



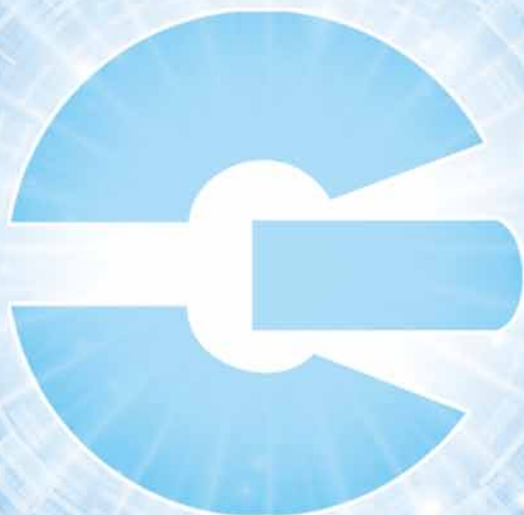
South East Group Limited
東南國際集團有限公司*

(Incorporated in Bermuda with limited liability)

Stock Code: 726

Interim Report

2014



* 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 2014 together with the comparative figures for the previous corresponding period. These interim financial statements have not been audited, but have been reviewed by the Company’s audit committee.

Unaudited Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 September 2014

	Note	Six months ended 30 September	
		2014 HK\$'000	2013 HK\$'000
Turnover	3	225	—
Cost of sales		(40)	—
Gross profit		185	—
Fair value gains on investment properties	11	—	—
Other revenues		387	698
Selling and distribution costs		(27)	(12)
Administrative expenses		(7,031)	(7,905)
Loss from operations	5	(6,486)	(7,219)
Finance costs	7	(1,643)	(1,609)
Loss before taxation		(8,129)	(8,828)
Taxation	8(a)	—	—
Loss for the period		(8,129)	(8,828)
Other comprehensive income/(loss):			
Items that may be reclassified subsequently to profit or loss:			
Translation difference		(33)	703
Change in fair value of available-for-sale financial assets		101	(956)
Other comprehensive income/(loss) for the period		68	(253)
Total comprehensive loss for the period		(8,061)	(9,081)
Loss for the period attributable to:			
Owners of the Company		(8,129)	(8,828)
Total comprehensive loss attributable to:			
Owners of the Company		(8,061)	(9,081)
Interim dividend per share		Nil	Nil
Loss per share attributable to owners of the Company			
Basic and diluted (cents)	9	(2.23)	(2.51)

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

Unaudited Condensed Consolidated Statement of Financial Position

As at 30 September 2014

	Note	30 September 2014 (unaudited) HK\$'000	31 March 2014 (audited) HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		26	26
Goodwill	10	—	—
Investment properties	11	37,800	37,800
Available-for-sale financial assets		2,183	2,082
Total non-current assets		40,009	39,908
CURRENT ASSETS			
Held-to-maturity investments		780	780
Properties held for sale	11	—	—
Trade and other receivables	12	1,726	3,549
Cash and cash equivalents	13	22,558	27,151
Total current assets		25,064	31,480
CURRENT LIABILITIES			
Trade and other payables	14	2,992	1,859
Tax payable	8(b)	165	165
Convertible bond	15	2,040	2,040
Total current liabilities		5,197	4,064
NET CURRENT ASSETS		19,867	27,416
TOTAL ASSETS LESS CURRENT LIABILITIES		59,876	67,324
NON-CURRENT LIABILITIES			
Convertible bond	15	63,925	63,312
Deferred tax liability	16	3,834	3,834
Total non-current liabilities		67,759	67,146
NET (LIABILITIES)/ASSETS		(7,883)	178
CAPITAL AND RESERVES (Capital deficiency)/Equity attributable to owners of the Company:			
Share capital	17	36,496	36,496
Reserves		(44,379)	(36,318)
TOTAL (DEFICIT)/EQUITY		(7,883)	178

The notes on pages 5 to 11 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 2014

	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 2014									
At 1 April 2014	36,496	15,641	(4,141)	5,888	17,071	131,166	—	(201,943)	178
Comprehensive loss:									
Loss for the period	—	—	—	—	—	—	—	(8,129)	(8,129)
Other comprehensive (loss)/income:									
Change in fair value of available-for-sale financial assets	—	—	101	—	—	—	—	—	101
Translation difference	—	—	—	—	(33)	—	—	—	(33)
Total comprehensive (loss)/income for the period	—	—	101	—	(33)	—	—	(8,129)	(8,061)
At 30 September 2014	36,496	15,641	(4,040)	5,888	17,038	131,166	—	(210,072)	(7,883)
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013									
At 1 April 2013	35,126	11,337	(2,917)	5,888	15,558	131,166	1,538	(195,033)	2,663
Comprehensive loss:									
Loss for the period	—	—	—	—	—	—	—	(8,828)	(8,828)
Other comprehensive (loss)/income:									
Change in fair value of available-for-sale financial assets	—	—	(956)	—	—	—	—	—	(956)
Translation difference	—	—	—	—	703	—	—	—	703
Total comprehensive (loss)/income for the period	—	—	(956)	—	703	—	—	(8,828)	(9,081)
Transactions with owners:									
Cancellation of share options	—	—	—	—	—	—	(40)	40	—
Total transactions with owners	—	—	—	—	—	—	(40)	40	—
At 30 September 2013	35,126	11,337	(3,873)	5,888	16,261	131,166	1,498	(203,821)	(6,418)

