



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 2010

** 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 2010 together with the comparative figures for the corresponding period of last year. 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 2010

	Note	Six months ended 30 September	
		2010 HK\$'000	2009 HK\$'000
CONTINUING OPERATIONS			
Turnover	3	—	—
Cost of inventories sold		—	—
Gross profit/(loss)		—	—
Other revenues		180	385
Selling and distribution costs		(1)	(6)
Administrative expenses		(8,436)	(5,131)
Gain on disposal of subsidiaries	4	—	2,874
Loss from operations	5	(8,257)	(1,878)
Finance costs	6	(1,680)	(1,648)
Loss before taxation		(9,937)	(3,526)
Taxation	7	—	(3)
Loss for the period from continuing operations		(9,937)	(3,529)
Loss for the period from discontinued operations	8	—	(253)
Loss for the period		(9,937)	(3,782)
Other comprehensive (loss)/income:			
Translation difference		(1)	(157)
Change in fair value of available-for-sale financial assets		252	1,885
Other comprehensive income for the period		251	1,728
Total comprehensive loss for the period		(9,686)	(2,054)

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 2010

	Note	Six months ended 30 September	
		2010 HK\$'000	2009 HK\$'000
Loss for the period attributable to:			
Owners of the Company		(9,937)	(3,782)
Total comprehensive loss attributable to:			
Owners of the Company		(9,686)	(2,054)
Interim dividend per share			
		Nil	Nil
Loss per share attributable to owners of the Company			
From continuing operations:			
Basic and diluted (cents)	9	(2.89)	(1.03)
From discontinued operations:			
Basic and diluted (cents)	9	N/A	N/A

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 2010

Note	30 September 2010 (unaudited) HK\$'000	31 March 2010 (audited) HK\$'000
NON-CURRENT ASSETS		
	767	947
	5,940	5,688
	6,707	6,635
CURRENT ASSETS		
	780	780
	22,182	22,182
10	2,193	2,381
	195	191
11	73,122	82,272
	98,472	107,806
CURRENT LIABILITIES		
12	2,883	3,279
	1,015	1,700
	3,898	4,979
	94,574	102,827
	101,281	109,462
NON-CURRENT LIABILITIES		
	65,879	64,374
	35,402	45,088
EQUITY		
Equity attributable to owners of the Company:		
13	34,433	34,433
	969	10,655
	35,402	45,088

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 2010

	Share capital HK\$'000	Share premium HK\$'000	Available-for-sale financial assets 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
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2010									
Balance at 1 April 2010	34,433	10,083	(535)	4,629	10,315	131,166	4,976	(149,979)	45,088
Comprehensive loss:									
Loss for the period	-	-	-	-	-	-	-	(9,937)	(9,937)
Other comprehensive (loss)/income:									
Change in fair value of available-for-sale financial assets	-	-	252	-	-	-	-	-	252
Translation difference	-	-	-	-	-	(1)	-	-	(1)
Total comprehensive (loss)/income for the period	-	-	252	-	-	(1)	-	(9,937)	(9,686)
Balance at 30 September 2010	34,433	10,083	(283)	4,629	10,315	131,165	4,976	(159,916)	35,402
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2009									
Balance at 1 April 2009	34,102	10,063	(3,766)	4,629	10,317	131,166	4,885	(136,912)	54,484
Comprehensive loss:									
Loss for the period	-	-	-	-	-	-	-	(3,782)	(3,782)
Other comprehensive (loss)/income:									
Change in fair value of available-for-sale financial assets	-	-	1,885	-	-	-	-	-	1,885
Translation difference	-	-	-	-	(157)	-	-	-	(157)
Total comprehensive (loss)/income for the period	-	-	1,885	-	(157)	-	-	(3,782)	(2,054)
Transactions with owners:									
Exercise of share options	331	19	-	-	-	-	-	-	350
Equity-settled share-based transactions	-	-	-	-	-	-	78	-	78
Total transactions with owners	331	19	-	-	-	-	78	-	428
Balance at 30 September 2009	34,433	10,082	(1,881)	4,629	10,160	131,166	4,963	(140,694)	52,858

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 2010

	Six months ended 30 September	
	2010 HK\$'000	2009 HK\$'000
Net cash used in operating activities	(8,398)	(8,630)
Net cash generated from investing activities	109	1,892
Net cash used in financing activities	(860)	(513)
Net decrease in cash and cash equivalents	(9,149)	(7,251)
Cash and cash equivalents at beginning of the period	82,272	96,148
Effect of foreign exchange rates changes	(1)	(157)
Cash and cash equivalents at end of the period	73,122	88,740

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 consolidated interim 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 consolidated interim financial statements should be read in conjunction with the Annual Report of the Group for the year ended 31 March 2010.

2. SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim 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 2010. In the current interim period, the Group has applied for the first time, a number of new and revised standards, amendments and interpretations (collectively the "new and revised HKFRSs") issued by the HKICPA which are effective for the Group's financial year beginning on 1 April 2010.

Significant accounting policies newly adopted by the Group

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008 and 2009
HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HKAS 27 (Revised)	Consolidated and Separate Financial Statements

Impact of new and revised HKFRSs

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

Impact of issued but not yet effective HKFRSs

The Group has not early adopted the new and revised HKFRSs that have been issued but are not yet effective. The Group is in the process of making an assessment of the expected impact of these new and revised HKFRSs upon initial application and so far considered that these are unlikely to have a significant impact on the results and the financial position of the Group.

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 2010.

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 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 2010</i>			
	Data storage media products and related equipment	Properties held for sale	Consolidated
	HK\$'000	HK\$'000	HK\$'000
SEGMENT REVENUE			
External revenue	—	—	—
Total	—	—	—
SEGMENT RESULTS	(1)	(512)	(513)
Other income			89
Other expenses			(7,833)
Finance costs			(1,680)
Loss before taxation			(9,937)
Taxation			—
Loss for the period			(9,937)

Six months ended 30 September 2009

	Continuing operations			Discontinued operations	Consolidated
	Data storage media products and related equipment	Properties held for sale	Total	Wine	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
SEGMENT REVENUE					
External revenue	—	—	—	30	30
Total	—	—	—	30	30
SEGMENT RESULTS	11	(296)	(285)	(253)	(538)
Other income					3,051
Other expenses					(4,644)
Finance costs					(1,648)
Loss before taxation					(3,779)
Taxation					(3)
Loss for the period					(3,782)



3. TURNOVER AND SEGMENT INFORMATION (continued)

(b) Segment assets and liabilities

As at 30 September 2010

	Data storage media products and related equipment HK\$'000	Properties held for sale HK\$'000	Consolidated HK\$'000
ASSETS			
Segment assets	49	65,177	65,226
Unallocated assets			39,953
Total assets			105,179
LIABILITIES			
Segment liabilities	289	1,215	1,504
Unallocated liabilities			68,273
Total liabilities			69,777

As at 31 March 2010

	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	
ASSETS					
Segment assets	418	65,716	66,134	—	66,134
Unallocated assets					48,307
Total assets					114,441
LIABILITIES					
Segment liabilities	289	1,151	1,440	—	1,440
Unallocated liabilities					67,913
Total liabilities					69,353



4. GAIN ON DISPOSAL OF SUBSIDIARIES

On 26 March 2009, the Company entered into an agreement to sell its entire interests in South Perfect International Limited ("SPI"), a company which directly held 55% equity interests in Qingdao Fushiwang Grape Wine Co., Limited ("QFGW") (collectively, the "SPI Group"), at a consideration of HK\$1,600,000. The SPI 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	
	2010 HK\$'000	2009 HK\$'000
Consideration	—	1,600
Net liabilities associated with the SPI Group	—	2,233
Other expenses	—	3,833
	—	(959)
Net gain on disposal	—	2,874

5. LOSS FROM OPERATIONS

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

	Six months ended 30 September	
	2010 HK\$'000	2009 HK\$'000
Crediting:		
Interest income	21	207
Investment income	72	88
Gain on disposal of subsidiaries	—	2,874
Charging:		
Depreciation	180	182
Exchange difference	—	268
Operating lease payments	1,063	1,056
Donations	—	50
Directors' remuneration		
— Fees	300	300
— Salaries and allowances	1,260	1,260
— Retirement benefits scheme contribution	12	12
Employee benefits expenses (excluding directors' remuneration)		
— Salaries and allowances	1,172	1,355
— Retirement benefits scheme contribution	66	65



