SOUTH EAST GROUP LIMITED
（東南國際集團有限公司）*

(Incorporated in Bermuda with limited liability)

(Stock Code: 726)

ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2005

AUDITED RESULTS

The board of directors (the "Directors") of South East Group Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 March 2005 with comparative figures for the previous corresponding year as follows:

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 MARCH 2005

	NOTE	**2005** **HK$'000**	2004 *HK$'000*
TURNOVER	2	**65,862**	192,850
COST OF INVENTORIES SOLD		**(88,320)**	(132,194)
GROSS (LOSS)/PROFIT		**(22,458)**	60,656
OTHER REVENUE		**501**	1,035
SELLING AND DISTRIBUTION COSTS		**(9,400)**	(23,277)
ADMINISTRATIVE EXPENSES		**(24,882)**	(22,734)
(LOSS)/PROFIT FROM OPERATIONS	3	**(56,239)**	15,680
FINANCE COSTS		**(270)**	(335)
(LOSS)/PROFIT BEFORE TAXATION		**(56,509)**	15,345
TAXATION	4	**39**	(4,789)
(LOSS)/PROFIT AFTER TAXATION		**(56,470)**	10,556
MINORITY INTERESTS		**5,995**	2,209
NET (LOSS)/PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	5	**(50,475)**	12,765
DIVIDENDS	7	**–**	–
(LOSS)/PROFIT FOR THE YEAR		**(50,475)**	12,765
(LOSS)/EARNINGS PER SHARE (CENTS)	6	**(15.3)**	3.9

Notes:

1. **PRINCIPAL ACCOUNTING POLICIES**

In 2004, the Hong Kong Institute of Certified Public Accountants ("HKICPA") issued a number of new or revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards (collectively referred to as "new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The company has not chosen for early adoption of these new HKFRSs in the financial statements for the year ended 31 March 2005.

The company has commenced considering the potential impact of these new HKFRSs but is not yet in a position to determine whether these new HKFRSs would have a significant impact on how its result of operations and financial position are prepared and presented. These new HKFRSs may result in changes in the future as to how the results and financial position are prepared and presented.

The financial statements have been prepared in accordance with generally accepted accounting principles in Hong Kong and with accounting standards issued by the Hong Kong Institute of Certified Public Accountants. The financial statements are prepared under the historical cost convention as modified for the revaluation of certain investment assets.

2. **SEGMENT INFORMATION**

The business activities of the Group are categorised into the manufacturing and trading of data storage media products, property development, wine producing and other strategic investment projects. Segment information in respect of these activities is as follows:

RESULTS	**2005**		2004	
	Turnover *HK$'000*	**Contribution to operating profit/(loss)** *HK$'000*	Turnover *HK$'000*	Contribution to operating profit/(loss) *HK$'000*
By principal activities:				
– Sales of data storage media products and related equipment	**7,631**	**(37,566)**	15,185	(5,276)
– Sales of property under development	**50,507**	**(4,766)**	167,178	26,335
– Sales of wine	**7,724**	**(14,408)**	10,487	(6,414)
	65,862	**(56,740)**	192,850	14,645
Other revenues		**501**		1,035
		(56,239)		15,680
By geographical markets:				
– Hong Kong	**219**	**(4,849)**	190	(4,315)
– USA and Canada	**2,006**	**(1,499)**	2,302	813
– People's Republic of China	**63,003**	**(50,011)**	189,945	17,185
– Australia and New Zealand	**–**	**93**	–	816
– Others	**634**	**(474)**	413	146
	65,862	**(56,740)**	192,850	14,645
Other revenues		**501**		1,035
		(56,239)		15,680