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

Unaudited Condensed Consolidated Statement of Cash Flows

For the six months ended 30 September 2014

	Six months ended 30 September	
	2014 HK\$'000	2013 HK\$'000
Net cash used in operating activities	(4,879)	(7,022)
Net cash generated from investing activities	326	174
Net cash used in financing activities	(7)	(2,043)
Net decrease in cash and cash equivalents	(4,560)	(8,891)
Cash and cash equivalents at the beginning of the period	27,151	39,855
Effect of foreign exchange rates changes	(33)	703
Cash and cash equivalents at the end of the period	22,558	31,667

The notes on pages 5 to 11 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").

These unaudited condensed consolidated interim financial statements are presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand unless otherwise stated.

These unaudited condensed consolidated interim financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain investments and properties which are carried at their fair values.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the Annual Report of the Group for the year ended 31 March 2014.

2. Summary of Principal Accounting Policies

The accounting policies used 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 2014 except for the adoption of new and revised Hong Kong Financial Reporting Standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA which are effective for the Group's financial year beginning on 1 April 2014. The adoption of the new and revised HKFRSs had no material impact on the results and financial position of the Group.

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 financial position of the Group.

3. Turnover

The Group's turnover consists of sales of properties and rental income of investment properties, which are set out below:

	Six months ended 30 September	
	2014 HK\$'000	2013 HK\$'000
Sales of properties held for sale	—	—
Rental income of investment properties	225	—
	225	—

Note: The Group reclassified the properties held for sale to investment properties during the year ended 31 March 2014. Rental income of HK\$225,000 was generated from investment properties for the six months ended 30 September 2014; while rental income of HK\$202,000 generated from such properties (presented as "properties held for sale") was recognised as other revenues in previous corresponding period with its effect on profit or loss as illustrated in Note 5.

4. Segment Information

The chief operating decision-maker has been identified as the Company's executive directors. The Group's principal activity is property development and property leasing in the People's Republic of China (the "PRC"). The executive directors regard it as a single business segment and no segment information is presented.

At the end of the reporting period, non-current assets included property, plant and equipment and investment properties with carrying amount of HK\$37,826,000 (31 March 2014: HK\$37,826,000) located in the PRC.

5. Loss from Operations

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

	Six months ended 30 September	
	2014 HK\$'000	2013 HK\$'000
Crediting:		
Interest income	296	354
Investment income	30	111
Rental income (Note 3)	38	202
Refund of tax	20	—
Charging:		
Cost of sales	40	—
Depreciation	—	13
Expenses for rights issue	1,030	—
Operating lease payments	2,866	2,794
Directors' remuneration		
— Fees	720	253
— Salaries and allowances	240	1,260
— Retirement benefits scheme contributions (Note 6)	8	15
Staff costs (excluding directors' remuneration)		
— Salaries and allowances	1,165	1,937
— Retirement benefits scheme contributions (Note 6)	65	90

6. Retirement Benefits Schemes

The Group operates a Mandatory Provident Fund Scheme (“MPF Scheme”) for qualifying employees in Hong Kong, the assets of the MPF Scheme are held in separate trustee-administered funds. The Group's contributions to the MPF Scheme are based on a fixed percentage of the employees' relevant income per month.

In accordance with the PRC regulations, the Group is required to pay social security contributions for its PRC staff based on certain percentage of their income to the social security plan organised by related governmental bodies.

	Six months ended 30 September	
	2014 HK\$'000	2013 HK\$'000
Retirement benefits scheme contributions	73	105

7. Finance Costs

	Six months ended 30 September	
	2014 HK\$'000	2013 HK\$'000
Interest expenses on convertible bond	1,635	1,606
Others	8	3
	1,643	1,609

8. Taxation

- a) Taxation in the consolidated statement of profit or loss and other comprehensive income represented:

	Six months ended 30 September	
	2014 HK\$'000	2013 HK\$'000
Current Tax		
— Hong Kong Profits Tax	—	—
— The PRC Enterprise Income Tax	—	—
Deferred taxation	—	—
	—	—

No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements as the Group did not derive any assessable profits in Hong Kong during the interim period (six months ended 30 September 2013: nil).

Taxation on profits derived in the PRC for subsidiaries has been calculated at the rate of tax prevailing in the PRC, Enterprise Income Tax rate, of 25% (2013: 25%), which is based on existing legislation, interpretations and practices in respect thereof.