6. FINANCE COSTS

	Six months ended 30 September	
	2010 HK\$'000	2009 HK\$'000
Interest expenses on convertible bond	1,677	1,638
Others	3	10
Total	1,680	1,648

7. TAXATION

	Six months ended 30 September	
	2010 HK\$'000	2009 HK\$'000
Hong Kong		
The Company and subsidiaries	—	—
PRC enterprise income tax		
Subsidiaries		
Current period provision	—	3
Total	—	3

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 FOR THE PERIOD FROM DISCONTINUED OPERATIONS

As disclosed in Note 4, the disposal of SPI Group was completed in May 2009. The Group discontinued its wine business operation after such disposal. The loss from discontinued operations represented the loss of the wine business operation for the corresponding period in 2009.

The consolidated operating results associated with the manufacturing and trading of wine products are presented below:

	Six months ended 30 September	
	2010 HK\$'000	2009 HK\$'000
Turnover	—	30
Cost of inventories sold	—	—
Gross profit	—	30
Other revenues	—	—
Selling and distribution costs	—	(5)
Administrative expenses	—	(278)
Loss from operations	—	(253)
Finance costs	—	—
Loss before taxation	—	(253)
Taxation	—	—
Loss for the period from discontinued operations	—	(253)



9. LOSS PER SHARE

The calculation of basic loss per share for the period is based on the unaudited consolidated loss attributable to owners of the Company of approximately HK\$9,937,000 (six months ended 30 September 2009: loss of approximately HK\$3,782,000 which comprises the loss from continuing operations of approximately HK\$3,529,000 and from discontinued operations of approximately HK\$253,000) and on the weighted average number of 344,325,880 (six months ended 30 September 2009: 342,673,380) shares in issue during the period. 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 both periods.

10. TRADE AND OTHER RECEIVABLES

	As at 30 September 2010 HK\$'000	As at 31 March 2010 HK\$'000
Trade receivables	2,112	2,135
Less: Provision for impairment	(796)	(796)
Trade receivables, net of provision	1,316	1,339
Deposits and other receivables	645	648
Maximum exposure to credit risk	1,961	1,987
Prepayments	232	394
	2,193	2,381

The Group maintains a defined credit policy. The aging analysis of trade receivables as of the end of the reporting period, as determined by reference to the invoice date, is as follows:

	As at 30 September 2010 HK\$'000	As at 31 March 2010 HK\$'000
Over 3 months	2,112	2,135

The carrying amounts of trade and other receivables are denominated in the following currencies:

	As at 30 September 2010 HK\$'000	As at 31 March 2010 HK\$'000
Renminbi	1,420	1,461
Hong Kong dollars	773	920
	2,193	2,381

**11. CASH AND CASH EQUIVALENTS**

	As at 30 September 2010 HK\$'000	As at 31 March 2010 HK\$'000
Cash and bank balances	73,122	82,272
Maximum exposure to credit risk	73,094	82,252

The carrying amounts of cash and bank balances are denominated in the following currencies:

	As at 30 September 2010 HK\$'000	As at 31 March 2010 HK\$'000
Renminbi	41,275	41,760
Hong Kong dollars	31,806	40,362
Others	41	150
	73,122	82,272

12. TRADE AND OTHER PAYABLES

	As at 30 September 2010 HK\$'000	As at 31 March 2010 HK\$'000
Trade payables	492	498
Other payables and accruals	2,391	2,781
	2,883	3,279

The aging analysis of trade payables as of the end of the reporting period, as determined by reference to the invoice date, is as follows:

	As at 30 September 2010 HK\$'000	As at 31 March 2010 HK\$'000
Over 3 months	492	498

The carrying amounts of trade and other payables are denominated in the following currencies:

	As at 30 September 2010 HK\$'000	As at 31 March 2010 HK\$'000
Renminbi	1,222	1,248
Hong Kong dollars	1,661	2,031
	2,883	3,279



