

MANAGEMENT DISCUSSION AND ANALYSIS

SOUTH EAST GROUP LIMITED ANNUAL REPORT 2004

LIQUIDITY AND FINANCIAL RESOURCES

The Group's liquidity and financial resources remained sound and healthy. It recorded a net cash inflow of approximately HK\$18,500,000 from operating activities during the year. At 31 March 2004, cash and bank balances of the Group amounted to approximately HK\$48,800,000 (2003: HK\$62,900,000). Bank and other borrowings of the Group as at the same date amounted to approximately HK\$13,900,000 (2003: HK\$42,300,000), which are repayable within one year. The above bank and other borrowings net of bank deposits pledged amounted to approximately HK\$4,500,000.

The Group's bank and other borrowings were denominated as to 100% in Renminbi. The Group conducted most of its business in Renminbi, United States dollars and Hong Kong dollars so that it does not have any significant exposure to foreign exchange fluctuations.

Shareholders' equity is HK\$135,134,000 (2003: HK\$118,360,000), representing an increase of 14.17% over last year.

The Group's gearing ratio, expressed as the percentage of the Group's total borrowings (net of bank deposits pledged) over shareholders' equity, was approximately 3.3%.

ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

In December 2003, the Group completed acquisition of 33% equity interest in a company mainly engaged in property development and investment in Shanghai from an independent third party for a consideration of RMB2,640,000.

In December 2003, the Group entered into an agreement with its PRC partner for terminating the joint venture contract under which its wholly owned subsidiary, Benelux International Electronics Company Limited ("BIEL") was set up. Termination of the joint venture contract took effect on 31 December 2003. Dissolution of BIEL is still under process and full provision has been made in the accounts of the Group.

EMPLOYEE INFORMATION

At 31 March 2004, the total number of employees of the Group (including the employees of the winery in Qingdao) was approximately 300 (2003: 560). 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 31 March 2004, the Group pledged certain assets including bank deposits of HK\$14,000,000 (2003: HK\$6,200,000), land and buildings with an aggregate net book value of HK\$7,600,000 (2003: HK\$19,200,000) to secure the general banking facilities and bank loans granted to the Group.

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CAPITAL COMMITMENT

At 31 March 2004, the Group had total outstanding capital commitments of approximately HK\$36,848,000 (2003: HK\$1,600,000).

CONTINGENT LIABILITIES AND LITIGATION

A purported guarantee in respect of the indebtedness of the Company's subsidiary to a sub-contractor for the purported guarantee which came to the attention of the directors in previous years, has been treated by the directors of the Company on ground of prudence as a contingent liability in the Company's financial statements.

An order was made by the Hong Kong court on 16 December 2003 restraining the monies amounting to approximately HK\$6,160,000 in an account (the "Account") held by the Company with a bank in Hong Kong. The order was granted upon the ex-parte application of the Hong Kong Secretary of Justice on behalf of the Government of Australia. The application in the Hong Kong courts reflects a restraining order in respect of the Account made by the Supreme Court of New South Wales on application from the Australian Director of Public Prosecutions. On 27 January 2004, the Company indicated to the Hong Kong court that the Company opposes the Hong Kong restraining order, and that the Company intends to issue a summons seeking the removal of the restraining order. The matter has been adjourned until a later date for argument, and will be heard once the proceedings at the Australian court have been concluded.

Based upon the advice from legal counsel, the directors are reasonably confident of ultimately winning the case in Australia and having the Australian court order freezing the Account set aside. Hence, the Hong Kong court restraining order will be also set aside and the Account unfrozen. No provision has been made in respect of the Account in the Company's accounts.