- b) At the end of the reporting period, the Group had the following income tax payable and prepayment:

	As at 30 September 2014 HK\$'000	As at 31 March 2014 HK\$'000
The PRC Enterprise Income Tax		
— Tax payable	(383)	(383)
— Tax prepayment	218	218
Net tax payable	(165)	(165)

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 HK\$8,129,000 (six months ended 30 September 2013: loss of HK\$8,828,000) and on the weighted average number of 364,955,880 (six months ended 30 September 2013: 351,258,880) ordinary shares in issue during the period. No diluted loss per share has been presented as the exercise of the convertible bond would result in a decrease in loss per share for both periods.

10. Goodwill

	HK\$'000
Cost	
At 1 April 2013, 31 March 2014 and 30 September 2014	25
Accumulated impairment loss	
At 1 April 2013, 31 March 2014 and 30 September 2014	(25)
Carrying amount	
At 30 September 2014	—
At 31 March 2014	—

10. Goodwill (continued)

Goodwill represents the excess of the cost of acquisition over the net fair value of the Group's acquisition of 100% interest in Ricco Mining Investment Limited together with its wholly own subsidiary Excel Profit International Investment Limited (collectively, the "Ricco Mining Group") in 2010. The carrying amount of goodwill was allocated to the cash-generating unit ("CGU") of the Group's operations other than property development and property leasing in the PRC.

The recoverable amounts of the relevant CGU have been determined on the basis of value-in-use calculations. For the purpose of impairment testing, the recoverable amount of the CGU is determined based on its fair value less cost to sell or value-in-use calculations. The key assumption has been determined by the Group's management based on the future income generated from the Ricco Mining Group. The directors are of the opinion that full impairment of goodwill is required.

11. Investment Properties

	As at 30 September 2014 HK\$'000	As at 31 March 2014 HK\$'000
At 1 April	37,800	—
Reclassification from properties held for sale	—	21,922
Fair value gains	—	15,215
Exchange difference	—	663
	37,800	37,800

The Group reclassified the properties held for sale to investment properties during the year ended 31 March 2014. The Group measures its investment properties at fair value. As at 31 March 2014, the fair values of the investment properties has been determined on the basis of valuation carried out by Savills Valuation and Professional Services Limited, an independent firm of professional valuer, by using income capitalisation approach. The revaluation gains or losses were included in the consolidated statement of profit or loss and other comprehensive income. The management reviews the valuations performed by the independent valuers for financial reporting purposes at least once every six months, in line with the Group's interim and annual reporting dates.

Investment properties are situated in Zouping, Shandong, the PRC for rental purpose under short term lease.

The future aggregate minimum rental receivables under non-cancellable operating leases are as follows:

	As at 30 September 2014 HK\$'000	As at 31 March 2014 HK\$'000
Not later than one year	—	22
Within the second to fifth year inclusive	—	—
	—	22

12. Trade and Other Receivables

	As at 30 September 2014 HK\$'000	As at 31 March 2014 HK\$'000
Trade receivables	1,076	1,076
Less: Provision for impairment	(1,076)	(1,076)
Trade receivables, net of provision	—	—
Deposits and other receivables	1,486	3,104
Maximum exposure to credit risk	1,486	3,104
Prepayments	240	445
	1,726	3,549

12. Trade and Other Receivables (continued)

The carrying amounts of trade and other receivables approximated their fair values as at 30 September 2014 and 31 March 2014. The Group does not hold any collateral over these balances.

All trade receivables before provision for impairment were aged over twelve months based on the invoice issue date.

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

	As at 30 September 2014 HK\$'000	As at 31 March 2014 HK\$'000
Hong Kong dollars	1,568	1,792
Renminbi	158	1,757
	1,726	3,549

13. Cash and Cash Equivalents

	As at 30 September 2014 HK\$'000	As at 31 March 2014 HK\$'000
Cash and bank balances	22,558	27,151
Maximum exposure to credit risk	22,501	27,079

The carrying amounts of cash and cash equivalents were denominated in the following currencies:

	As at 30 September 2014 HK\$'000	As at 31 March 2014 HK\$'000
Renminbi	21,026	26,633
Hong Kong dollars	1,350	337
Others	182	181
	22,558	27,151

14. Trade and Other Payables

	As at 30 September 2014 HK\$'000	As at 31 March 2014 HK\$'000
Trade payables	334	334
Other payables and accruals	2,658	1,525
	2,992	1,859

The carrying amounts of trade and other payables approximated their fair values as at 30 September 2014 and 31 March 2014 and were denominated in the following currencies:

	As at 30 September 2014 HK\$'000	As at 31 March 2014 HK\$'000
Hong Kong dollars	2,007	1,078
Renminbi	985	781
	2,992	1,859

All trade payables were aged over twelve months based on the invoice issue date.

