



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 2009



** 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 2009 together with the comparative figures for the corresponding period in 2008. These interim financial statements have not been audited, but have been reviewed by the Company's audit committee.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2009

	Note	Six months ended 30 September	
		2009 HK\$'000	2008 HK\$'000
CONTINUING OPERATIONS			
Turnover	3	—	111
Cost of inventories sold		—	(187)
Gross profit/(loss)		—	(76)
Other revenues		385	238
Selling and distribution costs		(6)	(11)
Administrative expenses		(5,131)	(11,189)
Gain on disposal of subsidiaries	4	2,874	—
Loss from operations	5	(1,878)	(11,038)
Finance costs	6	(1,648)	(688)
Loss before taxation		(3,526)	(11,726)
Taxation	7	(3)	(104)
Loss for the period from continuing operations		(3,529)	(11,830)
(Loss)/Profit for the period from discontinued operations	8	(253)	3,689
Loss for the period		(3,782)	(8,141)

The notes on pages 6 to 13 form an integral part of these condensed interim financial statements.



UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME *(continued)*

For the six months ended 30 September 2009

	Note	Six months ended 30 September	
		2009 HK\$'000	2008 HK\$'000
Other comprehensive (loss)/income:			
Currency translation		(157)	—
Available-for-sale investments		1,885	—
Other comprehensive income for the period		1,728	—
Total comprehensive loss for the period		(2,054)	(8,141)
Loss for the period attributable to:			
Owners of the Company		(3,782)	(8,141)
Total comprehensive loss attributable to:			
Owners of the Company		(2,054)	(8,141)
Interim dividend per share		Nil	Nil
(Loss)/Earnings per share attributable to owners of the Company			
From continuing operations:			
Basic and diluted (cents)	9	(1.03)	(3.47)
From discontinued operations:			
Basic (cents)	9	N/A	1.08
Diluted (cents)	9	N/A	0.90

The notes on pages 6 to 13 form an integral part of these condensed interim financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2009

	Note	30 September 2009 (unaudited) HK\$'000	31 March 2009 (audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		1,125	1,307
Available-for-sale investments		4,342	2,457
Total non-current assets		5,467	3,764
CURRENT ASSETS			
Held-to-maturity investments		780	780
Properties held for sale		22,320	22,320
Inventories		226	226
Trade and other receivables	10	2,797	2,635
Tax refundable		195	192
Cash and cash equivalents		88,740	96,148
		115,058	122,301
Assets held for sale		—	12,774
Total current assets		115,058	135,075
CURRENT LIABILITIES			
Trade and other payables	11	2,381	5,129
Convertible bond		1,916	1,695
		4,297	6,824
Liabilities directly associated with the assets held for sale		—	14,725
Total current liabilities		4,297	21,549
NET CURRENT ASSETS		110,761	113,526
TOTAL ASSETS LESS CURRENT LIABILITIES		116,228	117,290
NON-CURRENT LIABILITIES			
Convertible bond		63,370	62,806
NET ASSETS		52,858	54,484
EQUITY			
Equity attributable to owners of the Company:			
Share capital	12	34,433	34,102
Reserves		18,425	20,382
TOTAL EQUITY		52,858	54,484

The notes on pages 6 to 13 form an integral part of these condensed interim financial statements.



UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2009

	Share capital HK\$'000	Share premium HK\$'000	Available-for-sale investments revaluation reserve HK\$'000	Equity component convertible bond HK\$'000	Exchange reserve HK\$'000	Contributed surplus reserve HK\$'000	Employee share-based payment reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
Balance at 1 April 2009	34,102	10,063	(3,766)	4,629	10,317	131,166	4,885	(136,912)	54,484
Loss for the period	-	-	-	-	-	-	-	(3,782)	(3,782)
Change in fair value of available-for-sale investments	-	-	1,885	-	-	-	-	-	1,885
Translation difference	-	-	-	-	(157)	-	-	-	(157)
Total comprehensive (loss)/income for the period	-	-	1,885	-	(157)	-	-	(3,782)	(2,054)
Exercise of share options	331	19	-	-	-	-	-	-	350
Equity settled share-based transactions	-	-	-	-	-	-	78	-	78
Balance at 30 September 2009	34,433	10,082	(1,881)	4,629	10,160	131,166	4,963	(140,694)	52,858
Balance at 1 April 2008	34,102	10,063	-	-	8,667	131,166	4,067	(119,036)	69,049
Loss for the period	-	-	-	-	-	-	-	(8,141)	(8,141)
Translation difference	-	-	-	-	1	(1)	-	-	-
Total comprehensive (loss)/income for the period	-	-	-	-	1	(1)	-	(8,141)	(8,141)
Equity settled share-based transactions	-	-	-	-	-	-	506	-	506
Balance at 30 September 2008	34,102	10,063	-	-	8,668	131,165	4,593	(127,177)	61,414

