30 September 2008 (loss for the six months ended 30 September 2007: HK\$4,340,000). The decline in revenue from property sales in the People's Republic of China (the "PRC") was because of the macroeconomic austerity measures and market competition, as aggravated by the weakening financial market in the PRC. During the review period, sales of car park units in Pudong, Shanghai generated revenue of approximately HK\$297,000. However, there has been return of sold properties in Zouping, Shandong from customers who failed to meet their mortgage commitment. Sales return from returned properties amounted to approximately HK\$186,000. Revenue from property sales has been decreased by such amount accordingly. The Group continued to lease out some of the unsold commercial properties. Property rental was approximately HK\$131,000 for the period under review, which was accounted for as other revenues.

During the period under review, business performance of the Group's 55% owned subsidiary, Qingdao Fushiwang Grape Wine Company Limited, continued to be disappointing. This business segment recorded turnover of approximately HK\$1,912,000 (six months ended 30 September 2007: HK\$714,000) and a segment loss of approximately HK\$1,146,000 (loss for the six months ended 30 September 2007: HK\$2,782,000). Revenue mainly came from inventory sales of wine at below costs. The winery was in serious financial distress due to lower demand, upsurge of operating costs and increasing market competition. The Group has reason to believe that the winery will continue to incur losses in the second half of the year, given the global economic depression. There remains high uncertainty as to the future of the winery. To reduce the financial pressure caused by this business, the Group may consider disposal of the investment through trade sale or any other feasible alternatives.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Business review *(continued)*

The Group's data storage media products business has become unsustainable mainly because of its diminishing market demand and inefficient operational scale. The Group ceased to engage in this business during the review period, as the insufficient orders did not warrant for its operations and the resources involved. No turnover was recorded for this business segment for the six months ended 30 September 2008 (six months ended 30 September 2007: HK\$571,000), yet a loss of approximately HK\$15,000 (loss for the six months ended 30 September 2007: HK\$1,438,000) was allocated.

During the six months ended 30 September 2008, turnover from the PRC market accounted for 100% of the total turnover of the Group as compared to approximately 72% for the corresponding period last year. No turnover was recorded from elsewhere as compared to approximately 28% for the same period in 2007. The PRC has become the core market for the Group.

Prospects

The global economy will remain uncertain in the near future. The Group will evaluate if it will have any material effect on its businesses in the PRC markets and will adjust its strategic plans accordingly. Taking into account of the current market environment, the management believes that the Group should conserve its financial resources in order to be able to react to the environmental changes for the Group's long-term development. In the second half of the financial year, the Group will continue to consolidate its existing businesses and to further adjust its operational structure. On the other hand, the Group will, in a cautious approach, actively seek for new investment opportunities to strengthen its business portfolio.

Liquidity and financial resources

At 30 September 2008, cash and bank balances of the Group amounted to approximately HK\$99,591,000, compared to approximately HK\$46,992,000 at 31 March 2008. The Group's total borrowings at the balance sheet date amounted to approximately HK\$73,225,000, including bank borrowings of approximately HK\$5,225,000 (HK\$5,225,000 at 31 March 2008), which are denominated as to 100% in Renminbi and are repayable within one year and the principal amount of the Convertible Bond of HK\$68,000,000 (the "Convertible Bond"). The Convertible Bond was issued by the Company to Loyal Delight Group Limited on 7 May 2008, which bears an interest of 2.5% per annum and will mature on the third anniversary of its issue date. The initial conversion price of the Convertible Bond is HK\$1.03 per share.

The Group conducted most of its business in Renminbi 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 was approximately HK\$61,414,000 at 30 September 2008 (HK\$69,049,000 at 31 March 2008).

The gearing ratio was approximately 119.2% (defined as total borrowings (including the principal amount of the Convertible Bond) on shareholders' equity) at 30 September 2008, as compared with 7.6% (defined as bank borrowings on shareholders' equity) at 31 March 2008.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Employees

At 30 September 2008, the total number of employees of the Group was approximately 157 (2007: 158). 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 2008, the Group pledged certain assets including land and buildings with an aggregate net book value of HK\$8,029,000 (HK\$8,291,000 at 31 March 2008) to secure the general banking facilities and bank loan granted to the Group.