15. Convertible Bond

The convertible bond issued has been split as to the liability and equity component and movement of the convertible bond is as follows:

	As at 30 September 2014 HK\$'000	As at 31 March 2014 HK\$'000
Nominal value of the convertible bond	68,000	68,000
Equity component	(5,888)	(5,888)
Liability component		
— Liability component	62,112	62,112
— Interest expenses	3,853	3,240
Total liability component	65,965	65,352
Analysis into		
— Current liabilities	2,040	2,040
— Non-current liabilities	63,925	63,312
	65,965	65,352

16. Deferred Tax Liability

Deferred tax liability is recognised for the temporary difference on recognition of fair value gain of investment properties. The movement on the deferred tax liability is as follows:

	As at 30 September 2014 HK\$'000	As at 31 March 2014 HK\$'000
At 1 April	3,834	—
Charge for the period/year	—	3,804
Exchange difference	—	30
	3,834	3,834

17. Share Capital

	Number of shares		Share capital	
	30 September 2014 '000	31 March 2014 '000	30 September 2014 HK\$'000	31 March 2014 HK\$'000
Ordinary shares of HK\$0.10 each				
Authorised:				
Balance at the beginning and at the end of the period/year	4,000,000	4,000,000	400,000	400,000
Issued and fully paid:				
Balance at the beginning of the period/year	364,956	351,259	36,496	35,126
Share options exercised (Note)	—	13,697	—	1,370
Balance at the end of the period/year	364,956	364,956	36,496	36,496

Note: The share option scheme adopted by the Company on 7 November 2003 (the "Old Scheme") was terminated pursuant to a resolution passed by the shareholders of the Company on 7 August 2013. A new share option scheme (the "New Scheme") in place of the Old Scheme was adopted pursuant to such resolution with effect from 7 August 2013 for a period of 10 years. All the outstanding share options granted under the Old Scheme were exercised or lapsed during the year ended 31 March 2014, and no share options have been granted, exercised, cancelled or lapsed under the New Scheme during the period under review.

18. Operating Lease Arrangement

At 30 September 2014 and 31 March 2014, the total future minimum lease payments under non-cancellable operating leases with respect of office premises are as follows:

	As at 30 September 2014 HK\$'000	As at 31 March 2014 HK\$'000
Not later than one year	5,604	5,647
Within the second to fifth year inclusive	443	3,217
	6,047	8,864

19. Related Party Transactions

Other than those disclosed below or in the notes elsewhere to the condensed consolidated interim financial statements, during the period, no related party transaction is entered.

During the six months ended 30 September 2013, the Group received from Ricco Capital (Holdings) Limited, a company wholly owned by the former chairman of the Group, administrative services fees income of HK\$6,000 for the provision of registered office address.

20. Event After Reporting Period

Subsequent to the end of reporting period, the Group has the following events:

(a) Fund raising by rights issue

As disclosed in the Company's announcements dated 26 February 2014, 23 May 2014 and 22 August 2014, the Company entered into a non-legally binding framework agreement and supplemental framework agreements relating to a possible acquisition of certain properties in Shenzhen, the PRC. The preliminary valuation of the properties as appraised by an independent valuer amounted to approximately RMB400 million. The consideration will be in the combination of cash, issuance of shares, promissory notes or/ and convertible notes by the Company and the cash portion of the consideration shall not be less than HK\$300 million.

In order to finance the proposed acquisition, the Company has successfully raised fund of approximately HK\$292 million before expenses in October 2014 by issuing 2,919,647,040 rights shares at the subscription price of HK\$0.1 each on the basis of eight rights shares for every one existing share held on the record date.

Upon completion of the rights issue, the Company's issued share capital increased to HK\$328,460,292 (31 March 2014: HK\$36,495,588) with 3,284,602,920 (31 March 2014: 364,955,880) ordinary shares in issue on 30 October 2014.

(b) Adjustment to the conversion price of the convertible bond

As a result of the rights issue, the conversion price of the convertible bond would be adjusted from HK\$0.418 per share to HK\$0.160 per share and based on the outstanding principal amount of HK\$68 million, the number of shares to be allotted and issued to the bondholder would be adjusted from 162,679,425 shares to 425,000,000 shares with effect from 30 October 2014.

21. Comparative Figures

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

22. Approval of the Interim Financial Report

This interim financial report was approved by the Board of Directors on 21 November 2014.

Interim Dividend

The Directors have decided not to declare any interim dividend for the six months ended 30 September 2014 (six months ended 30 September 2013: nil).

Management Discussion and Analysis

Financial Review

For the six months ended 30 September 2014, the Group recorded a total turnover of approximately HK\$225,000, all generated from leasing of properties (six months ended 30 September 2013: nil and HK\$202,000 (accounted for as other revenues) from sale and leasing of properties respectively). During the period under review, the Group's loss attributable to owners of the Company amounted to approximately HK\$8,129,000 (six months ended 30 September 2013: HK\$8,828,000) and loss per share was HK 2.23 cents (six months ended 30 September 2013: HK 2.51 cents). The loss was mainly relating to ordinary business operations.