The notes on pages 6 to 13 form an integral part of these condensed interim financial statements.

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2009

	Six months ended 30 September	
	2009	2008
	HK\$'000	HK\$'000
Net cash used in operating activities	(8,630)	(9,032)
Net cash generated from/(used in) investing activities	1,892	(5,684)
Net cash (used in)/generated from financing activities	(513)	67,315
Net (decrease)/increase in cash and cash equivalents	(7,251)	52,599
Cash and cash equivalents at the beginning of the period	96,148	46,992
Effect of foreign exchange rates changes	(157)	—
Cash and cash equivalents at the end of the period	88,740	99,591
Analysis of the balances of cash and cash equivalents:		
Cash and cash equivalents	88,740	99,526
Cash and cash equivalents attributable to assets of the Disposal Group	—	65
	88,740	99,591

The notes on pages 6 to 13 form an integral part of these condensed interim financial statements.



NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED 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 (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the 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 2009.

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 unaudited 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 2009. In the current interim period, the Group has applied for the first time, a number of new and revised standards, amendments and interpretations ("New or revised HKFRSs") issued by HKICPA which are effective for the financial year beginning on 1 January 2009.

Significant accounting policies newly adopted by the Group

HKAS 1 (Revised 2007) — Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, and has resulted in a number of changes in presentation and disclosure. However, HKAS 1 (Revised 2007) has had no impact on the reported results or financial position of the Group.

HKFRS 8 — Operating Segments

HKFRS 8 is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor standard, HKSA 14 "Segment Reporting", required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. The application of HKFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the reportable segments determined in accordance with HKSA 14. Therefore it has had no impact on the reported results or financial position of the Group.

Impact of new and revised HKFRSs

The adoption of the new and revised HKFRSs that are effective for the current period has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

Impact of issued but not yet effective HKFRSs

The Group has not early adopted new or revised standards, amendments or interpretations that have been issued but are not yet effective. The adoption of HKFRS 3 (Revised 2008) may affect the accounting for business combinations for which the acquisition dates are on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised 2008) will affect the accounting treatment for changes in the ownership interest in a subsidiary that do not result in loss of the subsidiary. Changes in the ownership interest that do not result in loss of control of the subsidiary will be accounted for as equity transactions.

The management is assessing the impact on the results and financial position of the Group upon application of these standards, amendments or interpretations.

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 2009.

The Group organizes its operations into two reportable segments, namely data storage media products and related equipment, and properties held for sale. The identification of these two operating segments is consistent with the way in which information is reported internally to the Group's management for the purpose of resource allocation and performance assessment.

The Group's reportable segments under HKFRS 8 are as follows:

Data storage media products and related equipment	—	Trading of data storage media products and related equipment
Properties held for sale	—	Property development and investment

The Group discontinued its wine business operation after the disposal of South Perfect International Limited ("SPI") and its subsidiaries in May 2009 and the corresponding comparative figures were classified as discontinued operations accordingly.