13. SHARE CAPITAL

	Number of shares		Share capital	
	30 September 2010 '000	31 March 2010 '000	30 September 2010 HK\$'000	31 March 2010 HK\$'000
Ordinary shares of HK\$0.10 each				
Authorised:				
Balance at beginning and at end of the period/year	4,000,000	4,000,000	400,000	400,000
Issued and fully paid:				
Balance at beginning of the period/year	344,326	341,021	34,433	34,102
Share options exercised	—	3,305	—	331
Balance at end of the period/year	344,326	344,326	34,433	34,433

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 2010 is as below:

	Number of shares '000
Outstanding at 31 March 2010	19,303
Exercised during the period	—
Outstanding at 30 September 2010	19,303

14. COMMITMENTS

Operating lease commitments

At 30 September 2010, the Group had the total of future minimum lease payments under non-cancellable operating leases with respect of office premises falling due as follows:

	As at 30 September 2010 HK\$'000	As at 31 March 2010 HK\$'000
Not later than one year	1,744	2,022
Within the second to fifth year inclusive	25	523
	1,769	2,545

15. COMPARATIVE FIGURES

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

16. APPROVAL OF THE INTERIM FINANCIAL REPORT

This interim financial report was approved by the Board of Directors on 23 November 2010.



INTERIM DIVIDEND

The Directors have decided not to declare any interim dividend for the six months ended 30 September 2010 (six months ended 30 September 2009: nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

The Group had no turnover for the six months ended 30 September 2010 (six months ended 30 September 2009: nil and HK\$30,000 from continuing and discontinued operations respectively). The loss attributable to owners of the Company was approximately HK\$9,937,000 for the period under review, representing loss per share of HK2.89 cents (six months ended 30 September 2009: loss of HK\$3,782,000, representing loss per share of HK1.03 cents). The administrative overhead of the Group for the current period increased to approximately HK\$8,436,000 (six months ended 30 September 2009: HK\$5,131,000). The increase was mainly caused by professional, consultancy, due diligence and other relevant expenses incurred for conducting feasibility study on possible investment projects, which led to an aggravated loss for the period.

Business Review and Prospects

During the six months ended 30 September 2010, the property development and investment operations have remained as the Group's only core business, despite there are two reportable segments, namely properties held for sale and data storage media products and related equipment, for segmental analysis.

During the period under review, the Group has not made much progress in its property development and investment operations. It continued to hold the completed properties under its property development projects in the People's Republic of China (the "PRC"), which consisted of commercial properties with a gross floor area of approximately 8,137 square metres in Zouping, Shandong, and 28 car park units in Pudong, Shanghai. However, no properties sales were recorded for the period (six months ended 30 September 2009: nil). Rental income of approximately HK\$88,000 (six months ended 30 September 2009: HK\$73,000) was derived from leasing out certain commercial properties located in Zouping, Shandong, and was recorded and accounted for as other revenues.

As stated in the previous annual and interim reports, the management has been actively seeking investment opportunities to build a stronger and sustainable business portfolio that will lead the Group to a new development stage by taking a steady and enduring approach going forward. During the period under review, the management has been pursuing a promising investment project in the PRC and has entered into serious discussions and negotiations with the potential vendors. Negotiations with the potential vendors are still ongoing after the period end date. The management will strive to conclude a deal as soon as possible but without compromise of the benefits of Company. It is believed that if the Group ventures into this new business, it will diversify its income stream and will generate value for its shareholders in the long run. The Company will make proper announcement regarding its business development as and when appropriate.



MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Liquidity and Financial Resources

At 30 September 2010, cash and bank balances of the Group amounted to approximately HK\$73,122,000, as compared to approximately HK\$82,272,000 at 31 March 2010. At the end of the period, the Group's total borrowings represented the liability component of the convertible bond of approximately HK\$66,894,000 (31 March 2010: HK\$66,074,000).

During the period, the Group's business operations were mainly in Hong Kong and the PRC. Hence, most of the transactions were denominated and settled in Hong Kong dollars and Renminbi. Accordingly, the Group did not enter into any arrangement to hedge its foreign exchange exposure.

Shareholders' equity is approximately HK\$35,402,000 at 30 September 2010 (31 March 2010: HK\$45,088,000).

The Group's gearing ratio at 30 September 2010, expressed as the percentage of the Group's total borrowings over shareholders' equity, was approximately 189%, as compared with 147% at 31 March 2010.