At 30 September 2014, the unaudited total assets and net liabilities of the Group were HK\$65,073,000 and HK\$7,883,000 respectively (31 March 2014 (audited): total assets of HK\$71,388,000 and net assets of HK\$178,000). The decrease in the Group's net asset value was mainly attributable to the cash outflow from the operating activities.

Business Review and Prospects

During the six months ended 30 September 2014, the Group was principally engaged in the business of property development and investment in the People's Republic of China (the "PRC"). The Group has generated its revenue by leasing out the commercial properties held, and a turnover of approximately HK\$225,000 was recorded during the period under review (six months ended 30 September 2013: HK\$202,000 (accounted for as other revenues)). As stated in its 2014 annual report, the Group reclassified the properties located in Zouping, Shandong Province, the PRC, which were originally held for sale as investment properties. At 30 September 2014, there was a gross floor area of approximately 7,845 square metres (31 March 2014: 7,845 square metres) of the commercial properties located in Zouping. Though the Group still keeps the plan of holding the investment properties for generating steady rental income, strategic adjustment to such plan may be made if any good opportunities arise.

The Group has tried its best endeavours to gather momentum for its property business. On 26 February 2014, the Company entered into a framework agreement (as supplemented by two supplemental agreements dated 23 May 2014 and 22 August 2014 respectively) (the "Framework Agreement") relating to a proposed acquisition (the "Proposed Acquisition") of certain multi-function commercial/residential properties located in Luohu District, Shenzhen, the PRC (the "Properties"), details of which are set out in the Company's announcements dated 26 February 2014, 23 May 2014 and 22 August 2014 respectively. Taking into consideration of the growing trend in Shenzhen commercial and residential property markets, it is believed that the Proposed Acquisition, if materialized, will generate steady income for the Group's continuous development. According to a feasibility study conducted by the Group, it is expected that the value of the Properties will substantially increase upon completion of a redevelopment plan to rebuild/refurnish the Properties into scaled multi-function commercial/residential properties for rental and/or sale purpose (the proportion of which will be determined by the then market conditions). However, no significant progress on the negotiations on the terms and conditions in relation to the Proposed Acquisition had been made since the entering of the Framework Agreement, as the Group did not have sufficient resources to finance payment of the earnest money of HK\$22 million under the Framework Agreement. This is one of the main reasons for the Company to consider fund raising to broaden its capital base.

The Company completed the rights issue to raise approximately HK\$292 million before expenses in October 2014, details of which are set out in the Company's prospectus dated 8 October 2014 and announcement dated 29 October 2014. The rights issue strengthens the Group's financial position and facilitates the furtherance of the Proposed Acquisition and/or acquisitions of other potential projects in the future. With the financial resources available, the Company will expedite negotiations with the vendor as regards the terms and conditions of the Proposed Acquisition. Announcement regarding the development of the Proposed Acquisition will be made as and when appropriate.

Management Discussion and Analysis *(continued)*

Business Review and Prospects *(continued)*

Looking forward, the Board considers that the Group should continue to leverage its resources in exploring opportunities in the property development and investment business, in particular with an eye for opportunities to acquire premium properties in the PRC at attractive prices. Yet, possibilities for investing into other potential projects should not be ruled out. The Company will strive to boost its business development and enhance financial and operating performance, so as to create better returns for shareholders in the long run.

Capital Structure

On 11 August 2014, the Company entered into an underwriting agreement (the “Underwriting Agreement”) with Kingston Securities Limited (the “Underwriter”) and proposed to issue by way of rights (the “Rights Issue”) to its shareholders of 2,919,647,040 new shares with nominal value of HK\$0.10 each (the “Rights Shares”) on the basis of eight Rights Shares for every one existing share held at the subscription price of HK\$0.10 per Rights Share, to raise approximately HK\$292 million before expenses. Details in relation to the Rights Issue are set out in the Company’s prospectus dated 8 October 2014. As disclosed in the Company’s announcement dated 29 October 2014, the Underwriting Agreement became unconditional on 28 October 2014, accordingly the Company issued a total of 2,919,647,040 fully-paid Rights Shares on 30 October 2014. As a result of the Rights Issue, total consideration, net of related expenses, of approximately HK\$285 million was received, and HK\$291,964,704 was credited to the share capital account. Such movement on the share capital of the Company and the financial effects of the Rights Issue on the Company will be recognized in the annual accounts of the Group for the year ending 31 March 2015.

At 30 September 2014, the Company’s issued share capital was HK\$36,495,588 (31 March 2014: HK\$36,495,588) with 364,955,880 (31 March 2014: 364,955,880) ordinary shares of HK\$0.10 each (the “Shares”) in issue.