An analysis of the Group's revenue and results by operating segments and segment assets and liabilities is set out below:

(a) Operating segments

<i>Six months ended 30 September 2009</i>					
	Continuing operations			Discontinued operations	Consolidated HK\$'000
	Data storage media products and related equipment HK\$'000	Properties held for sale HK\$'000	Total HK\$'000	Wine HK\$'000	
SEGMENT REVENUE					
External revenue	—	—	—	30	30
Inter-segment revenue	—	—	—	—	—
Total	—	—	—	30	30
SEGMENT RESULTS	11	(296)	(285)	(253)	(538)
Other expenses					(1,593)
Finance costs					(1,648)
Loss before taxation					(3,779)

Six months ended 30 September 2008

	Continuing operations			Discontinued operations	Consolidated HK\$'000
	Data storage media products and related equipment HK\$'000	Properties held for sale HK\$'000	Total HK\$'000	Wine HK\$'000	
SEGMENT REVENUE					
External revenue	—	111	111	1,912	2,023
Inter-segment revenue	—	—	—	—	—
Total	—	111	111	1,912	2,023
SEGMENT RESULTS	(15)	(601)	(616)	(1,146)	(1,762)
Other expenses					(5,581)
Finance costs					(689)
Loss before taxation					(8,032)



3. TURNOVER AND SEGMENT INFORMATION (continued)

(b) Segment assets and liabilities

As at 30 September 2009

	Continuing operations			Discontinued operations	Consolidated HK\$'000
	Data storage media products and related equipment HK\$'000	Properties held for sale HK\$'000	Wine HK\$'000	Wine HK\$'000	
ASSETS					
Segment assets	437	66,480	—	—	66,917
Unallocated assets					53,608
Total assets					120,525
LIABILITIES					
Segment liabilities	285	1,261	—	—	1,546
Unallocated liabilities					66,121
Total liabilities					67,667

As at 31 March 2009

	Continuing operations			Discontinued operations	Consolidated HK\$'000
	Data storage media products and related equipment HK\$'000	Properties held for sale HK\$'000	Wine HK\$'000	Wine HK\$'000	
ASSETS					
Segment assets	495	66,862	128	12,774	80,259
Unallocated assets					58,580
Total assets					138,839
LIABILITIES					
Segment liabilities	282	2,978	2	14,725	17,987
Unallocated liabilities					66,368
Total liabilities					84,355

4. GAIN ON DISPOSAL OF SUBSIDIARIES

On 26 March 2009, the Company entered into an agreement to sell its entire interests in SPI, a company which directly held 55% equity interests in Qingdao Fushiwang Grape Wine Co., Limited ("QFGW") (collectively, the "Disposal Group"), at a consideration of HK\$1,600,000. The Disposal Group was principally engaged in manufacturing and trading of wine products. The disposal was completed on 13 May 2009.

Net gain on disposal of subsidiaries is provided below:

	Six months ended 30 September 2009 HK\$'000
Consideration	1,600
Net liabilities associated with the Disposal Group	2,233
	<u>3,833</u>
Other expenses	(959)
Net gain on disposal	<u>2,874</u>

5. LOSS FROM OPERATIONS

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

	Six months ended 30 September	
	2009 HK\$'000	2008 HK\$'000
Crediting:		
Interest income	207	66
Investment income	88	—
Gain on disposal of subsidiaries	2,874	—
Write back of provisions	—	2,811
	<u>—</u>	<u>2,811</u>
Charging:		
Cost of inventories sold	—	1,978
Depreciation	182	1,504
Net exchange loss	268	206
Operating lease payments	1,056	1,241
Donations	50	2,000
Unrealised loss on investments	—	2,845
Loss on disposal of property, plant and equipment	—	50
Directors' remuneration		
— Fees	300	300
— Salaries and allowances	1,260	1,260
— Retirement benefits scheme contributions	12	12
Employee benefits expenses (excluding directors' remuneration)		
— Salaries and allowances	1,355	1,587
— Retirement benefits scheme contributions	65	68
	<u>65</u>	<u>68</u>



6. FINANCE COSTS

	Six months ended 30 September	
	2009 HK\$'000	2008 HK\$'000
Continuing operations:		
— Interest expenses on convertible bond	1,638	685
— Others	10	3
	1,648	688
Discontinued operations:		
— Others	—	1
	—	1
Total	1,648	689

7. TAXATION

	Six months ended 30 September	
	2009 HK\$'000	2008 HK\$'000
Hong Kong		
The Company and subsidiaries	—	—
PRC enterprise income tax		
Subsidiaries		
Current period provision		
— Continuing operations	3	104
— Discontinued operations	—	5
	3	109
Total	3	109

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 Company'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.