Subsequent to the period end date, an option holder exercised his option rights to subscribe for 3,305,000 shares at an exercise price of HK\$0.177 per share. The proceeds from the exercise of option rights amounted to approximately HK\$584,985.

Acquisition of Subsidiaries

On 7 July 2010, the Company acquired the entire equity interest in Ricco Mining Investment Limited ("Ricco Mining"), a company incorporated in Hong Kong, at a consideration of HK\$1 from Ricco Energy (Holdings) Limited which is a private company beneficially owned by Mr. Wu Siu Chung, the Chairman and an executive director of the Company. Ricco Mining has not started business since its incorporation. Except for holding the entire equity interest in Excel Profit International Investment Limited, a company incorporated in the British Virgin Islands, Ricco Mining is not holding other assets. Upon completion of the above share transfer, Ricco Mining and Excel Profit International Investment Limited (through Ricco Mining) have become wholly owned subsidiaries of the Company. Such subsidiaries are intended to be used as vehicles for the Company's possible investments in the future.

Changes in Information of Directors under Rule 13.51B(1) of the Listing Rules

Save as disclosed elsewhere in this report, changes in information of Directors since the publication of the Company's annual report 2010 were as below pursuant to Rule 13.51(B) of the Listing Rules:

On 15 July 2010, Mr. Eduard William Rudolf Helmuth WILL ("Mr. Will") was appointed as a director of Ricco Mining, a wholly owned subsidiary of the Company, in addition to his current positions of non-executive director and member of each of the Audit Committee and Remuneration Committee held with the Company. Before Ricco Mining became a subsidiary of the Company, Mr. Wu Siu Chung and Mr. Chen Xiaoping, both being executive directors of the Company, were also directors of Ricco Mining. They remain as directors of Ricco Mining thereafter.

Subsequent to the end of the reporting period, on 4 October 2010, each of Mr. Wu Siu Chung and Mr. Chen Xiaoping renewed his service agreement with the Company for a period of three years from 1 October 2010, and would continue thereafter unless and until terminated by either party by six months' prior notice.



MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Employees

At 30 September 2010, the total number of employees of the Group based in Hong Kong and the PRC was approximately 19 (31 March 2010: 19).

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 2010, the Group had no significant assets pledged to banks to secure general banking facilities and bank loan granted to the Group (31 March 2010: nil).

Capital commitment and contingent liabilities

At 30 September 2010, the Group had no outstanding capital commitments (31 March 2010: nil) and no material contingent liabilities (31 March 2010: nil) 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 in July 1998 against Benelux Manufacturing Limited (In Liquidation) ("BML"), a company in which the Company has a direct wholly owned interest but not treated as a subsidiary, 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 the allegation, 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. During such two-year period and up to the date of this report, the Company was not aware of any indication for the retrial of the above case.

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 2010, 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	18,512,820 (Note 2)	5.38%
LO Yuk Lam	Beneficially owned and through family interest	207,000 (Note 3)	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.
- At the date of this report, Mr. Chen Yuan Shou, Budiman had interests of 20,967,820 shares in the issued share capital of the Company (representing approximately 6.03% of the Company's issued share capital), which was mainly due to the allotment and issue of 3,305,000 shares by the Company to him upon his exercise of option rights after the period end date.
- 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 2010, 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 2010, 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 Company's issued the 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 2010 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 2010	Granted during the period	Exercised during the period	At 30 September 2010
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	18/12/2005 - 17/12/2015	0.166	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
				13,420,000			13,420,000 (Note)
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	0.166	323,000	—	—	323,000
	18/12/2003	18/12/2005 - 17/12/2015	0.166	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	0.166	330,000	—	—	330,000
	23/01/2008	23/01/2008 - 22/01/2011	1.200	200,000	—	—	200,000
				530,000			530,000
Total				19,303,000	—	—	19,303,000

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

Note: At the date of this report, Mr. Chen Yuan Shou, Budiman had options entitling to subscribe for 10,115,000 shares of the Company remained outstanding and unexercised, following his exercise of option rights to subscribe for 3,305,000 shares after the period end date.



AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including a review of the unaudited interim results for the six months ended 30 September 2010. 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.

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 2010.

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

Hong Kong, 23 November 2010

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.