At 30 September 2014, the Group’s interest-bearing liabilities were mainly attributable to the 3% coupon convertible bond of the Company due on 7 May 2016 (the “Maturity Date”) with an outstanding principal amount of HK\$68,000,000 (the “Convertible Bond”). The Convertible Bond can be converted into a maximum of 162,679,425 Shares (as adjusted to 425,000,000 Shares on 30 October 2014 as a result of the Rights Issue) at the conversion price of HK\$0.418 per Share (as adjusted to HK\$0.16 per Share on 30 October 2014 as a result of the Rights Issue) prior to the Maturity Date. The Company has no obligation to redeem the Convertible Bond prior to the Maturity Date unless an event of default as provided in the terms and conditions of the Convertible Bond has occurred prior to the Maturity Date and the bondholder serves a notice on the Company requiring the Convertible Bond to be redeemed.

Liquidity and Financial Resources

At 30 September 2014, cash and bank balances of the Group amounted to approximately HK\$22,558,000, as compared to approximately HK\$27,151,000 at 31 March 2014. At the end of the period, the Group’s total borrowings represented the carrying amount of the Convertible Bond of approximately HK\$65,965,000 (31 March 2014: HK\$65,352,000).

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. As there was no significant exposure to foreign exchange fluctuation arising from the normal course of operations, the Group did not enter into any foreign exchange hedge arrangement to reduce foreign exchange risk and exposure.

The Group had capital deficiency of approximately HK\$7,883,000 at 30 September 2014 (31 March 2014: equity attributable to owners of the Company of HK\$178,000).

Despite of the above, the Group’s financial base and liquidity has been strengthened and back to a healthy position after completion of the Rights Issue in October 2014. The Group has raised net proceeds of approximately HK\$285 million from the Rights Issue for financing future development of the Group, details of the intended use of proceeds are stated in the Company’s prospectus dated 8 October 2014. The successful completion of the Rights Issue has an immediate effect of improving the Group’s gearing ratio, being the ratio of the Group’s total borrowings to its total assets (gearing ratio at 31 March 2014: 92%).

Management Discussion and Analysis *(continued)*

Material Acquisitions and Disposals of Subsidiaries and Associated Companies

There was no material acquisition or disposal of subsidiaries and associated companies during the period.

Employees

At 30 September 2014, the Group had a total of 14 (31 March 2014: 14) employees (excluding directors of the Company). 8 (31 March 2014: 8) of them worked in the PRC and 6 (31 March 2014: 6) of them worked in Hong Kong.

Employees are basically remunerated based on the nature of their job and their performance as well as the prevailing market trend. Year-end discretionary bonus would be granted to reward and motivate those well-performed employees. Other employee benefits include mandatory provident fund, medical insurance coverage and share option scheme.

Charges on Group Assets

At 30 September 2014, the Group had no significant assets pledged to banks to secure general banking facilities and bank loan granted to the Group (31 March 2014: nil).

Capital Commitment and Contingent Liabilities

At 30 September 2014, the Group had no outstanding capital commitments (31 March 2014: nil) and no material contingent liabilities (31 March 2014: nil).

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 30 September 2014, the interests and short positions of the directors and chief executive of the Company and their associates in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), which (i) would have 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 they are taken or deemed to have under such provisions of the SFO); or (ii) were required pursuant to section 352 of the SFO to be entered in the register referred to therein; or (iii) 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 issued and underlying shares of the Company

Name of director	Nature of interest	Number of Shares held	Number of Rights Shares	Total	Approximately attributable percentage of shareholding of the Company (Note 1)
Mr. Yu Shengming	Interested in controlled corporation	92,000,000 (Note 2)	736,000,000 (Note 2)	828,000,000	25.21%
Mr. Chen Xiaoping	Beneficial owner	314,000 (Note 3)	—	314,000	0.009%

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures *(continued)*

(a) Long position in issued and underlying shares of the Company

(continued)

Notes:

1. Computation of the attributable percentage figures was based on the enlarged issued share capital of 3,284,602,920 Shares as a result of the Rights Issue, comprising 364,955,880 Shares in issue as at 30 September 2014 and 2,919,647,040 Rights Shares to be issued and allotted immediately upon completion of the Rights Issue.
2. On 30 September 2014, 92,000,000 Shares were beneficially owned by Viva Shine Limited ("Viva Shine"), a company beneficially owned as to 50% by Mr. Yu Shengming ("Mr. Yu"), the chairman and an executive director of the Company and 50% by Mr. Wang Guoli ("Mr. Wang"); and 736,000,000 Shares were the Rights Shares which Viva Shine agreed to be taken up pursuant to the undertaking dated 11 August 2014 (the "Undertaking") given by Viva Shine in favour of the Company and the Underwriter pursuant to the terms and conditions of the Underwriting Agreement.

On 30 October 2014, the 736,000,000 Rights Shares as referred to above were allotted as fully paid to nominees of Viva Shine upon completion of the Rights Issue.