8. (LOSS)/PROFIT FOR THE PERIOD FROM DISCONTINUED OPERATIONS

The unaudited consolidated operating results associated with the manufacturing and trading of wine products for the six months ended 30 September 2009 was presented below:

	Six months ended 30 September	
	2009 HK\$'000	2008 HK\$'000
Turnover	30	1,912
Cost of inventories sold	—	(1,791)
Gross profit	30	121
Other revenues	—	1
Selling and distribution costs	(5)	(454)
Administrative expenses	(278)	4,027
(Loss)/profit from operations	(253)	3,695
Finance costs	—	(1)
(Loss)/profit before taxation	(253)	3,694
Taxation	—	(5)
(Loss)/profit for the period from discontinued operations	(253)	3,689

9. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share for the period is based on the unaudited consolidated loss attributable to owners of the Company of approximately HK\$3,782,000 (six months ended 30 September 2008: loss of approximately HK\$8,141,000) which comprises the loss from continuing operations of approximately HK\$3,529,000 (six months ended 30 September 2008: loss of approximately HK\$11,830,000) and loss from discontinued operations of approximately HK\$253,000 (six months ended 30 September 2008: earnings of approximately HK\$3,689,000) and on the weighted average number of 342,673,380 (six months ended 30 September 2008: 341,020,880) shares in issue during the period.

The weight average number of ordinary shares in issue during the period used in the diluted earnings per share calculation of discontinued operations is 426,343,297 (six months ended 30 September 2008: 411,235,061). No diluted loss per share has been presented as the exercise of the Company's outstanding share options and convertible bond would result in a decrease in net loss per share for the period.



10. TRADE AND OTHER RECEIVABLES

Trade and other receivables were approximately HK\$2,797,000 (31 March 2009: HK\$2,635,000). The Group maintains a defined credit policy.

The aging analysis of trade receivables as of the statement of financial position date, as determined by reference to the invoice date, is as follows:

	As at 30 September 2009 HK\$'000	As at 31 March 2009 HK\$'000
Less than 31 days	—	97
31-90 days	—	949
Over 90 days	1,919	1,070
	<u>1,919</u>	<u>2,116</u>

11. TRADE AND OTHER PAYABLES

Trade and other payables were approximately HK\$2,381,000 (31 March 2009: HK\$5,129,000).

The aging analysis of trade payables as of the statement of financial position date, as determined by reference to the invoice date, is as follows:

	As at 30 September 2009 HK\$'000	As at 31 March 2009 HK\$'000
Less than 31 days	—	—
31-90 days	—	—
Over 90 days	632	864
	<u>632</u>	<u>864</u>

12. SHARE CAPITAL

	Number of shares		Share capital	
	30 September 2009 '000	31 March 2009 '000	30 September 2009 HK\$'000	31 March 2009 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 of the period/year	341,021	341,021	34,102	34,102
Share options exercised	3,305	—	331	—
Balance at the end of the period/year	<u>344,326</u>	<u>341,021</u>	<u>34,433</u>	<u>34,102</u>

12. SHARE CAPITAL (continued)

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 2009 is as below:

	Number of shares '000
Outstanding at 31 March 2009	22,608
Exercised during the period	(3,305)
Outstanding at 30 September 2009	19,303

13. RELATED PARTY TRANSACTIONS

Pursuant to an office sharing and management services agreement entered into by the Company with Ricco Capital (Holdings) Limited ("Ricco", a company wholly owned by the chairman of the Group), the Company should bear the office rental, related facilities and utilities in relation to the Group's head office in Hong Kong on a cost basis and reimburse Ricco for such outgoings accordingly. The aforementioned agreement lapsed on 15 July 2009. The cost paid by the Group to Ricco for the period from 1 April 2009 up to 15 July 2009 amounted to HK\$542,903 (six months ended 30 September 2008: HK\$1,078,840).

14. COMMITMENTS**Operating lease commitments**

As at 30 September 2009, the Group had the total of future minimum lease payments under non-cancelable operating leases for each of the following period:

	As at 30 September 2009 HK\$'000	As at 31 March 2009 HK\$'000
Not later than one year	52	302
Later than one year and not later than five years	3,226	—
	3,278	302

15. PLEDGE OF ASSETS

As at 30 September 2009, no assets were pledged to secure the general banking facilities and bank loan granted to the Group (31 March 2009: HK\$8,147,000).