3. (LOSS)/PROFIT FROM OPERATIONS

	2005 *HK$'000*	2004 *HK$'000*
(Loss)/profit from operations is arrived at after charging:–		
Auditors' remuneration		
– Current year	**255**	294
– Under-provision for prior years	**35**	13
	290	307
Depreciation	**2,383**	3,085
Impairment loss on machinery and moulds	**3,000**	–
Impairment loss on long-term investment	**876**	890
Gain on disposals of property, plant and equipment	**(92)**	(219)
Net exchange loss/(gain)	**8**	(362)
Operating lease payments	**755**	922
Provision for stock written off	**25,863**	10,320
Retirement benefit costs	**374**	259
Staff costs (excluding directors' remuneration)	**5,349**	5,872

4. TAXATION

(a) Taxation in the income statement represents:–

	2005 *HK$'000*	2004 *HK$'000*
Hong Kong profits tax		
– Underprovision for prior years	**–**	183
China income tax		
– Overprovision for prior year	**(39)**	–
– Provision for the year	**–**	4,606
Total tax (income)/expenses	**(39)**	4,789

No provision for Hong Kong profits tax has been made in the financial statements for the current year as the Group did not derive any assessable profits in Hong Kong for the year (2004: Nil).

China income tax has been provided on the estimated taxable income at the applicable rate.

(b) At 31 March 2005, the Group had no outstanding income tax payable (2004: HK$1,480,000).

(c) No provision for deferred taxation has been accounted for as the Group has net deferred tax assets at the balance sheet date.

5. (LOSS)/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Included in the loss of HK$50,475,000 (2004: profit of HK$12,765,000) attributable to the shareholders of the Company is a loss of HK$4,462,000 (2004: loss of HK$26,966,000) which is dealt with in the Company's own accounts.

6. (LOSS)/EARNINGS PER SHARE

The calculation of (loss)/earnings per share is based on the consolidated loss attributable to shareholders for the year of HK$50,475,000 (2004: profit of HK$12,765,000) and on the weighted average of 330,571,880 (2004: 330,571,880) shares in issue during the year. No diluted loss per share has been presented as the exercise of the Company's outstanding share options would result in a decrease in loss per share for the year. The Company had no potential dilutive ordinary shares that were outstanding for the year ended 31 March 2004.

7. DIVIDENDS

The directors do not recommend the payment of any dividends for the year (2004: Nil).

BUSINESS REVIEW

Following the gradual shift of business strategy over the past few years, the Group's main business focus is now on property development and investment with branches of manufacturing and trading of data storage media products and manufacturing and trading of wine.

During the year ended 31 March 2005, the property development and investment business contributed to approximately 76.7% of the Group's total turnover, amounting to approximately HK$50,507,000. This was mainly attributable to the sales of the remaining units of residential property in Pudong. As at 31 March 2005, 99% of the residential units in this project were sold, while all shops for commercial use were sold and accounted for in the previous years. Apart from the above, the business activities of the Group's property projects during the year mainly involved work done for adjusting the direction of development to cope with the challenges of the PRC property market. A loss of HK$4,766,000 was recorded for this business segment.

In August 2004, the Group completed the acquisition of an interest in a piece of land of about 34,947 square meters in Songjiang area in Shanghai at a consideration of RMB41,200,000. Through a wholly owned subsidiary of the Company, the acquisition was by way of investing into a 33% equity interest in a company incorporated in the PRC for carrying on business in property development in Shanghai. Save as the reasons as noted in the Company's announcement dated 8 September 2004 and interim report 2004, the development of this project has experienced further delay under the influence of the central government's macro-economic measures to regulate the overheated property market.

In February 2005, the Group completed the acquisition of a piece of land of about 44,327 square meters in Zouping County, Shangdong Province, the PRC for property development for the consideration of RMB15,292,700. Details of the transaction were set out in the Company's announcements dated 6 January 2005 and 24 February 2005 respectively. The Group incorporated a wholly owned subsidiary in Zouping County in March 2005 for this property development project. The certificate of land use right comprising approximately 34,100 square meters for residential properties and approximately 10,200 square meters for commercial properties has been granted. The project is currently in the early and preparatory stage.