Through his equity interest in Viva Shine as disclosed above, Mr. Yu was deemed to be interested in 162,679,425 underlying Shares to be derived from the Convertible Bond, of which Viva Shine is the beneficial owner. On 30 October 2014, adjustment was made to the conversion price of the Convertible Bond as a result of the Rights Issue. Pursuant to the terms and conditions of the Convertible Bond, the conversion price was adjusted from HK\$0.418 per Share to HK\$0.16 per Share; and based on the then outstanding principal amount of the Convertible Bond of HK\$68 million, the number of shares to be allotted and issued to the holder of the Convertible Bond upon exercise of the conversion rights attaching to the Convertible Bond was adjusted from 162,679,425 Shares to 425,000,000 Shares. Details of adjustments to the conversion price of the Convertible Bond, and hence the number of shares to be issued upon exercise of the conversion rights, are set out in the Company's announcement dated 29 October 2014.

3. Mr. Chen Xiaoping ("Mr. Chen") is a non-executive director of the Company. On 30 September 2014, Mr. Chen was beneficially interested in 314,000 Shares, without taking into account of the provisional allotment of Rights Shares to be made on the record date, i.e. 6 October 2014. As at the date of this report, Mr. Chen was interested in 2,620,000 shares of the Company (representing approximately 0.08% of the Company's enlarged issued share capital), which included 2,512,000 Rights Shares allotted as fully paid to him on 30 October 2014 upon completion of the Rights Issue.

(b) Long position in other underlying shares of the Company

Details of the interests of directors and chief executive of the Company in the underlying shares of the Company attributable to the Convertible Bond are disclosed in Note 2 of paragraph (a) above.

Save as disclosed above, as at 30 September 2014, none of the directors and chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) 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 they were taken or deemed to have under such provisions of the SFO); or (ii) were required pursuant to section 352 of the SFO to be entered in the register referred to therein; or (iii) were required pursuant to the Model Code to be notified to the Company and the Stock Exchange.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at 30 September 2014, according to the register kept by the Company under section 336 of the SFO, the following persons, other than a director or chief executive of the Company, had or was deemed to have an interest or short position in the Company's shares or underlying shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, details of which are set out as follows:

(a) Long position in issued and underlying shares of the Company

Name of shareholder	Nature of interest	Number of Shares held	Number of Rights Shares	Total	Approximately attributable percentage of shareholding of the Company (Note 1)
Viva Shine (Note 2)	Beneficial owner	92,000,000	736,000,000	828,000,000	25.21%
Mr. Wang Guoli (Note 2)	Interested in controlled corporation	92,000,000	736,000,000	828,000,000	25.21%
The Underwriter (Note 3)	Beneficial owner	—	2,183,647,040	2,183,647,040	66.48%
Galaxy Sky Investments Limited (Note 3)	Interested in controlled corporation	—	2,183,647,040	2,183,647,040	66.48%
Kingston Capital Asia Limited (Note 3)	Interested in controlled corporation	—	2,183,647,040	2,183,647,040	66.48%
Kingston Financial Group Limited (Note 3)	Interested in controlled corporation	—	2,183,647,040	2,183,647,040	66.48%
Active Dynamic Limited (Note 3)	Interested in controlled corporation	—	2,183,647,040	2,183,647,040	66.48%
Ms. Chu Yuet Wah (Note 3)	Interested in controlled corporation	—	2,183,647,040	2,183,647,040	66.48%

Notes:

1. Computation of the attributable percentage figures was based on the enlarged issued share capital of 3,284,602,920 Shares as a result of the Rights Issue, comprising 364,955,880 Shares in issue as at 30 September 2014 and 2,919,647,040 Rights Shares to be issued and allotted immediately upon completion of the Rights Issue.
2. On 30 September 2014, Viva Shine was beneficially interested in (i) 92,000,000 Shares; (ii) 736,000,000 Rights Shares which it agreed to be taken up pursuant to the Undertaking; and (iii) the Convertible Bond, as referred to in Note 2 of paragraph (a) in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" above. Viva Shine is a company owned as to 50% by Mr. Yu and 50% by Mr. Wang. Under Part XV of the SFO, each of Mr. Yu and Mr. Wang is deemed to have an interest in the same parcel of Shares and the Convertible Bond beneficially owned by Viva Shine. Both of the 92,000,000 Shares and the Convertible Bond are subject to share charges.

As at the date of this report, Viva Shine was interested in (i) 828,000,000 Shares credited as fully paid in the share capital of the Company; and (ii) the Convertible Bond of principal amount of HK\$68 million convertible into a maximum of 425,000,000 Shares of the Company at the adjusted price of HK\$0.16 per Share (as detailed in the Company's announcement dated 29 October 2014).

3. The 2,183,647,040 Shares referred to the Rights Shares that the Underwriter was interested in under the Underwriting Agreement on the assumption of no qualifying shareholders take up their respective entitlements under the Rights issue. The Underwriter is a wholly-owned subsidiary of Galaxy Sky Investments Limited, which is wholly owned by Kingston Capital Asia Limited. Kingston Capital Asia Limited is wholly owned by Kingston Financial Group Limited. Active Dynamic Limited owns 40.24% interest in Kingston Financial Group Limited. Ms. Chu Yuet Wah owns 100% interest in Active Dynamic Limited.