Capital commitment and contingent liabilities

At 30 September 2008, the Group had no outstanding capital commitments (nil at 31 March 2008) and no material contingent liabilities (HK\$39,000,000 at 31 March 2008).

Litigation

The Company made announcement on 18 August 2008 on the continuous disclosure of the progress of the litigation disclosed as contingent liabilities in the previous years' audited financial statements. As reported in the previous years, 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, 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 ("Shenzhen Intermediate 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.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Litigation *(continued)*

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 Shenzhen Intermediate Court on 22 June 2006 for the purpose of the litigation.

On 10 October 2007, the Company received a judgment awarded by Shenzhen Intermediate Court, in which 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 and the interest accrued thereon were overruled. SZL then lodged an appeal to Guangdong High People's Court (the "Guangdong High Court") to seek to revoke the first instance judgment made by Shenzhen Intermediate Court.

The Guangdong High Court made a final judgment on 30 June 2008 (according to the date set out in the final judgment) and served upon the Company on 14 August 2008. The final judgment maintained the original judgment awarded by Shenzhen Intermediate Court, in which the claims under the litigation lodged by SZL against the Company for undertaking the joint and several liabilities in relation to repayment of subcontracting fees and other amounts in the sum of HK\$36,208,551.99 and the interest accrued thereon were overruled.

As advised by the Company's PRC lawyers, according to the relevant regulations of the Civil Procedure Law of the PRC (the "Civil Procedure Law"), after the first instance trial by Shenzhen Intermediate Court and the second instance trial by Guangdong High Court, the judgment made by the latter is a final judgment which is not subject to any or further appeal by any party to the case. However, under circumstances when certain preconditions contained in the Civil Procedure Law being fulfilled, the case may be remanded for retrial. Such circumstances include, for instance, the court or procuratorate quashes the final civil judgment and remands the case for retrial; or on application to the court by any party to the case, which has to be made within two years from the date the final judgment came into effect. The Company's PRC lawyers further advised that, if SZL was to apply for retrial, it had to file its Application for Retrial with the Supreme People's Court of the PRC in Beijing, while observing the two-year limitation and certain preconditions contained in the Civil Procedure Law.

Save as disclosed above, there are no other material litigation or claims known to the directors pending or threatened against the Group or the Company.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

As at 30 September 2008, details of the interests of the directors and chief executive of the Company in the equity and debt securities of the Company or any associated corporations (within the meaning of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 & 8 of Part XV of the SFO (including interests and short positions which the director is taken or deemed to have under such provisions of the SFO); or (b) were required pursuant to section 352 of the SFO to be entered in the register referred to therein; or (c) were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") to be notified to the Company and the Stock Exchange were as follows:

(A) Long position in ordinary shares of the company

Name of Director	Capacity	Number of ordinary shares	Percentage of the Company's issued share capital
WU Siu Chung	Through a controlled corporation	92,000,000 (Note 1)	26.98%
CHEN Yuan Shou, Budiman	Beneficially owned	28,188,820	8.27%
LO Yuk Lam	Beneficially owned and through family interest	207,000 (Note 2)	0.06%
WONG Kam Wah	Beneficially owned	82,000	0.02%

Notes:

- These shares were held by Brilliant Express International Limited, a company wholly owned by Mr. Wu Siu Chung.
- 7,000 shares were personally held by Mr. Lo Yuk Lam and 200,000 shares were held by his spouse.

(B) Long position in underlying shares — share options

Details of the interests of directors in share options of the Company were contained in the section headed "Share Option Scheme" below.

Save as disclosed above, as at 30 September 2008, none of the directors and chief executive of the Company was interested in the equity and debt securities of the Company or any associated corporations (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 or Part XV of the SFO (including interests and short positions which the director is taken or deemed to have under such provisions of the SFO); or (b) were required pursuant to section 352 of the SFO to be entered in the register referred to therein; or (c) were required pursuant to the Model Code to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2008, according to the register kept by the Company under section 336 of the SFO, the following shareholders, other than a director or chief executive of the Company, had an interest or short position in the Company's shares and underlying shares which would fall to be disclosed to the Company under the provisions of the Divisions 2 and 3 of Part XV of the SFO, or who were directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carry rights to vote in all circumstances at general meetings of any member of the Group:

Long position in ordinary shares of the Company

Name	Capacity	Number of ordinary shares	Percentage of the Company's issued share capital
Brilliant Express International Limited	Directly beneficially owned	92,000,000	26.98%

Save as disclosed above, as far as the directors are aware, no other person had an interest or short position in the Company's shares or underlying shares which would fall to be disclosed to the Company under the provisions of the Divisions 2 and 3 of Part XV of the SFO, or which was recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

SHARE OPTION SCHEME

To comply with Chapter 17 (Equity Securities — Share Option Schemes) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), the Company adopted a share option scheme on 7 November 2003 as approved by the shareholders at the special general meeting.