The Group's data storage media products trading business recorded a turnover of approximately HK$7,631,000, which accounted for 11.6% of the total turnover. The major trading products of this business segment are micro-cassettes, 3.5" micro floppy disks, USB flash chips and other related products. The proportion of costs component accounted by plastic materials in the production of micro-cassettes and 3.5" micro floppy disks are relatively high. Revenue and profitability in this segment has been adversely affected by the increase in material costs. Owing to the vagaries of the technology and the overheated market of the USB flash chips and other related products in previous years, competition is very keen in the industry. The Group has made a provision for loss of HK$25,821,000 against the data storage media products. A loss of HK$37,566,000 was recorded for this business segment.

Turnover attributable from the subsidiary in Qingdao which is principally engaged in winery business was approximately HK$7,724,000, representing 11.7% of the total turnover. Faced with a severe competitive market environment, the wine business has been adversely affected. Provision for impairment loss of HK$3,000,000 was made against the carrying amount of machinery and moulds of the wine business. This has resulted in the loss of this business segment to HK$14,408,000.

PROSPECTS

It is expected that the Group's property development and investment business focused on mid-size projects in the PRC will be the main drivers for the year ahead. However, turnover may not return to a growth path since development projects on the acquired sites have not been commenced yet. The Group will continue to review the operating environment and its own property portfolio in the PRC so as to put the situation into context. It will maintain a flexible outlook and be receptive to the changing market condition in order to attain better returns in the future.

At the same time, the management will devote more efforts on improving the performance of the data storage media products business and the wine business. This will include measures to enhance cost control and to improve operational efficiency on the one hand and to positively respond to the market situation on the other hand.

In view of the great potential for business development in the PRC, the Group will continue to place emphasis on this market segment and to explore new business opportunities on its existing foundation.

LIQUIDITY AND FINANCIAL RESOURCES

The Group recorded a net cash outflow of approximately HK$16,032,000 during the year. At 31 March 2005, cash and bank balances of the Group amounted to approximately HK$18,707,000 (2004: HK$48,810,000). Bank and other borrowings of the Group as at the same date amounted to approximately HK$4,465,000 (2004: HK$13,900,000), which are repayable within one year.

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 fluctuation.

Shareholders' equity is HK$84,600,000 (2004: HK$135,134,000), representing a decrease of 37.4% over last year.

The Group's gearing ratio, expressed as the percentage of the Group's total borrowings over shareholders' equity, was approximately 5.27%.

ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

In March 2005, the Group set up a foreign investment enterprise in the PRC (known as 東南(山東)置業有限公司) as its wholly owned subsidiary for carrying on a property development project in Zouping, Shandong.

Dissolution of Benelux International Electronics Company Limited, an indirect subsidiary of the Company, was still proceeding in the year under review. Full provision was made in the previous year. During the year, deregistration of certain subsidiaries that had been dormant or had ceased operations were completed.

EMPLOYEE INFORMATION

At 31 March 2005, the total number of employees of the Group was approximately 295 (2004: 300). 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 2005, the Group pledged certain assets including land and buildings with an aggregate net book value of HK$7,451,000 (2004: HK$7,600,000) to secure the general banking facilities and bank loans granted to the Group.

CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

At 31 March 2005, the Group had total outstanding capital commitments of approximately HK$32,868,000 (2004: HK$36,848,000).

The Purported Guarantee (as defined in paragraph (b) under the section headed "Litigation") has been treated by the directors of the Company on ground of prudence as a contingent liability in the Company's financial statements.

LITIGATION

(a) 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.

The said monies in the bank account were funds from the sale of a piece of farm land owned by a wholly owned subsidiary Sunshine Worldwide Holdings Limited (deregistered in 2003) in Australia. The subsidiary had purchased the piece of land in Australia from a company ("the Connected Party") which was beneficially owned by a connected person of the Company under the Listing Rules. Details of the transaction had been disclosed in the Connected Transaction Announcement from the Company on 19 May 2000.

In the ex-parte application, it is alleged that the Australian authorities are investigating the original sources of funds of the Connected Party in Australia, although there is no allegation by the Australian authorities that the Company is involved in any of the transactions that are under investigation.