In accordance with the terms of the Underwriting Agreement, the Underwriter performed its underwriting obligations and procured subscribers to take up a total of 840,065,146 Rights Shares which were under-subscribed under the Rights Issue (as detailed in the Company's announcement dated 29 October 2014). At 30 October 2014, all of the named parties ceased to have an interest in the shares and underlying shares of the Company.

Substantial Shareholders' and Other Persons' Interests and Short Positions in Shares and Underlying Shares *(continued)*

(b) Long position in other underlying shares of the Company

Details of the interests of substantial shareholders in the underlying shares of the Company attributable to the Convertible Bond are disclosed in Note 2 of paragraph (a) above.

Save as disclosed above, as at 30 September 2014, the directors and the chief executive of the Company were not aware of any other person, other than a director or chief executive of the Company, who had or was deemed to have an interest or short position in the Company's shares or underlying shares as recorded in the register required to be kept under Section 336 of the SFO.

Share Option Scheme

The share option scheme adopted by the Company on 7 November 2003 (the "Old Scheme") was terminated pursuant to an ordinary resolution passed by the shareholders of the Company on 7 August 2013. A new share option scheme (the "New Scheme") in place of the Old Scheme was adopted pursuant to such resolution with effect from 7 August 2013 for a period of 10 years.

No share options have been granted, exercised, cancelled or lapsed under the New Scheme since its adoption on 7 August 2013. As at 30 September 2014 and up to the date of this report, there were no outstanding share options that have been granted and remained outstanding and exercisable under both the Old Scheme and the New Scheme.

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 2014. The Audit Committee currently comprises three members including two independent non-executive directors, Mr. Lee Chi Hwa, Joshua and Mr. Ng Kwok Wai, and a non-executive director, Mr. Chen Xiaoping.

Corporate Governance Practices

The Company has applied the principles and complied with the applicable code provisions (the "Code Provision") of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules during the interim period, except the following deviations:

Under Code Provision A.4.1, non-executive Directors should be appointed for a specific term, and subject to re-election. Each of the existing Directors (including non-executive Directors) has entered into a letter of appointment with the Company, pursuant to the terms and conditions of which his service term is subject to retirement by rotation in accordance with the Company's bye-laws. According to the Company's bye-laws, one-third of the Directors for the time being shall retire from office by rotation at the annual general meeting of the Company and every Director shall be subject to retirement by rotation at least once every three years. As such, the Board considers the same purpose as a specific term of appointment can be achieved.

Under Code Provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Chen Xiaoping, a non-executive Director, could not attend the annual general meeting of the Company held on 7 August 2014; and Mr. Ng Kwok Wai and Mr. Lee Chi Hwa, Joshua, both of them being independent non-executive Directors, could not attend the special general meeting of the Company held on 24 September 2014 because of their other business commitments. Aiming for compliance with this Code Provision, the Company will continue to furnish all Directors with appropriate information on all general meetings and take all reasonable measures to arrange the schedule in such a cautious way to enable all Directors to attend the general meetings as far as possible.

Corporate Governance Practices *(continued)*

Under Code Provision A.7.1, an agenda and accompanying board papers should be sent, in full, to the Directors at least three days before the intended date of a Board or Board committee meeting. For practical reasons, an agenda and accompanying board papers may not be sent in full three days in advance of the meeting concerned, especially in case of meetings held on an ad hoc basis. The Company will endeavour to send the agenda and accompanying board papers in full to the Board and Board committees three days in advance to the extent practicable.

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.

Changes in Information of Directors

Save as disclosed elsewhere in this report, changes in information of Directors since the publication of the Company's annual report 2014 were as below pursuant to Rule 13.51B(1) of the Listing Rules:

On 9 July 2014, Mr. Chan Chi Yuen resigned as an independent non-executive director, the chairman of the audit committee and a member of each of the remuneration committee and nomination committee of China Sandi Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 910).

On 30 September 2014, Mr. Lee Chi Hwa, Joshua was appointed as an independent non-executive director, a member of the audit committee of Hao Tian Development Group Limited, a company listed on the Main Board of the Stock Exchange (stock code: 474).

On 20 October 2014, Mr. Ling Kit Wah, Joseph resigned as an independent non-executive director, a member of the audit committee and the chairman of the remuneration committee of ZMFY Automobile Glass Services Limited, a company listed on the GEM Board of the Stock Exchange (stock code: 8135).

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 2014.

By Order of the Board of
South East Group Limited
Yu Shengming
Executive Director and Chairman

Hong Kong, 21 November 2014

As at the date of this Interim Report, the Board comprises Mr. Yu Shengming (Chairman), Mr. Mock Wai Yin (Deputy Chairman) and Mr. Chan Chi Yuen as executive directors; Mr. Chen Xiaoping as non-executive director; and Mr. Ng Kwok Wai, Mr. Lee Chi Hwa, Joshua and Mr. Ling Kit Wah, Joseph as independent non-executive directors.