16. COMPARATIVE FIGURES

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

17. APPROVAL OF THE INTERIM FINANCIAL REPORT

This interim financial report was approved by the Board of Directors on 27 November 2009.



INTERIM DIVIDEND

The Directors have decided not to declare any interim dividend for the six months ended 30 September 2009 (six months ended 30 September 2008: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

For the six months ended 30 September 2009, the Group (including discontinued operations) recorded a total turnover of approximately HK\$30,000, as compared to approximately HK\$2,023,000 in the corresponding period of last year. The Group had no turnover from continuing operations for the period under review. Loss attributable to owners of the Company for the six months ended 30 September 2009 amounted to approximately HK\$3,782,000, as compared to a loss of approximately HK\$8,141,000 during the same period in 2008.

BUSINESS REVIEW

During the period under review, the Group completed the disposal of its subsidiaries engaged in wine business in the People's Republic of China (the "PRC"). Such disposal recorded a net gain of approximately HK\$2,874,000. Henceforth, the Group divested and ceased to engage in the wine business. Sales attributable to the discontinued wine operation for the six months period ended 30 September 2009 amounted to approximately HK\$30,000 with a loss of approximately HK\$253,000. As the data storage media products business had been phased out already, it no longer contributed to the Group's turnover during the period.

The Group's core business remained property development and investment. However, no turnover of this business was recorded while a segmental loss of approximately HK\$296,000 was incurred during the six months ended 30 September 2009, as compared with a turnover and a segmental loss of approximately HK\$111,000 and HK\$601,000 respectively in the previous corresponding period. During the period under review, the completed properties held for sale by the Group included commercial properties located in Zouping, Shandong, with a gross floor space of approximately 8,137 square metres; and 31 car park units in Pudong, Shanghai. Due to keen competition, sale of the properties continued to be slow. Some of the unsold commercial properties were leased out for rental income purpose. During the period, rental income of approximately HK\$73,000 was recorded and accounted for as other revenues.

PROSPECTS

After the disposal of those loss making businesses as mentioned before, property development and investment remains as the only core business of the Group. Besides focusing capital and management resources on this business, the Group needs to make serious efforts to increase revenue and regain its growth momentum. The strategic plan recently adopted by the Group plays high emphasis on growth through business diversification. This has led to several new business opportunities being identified, two of which are currently at a relatively advanced stage of negotiation and feasibility study. The Group will make proper announcement if any of these potential projects becomes mature for transaction.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

LIQUIDITY AND FINANCIAL RESOURCES

At 30 September 2009, cash and bank balances of the Group amounted to approximately HK\$88,740,000, compared to approximately HK\$96,148,000 at 31 March 2009. The Group had a convertible bond with carrying amount of HK\$65,286,000 (liability component only) at 30 September 2009 (HK\$64,501,000 at 31 March 2009). Owing to the disposal of the Group's wine business, bank borrowings attributable to this business segment was discharged during the period under review (HK\$5,368,000 at 31 March 2009).

The Group conducted most of its business in Renminbi and Hong Kong dollars. The Group did not enter into any arrangement to hedge its foreign exchange exposure.

Shareholders' equity is approximately HK\$52,858,000 at 30 September 2009 (HK\$54,484,000 at 31 March 2009).

The Group's gearing ratio at 30 September 2009, expressed as the percentage of the Group's total borrowings over shareholders' equity, was approximately 124%, as compared with 118% at 31 March 2009.

DISCONTINUED OPERATIONS

On 26 March 2009, the Company entered into a sale and purchase agreement to dispose of its entire equity interest in its wholly owned subsidiary, SPI, at a consideration of HK\$1,600,000. The major assets of SPI were attributable to its investment in QFGW which was a Sino-foreign equity joint venture owned as to 55% by SPI. The disposal was approved by shareholders in a special general meeting of the Company held on 11 May 2009. After completion of the disposal, the Group successfully divested QFGW which was loss-making and debt-burden.