Particulars of outstanding options at the beginning and at the end of the financial period for the six months ended 30 September 2008 and options granted, exercised, cancelled and lapsed during the period under the share option scheme were as follows:

Participants	Date of Grant	Exercisable period	Exercise price per share HK\$	Number of share options			
				At 1 April 2008	Granted during the period	Exercised during the period	At 30 September 2008
Directors							
WU Siu Chung	23/01/2008	23/01/2008-22/01/2011	1.200	3,000,000	—	—	3,000,000
	23/01/2008	23/01/2009-22/01/2012	1.200	800,000	—	—	800,000
							3,800,000
CHEN Xiaoping	23/01/2008	23/01/2008-22/01/2011	1.200	500,000	—	—	500,000
CHEN Yuan Shou, Budiman	18/12/2003	18/12/2004-17/12/2014	0.106	3,305,000	—	—	3,305,000
	18/12/2003	18/12/2005-17/12/2015	0.106	3,305,000	—	—	3,305,000
	16/04/2007	01/11/2007-31/10/2010	0.177	3,305,000	—	—	3,305,000
	16/04/2007	01/11/2008-31/10/2011	0.177	3,305,000	—	—	3,305,000
	16/04/2007	01/11/2009-31/10/2012	0.177	3,305,000	—	—	3,305,000
	23/01/2008	23/01/2008-22/01/2011	1.200	200,000	—	—	200,000
							16,725,000
Eduard William Rudolf Helmut WLL	23/01/2008	23/01/2008-22/01/2011	1.200	200,000	—	—	200,000
LO Yuk Lam	18/12/2003	18/12/2004-17/12/2014	0.106	323,000	—	—	323,000
	18/12/2003	18/12/2005-17/12/2015	0.106	330,000	—	—	330,000
	23/01/2008	23/01/2008-22/01/2011	1.200	200,000	—	—	200,000
							853,000
WONG Kam Wah	18/12/2003	18/12/2005-17/12/2015	0.106	330,000	—	—	330,000
	23/01/2008	23/01/2008-22/01/2011	1.200	200,000	—	—	200,000
							530,000
Total				22,608,000	—	—	22,608,000

No share option was cancelled or lapsed under the Company's share option scheme during the period.

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 2008. The Audit Committee currently comprises three members including two independent non-executive directors, Mr. LO Yuk Lam and Mr. WONG Kam Wah, and a non-executive director, Mr. Eduard William Rudolf Helmuth WILL.

CODE ON CORPORATE GOVERNANCE PRACTICES

Save as disclosed below, the Company has complied with the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of 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.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.

Under Code Provision E.1.2, the chairman of the Board (the "Chairman") should attend the Company's annual general meeting. Owing to another business engagement, Mr. Wu Siu Chung, the Chairman, was unable to attend the Company's annual general meeting held on 6 August 2008 (the "AGM"). Mr. Chen Xiaoping, an executive director of the Company who was present at the AGM, chaired the meeting in accordance with the provisions of the Company's bye-laws.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by directors of the Company. Based on the specific enquiry made to the Company's directors, they have complied with the required standard set out in the Model Code throughout the accounting period under review.

SUFFICIENT NUMBER OF INDEPENDENT NON-EXECUTIVE DIRECTORS

On 8 April 2008, Mr. David R. Peterson was appointed as an independent non-executive director to fill the casual vacancy caused by the resignation of Mr. Ng Chun Hung, Lawrence that took effect on 1 January 2008. For the period from 1 January 2008 to 7 April 2008, the Company had only two independent non-executive directors and therefore could not strictly comply with Rule 3.10(1) of the Listing Rules.

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 2008

By order of the Board
Wu Siu Chung
Chairman

Hong Kong, 5 December 2008