On 27 January 2004, the Company indicated to the Hong Kong court that the Company would oppose 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.

In April 2005, the Company made an application to the Supreme Court of New South Wales for an exclusion order to set aside the Australia order, although a date for the hearing has not been set.

Based upon the advice from Hong Kong legal counsel, the directors are of the opinion that the Australian proceedings will not have a material adverse effect on the Group in the coming year. If the Australian court order freezing the Account were to be set aside, the Hong Kong court restraining order will be also set aside and the Account will then be unfrozen. It is on the basis of this advice of the legal counsel that the directors make no provision in the accounts of the Company in respect of the Account.

(b) As noted in previous years' audited financial statements, a claim was brought against a wholly owned subsidiary of the Group, Benelux Manufacturing Limited (in liquidation) ("BML"), in July 1998 by its sub-contractor, Shenzhen Benelux Enterprise Co., Limited ("SBEC"), alleging that BML is liable for the payment of approximately HK$38 million, comprising charges in connection with the processing and assembling work rendered by SBEC and the breach of an alleged loan agreement relating to certain alleged letters of credit. During the course of exchanging exhibits in the proceedings initiated by SBEC, the Company was first aware of SBEC's allegation that a guarantee was purportedly granted by the Company to SBEC in respect of the alleged BML's indebtedness to SBEC (the "Purported Guarantee") in/around January 1999. Notwithstanding that, SBEC has not initiated any proceedings against the Company based on the Purported Guarantee.

On 9 March 2005, the Company received a writ of summons served by Shenzhen Intermediate People's Court. The claimant 深圳市中朗科技發展有限公司 ("SZL") claims to have the right over the alleged BML's indebtedness to SBEC and the Purported Guarantee. SZL alleged that BML is liable to them in the amount of around HK$36 million and the Company for acceptance of joint and several liabilities thereof.

Provisional liquidators were appointed on 25 August 1999 by the High Court following a petition by SBEC for the winding up of BML. BML was put into compulsory liquidation subsequently on 28 April 2000.

The directors, after seeking legal advice, are of the opinion that the liquidation of BML and the claim served by SZL will not have a material adverse effect on the Group in the coming year. The investments in BML and the amounts due from BML brought forward had been fully provided for in the previous years.

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

PURCHASE, SALE AND REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee has reviewed with the management and the Company's auditors the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including review of the annual results of the Group for the year ended 31 March 2005.

CODE OF BEST PRACTICE

The Company has complied throughout the year ended 31 March 2005 with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, which was in force prior to 1 January 2005 and remains applicable to the year under review.

The term of office for the Non-executive Directors of the Company is subject to retirement by rotation and re-election at the annual general meetings in accordance with the Bye-laws of the Company.

PUBLICATION OF FURTHER INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

All the financial and other related information of the Company required by paragraphs 45(1) to 45(3) of Appendix 16 (which was in force prior to 31 March 2004 and remains applicable to results announcement in respect of accounting periods commencing before 1 July 2004 under certain transitional arrangements) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Exchange") will be published on the Exchange's website in due course.

At the request of the Company, trading of the Company's shares on the Stock Exchange was suspended with effect from 9:30 a.m. on 29 July 2005 pending publication of this annual results announcement. The Company has applied for resumption of trading of its shares on the Stock Exchange with effect from 9:30 a.m. on 22 August 2005.

By order of the Board
KWAN Kei Chor, Samuel
Director

Hong Kong, 19 August 2005

The directors of the Company as at the date of this announcement are Mr. Budiman Rahardja (Chairman) and Mr. Kwan Kei Chor, Samuel as executive directors; Mr. Chen Zhi Yung as non-executive director; and Mr. Lo Yuk Lam, Mr. Wong Kam Wah and Mr. Ng Chun Hung, Lawrence as independent non-executive directors.

* *For identification purpose only*

Please also refer to the published version of this announcement China Daily.