As the Group ceased the wine products operation, the Company then put its PRC incorporated subsidiary, 青島東南商貿有限公司 (Qingdao South East Commercial Limited), into voluntary liquidation during the review period. The subsidiary was principally engaged in trading of wine products in the PRC. The liquidation is still in progress and is expected to complete in the second half of the financial year.

EMPLOYEES

At 30 September 2009, the total number of employees of the Group based in Hong Kong and the PRC was approximately 21 (2008: 157). The significant reduction in work force was mainly due to the disposal by the Group of certain subsidiaries engaged in wine production and distribution in the PRC. The Group employed about 135 people for its wine business before such disposal.

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.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

CHARGES ON GROUP ASSETS

At 31 March 2009, land and buildings with an aggregate net book value of approximately HK\$8,147,000 were pledged to secure the general banking facilities and bank loans made available for the working capital of the wine business in the PRC. By virtue of completion of disposal by the Group of its wine business in the PRC in May 2009, it resulted in the assets and liabilities of the disposed subsidiaries, including the above pledged assets and the bank loans, no longer being consolidated in the accounts of the Company. Accordingly, the Group had no significant assets pledged to banks to secure general banking facilities and bank loan granted to the Group at 30 September 2009.

CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

At 30 September 2009, the Group had no outstanding capital commitments (nil at 31 March 2009) and no material contingent liabilities (nil at 31 March 2009) in view of the entering into final judgment in favour of the Company in respect of the litigation proceedings as set out in the section of "Litigation" below.

LITIGATION

As reported in 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 was 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. SBEC further alleged that the Company had granted a guarantee 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. BML was put into compulsory liquidation on 28 April 2000.

The directors, after seeking legal advice, were of the opinion that the liquidation of BML would 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") claimed to have the right over the alleged BML's indebtedness to SBEC and the Purported Guarantee. SZL alleged that BML was liable to it in the amount of approximately HK\$36 million and the Company was also liable to the joint and several liabilities thereof.

In April 2006, SZL filed a claim for an additional amount of approximately RMB35 million as accrued interest in respect of the alleged indebtedness over the years, making the total amount being claimed at approximately HK\$72 million.

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 dismissed. SZL then lodged an appeal to Guangdong High People's Court ("Guangdong High Court") to seek to revoke the first instance judgment made by Shenzhen Intermediate Court. 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 and dismissing the claim of SZL.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

LITIGATION (continued)

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 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 quashing the final civil judgment and remanding 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 were to apply for retrial, it has 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 2009, 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 pursuant to Divisions 7 and 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)	26.72%
CHEN Yuan Shou, Budiman	Beneficially owned	26,168,820	7.60%
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.
- Of these shares, 7,000 shares were personally held by Mr. Lo Yuk Lam and 200,000 shares were held by his wife, Ms. Pang Wai Bing, Cecilia.



DIRECTORS' INTERESTS AND SHORT POSITIONS IN SECURITIES

(continued)

(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 2009, 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 and 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 2009, 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 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 carrying 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 (Note)	Directly beneficially owned	92,000,000	26.72%

Note: Mr. Wu Siu Chung, the chairman and a director of the Company, is the ultimate beneficial owner of Brilliant Express International Limited. Under Part XV of the SFO, Mr. Wu Siu Chung is deemed to have an interest in these shares, as disclosed in the section headed "Directors' Interests and Short Positions in Securities" above.

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 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 Listing Rules, the Company adopted a share option scheme on 7 November 2003 as approved by the shareholders at a 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 2009 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 2009	Granted during the period	Exercised during the period	At 30 September 2009
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			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			13,420,000
Eduard William Rudolf Helmuth WILL	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			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			530,000
Total				22,608,000	–	3,305,000	19,303,000

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 2009. 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 to the Listing Rules during the interim period.

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 other business commitment, Mr. Wu Siu Chung, the Chairman, was unable to attend the Company's annual general meeting held on 20 August 2009 (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 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.

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 2009.

By order of the Board of
SOUTH EAST GROUP LIMITED
Wu Siu Chung
Chairman

Hong Kong, 27 November 2009

The directors of the Company as at the date of this report 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.