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 2006

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 2006 with comparative figures for the previous corresponding year as follows:

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2006

	NOTE	**2006** *HK$'000*	2005 *HK$'000*
TURNOVER	*2*	**17,778**	65,862
COST OF INVENTORIES SOLD		**(19,687)**	(88,320)
GROSS LOSS		**(1,909)**	(22,458)
OTHER REVENUES	*2*	**612**	501
SELLING AND DISTRIBUTION COSTS		**(4,011)**	(9,400)
ADMINISTRATIVE EXPENSES		**(11,408)**	(24,882)
CLAIM SETTLEMENT		**(3,108)**	—
BAD DEBT WRITTEN OFF		**(2,755)**	—
LOSS FROM OPERATIONS		**(22,579)**	(56,239)
FINANCE COSTS	*4*	**(447)**	(270)
LOSS BEFORE TAXATION		**(23,026)**	(56,509)
TAXATION	*5*	**(179)**	39
LOSS FOR THE YEAR		**(23,205)**	(56,470)
Attributable to:			
Equity holders of the Company		**(20,764)**	(50,475)
Minority interests		**(2,441)**	(5,995)
		(23,205)	(56,470)
DIVIDENDS			
Proposed final		**—**	—
LOSS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY			
Basic and diluted (Cents)	*6*	**(6.3)**	(15.3)

CONSOLIDATED BALANCE SHEET
AT 31 MARCH 2006

	NOTE	2006 HK$'000	2005 HK$'000 (restated)
NON-CURRENT ASSETS			
Property, plant and equipment			
— Other property, plant and equipment		**10,768**	12,321
— Interests in leasehold land held for own use under operating leases		**2,085**	2,093
		12,853	14,414
Interest in a jointly controlled entity		**36,909**	5,991
Available-for-sale investments		**964**	964
Properties under development		**24,133**	15,670
		74,859	37,039
CURRENT ASSETS			
Deposits paid		**—**	32,868
Inventories		**8,593**	20,986
Trade and other receivables	*7*	**10,125**	8,348
Cash and cash equivalents		**10,530**	18,707
		29,248	80,909
CURRENT LIABILITIES			
Trade and other payables	*8*	**28,469**	25,304
Bank loan, secured		**4,560**	4,465
Amount due to a director		**4,408**	—
		37,437	29,769
NET CURRENT (LIABILITIES)/ASSETS		**(8,189)**	51,140
NET ASSETS		**66,670**	88,179
CAPITAL AND RESERVES			
Share capital		**33,057**	33,057
Reserves		**32,422**	51,543
SHAREHOLDERS' FUNDS		**65,479**	84,600
MINORITY INTERESTS		**1,191**	3,579
		66,670	88,179

Notes:

1. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In 2005, the Hong Kong Institute of Certified Public Accountants has issued a number of new and revised Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKAS") and Interpretations ("HK(SIC)-Int") (collectively the "HKFRSs") that are applicable to companies with accounting periods beginning on or after 1 January 2005. The Group has adopted the new HKFRSs as they are relevant to its operations. The applicable HKFRSs are set out below:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payments
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 12, 16, 17, 18, 19, 21, 23, 24, 27, 31, 33, 36, 37 and 38 did not result in substantial changes to the Group's accounting policies. In summary:

— HKAS 1 has affected the presentation of the financial statements, minority interests and other disclosures.

— HKAS 24 has affected the identification of related parties and some other related party disclosures.

— HKASs 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 23, 24, 27, 31, 33, 36, 37 and 38 have no material effect on the Group's accounting policies.

The adoption of HKASs 32 and 39 has resulted in a change in accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. In prior years, the other investments were stated at cost less accumulated impairment losses.

The adoption of HKFRS 2 has resulted in a change in accounting policy for share-based payments. Until 31 December 2004, the provision of share options to employees did not result in an expense in the income statement. Effective on 1 April 2005, the Group charged the cost of share options to the income statement. As a transitional provision, the cost of share options granted after 7 November 2002 and had not yet vested on 1 April 2005 was expensed retrospectively in the income statement of the respective periods.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All the standards adopted by the Group require retrospective application other than:

— HKAS 1 — it had affected the presentation of minority interests. In the consolidated balance sheet, minority interests are now shown within total equity. In the consolidated income statement, minority interests are presented as an allocation of the total loss for the year.

— HKAS 17 — the Group's leasehold interest in land and buildings is separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to be passed to the Group by the end of the lease term, and is reclassified from property, plant and equipment to prepaid leasehold land, while leasehold buildings continue to be classified as part of property, plant and equipment. Prepaid leasehold land is initially stated at cost and subsequently amortised on the straight-line basis over the lease term. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

— HKAS 39 — does not permit to recognise, derecognise or measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous Statement of Standard Accounting Practice ("SSAP") 24 "Accounting for investments in securities" to investments in securities for the comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised at 1 April 2005.

— HKFRS 2 — only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 January 2005. Since the effect of the share-based payment for the year ended 31 March 2005 is immaterial, no prior year adjustment has been suggested.

The adoption of these new policies does not have a significant impact on the Group's results for the year except a change in the classification of the Group's property, plant and equipment and long-term investments in the consolidated balance sheet. The restated comparatives on the consolidated balance sheet for the year ended 31 March 2005 to reflect the reclassification of non-current assets are as follows:

Non-current assets	**As at 31 March 2005 (originally stated)**	**Adjustments**	**As at 31 March 2005 (restated)**
	HK$'000	*HK$'000*	*HK$'000*
Land and buildings	7,619	(7,619)	—
Land and buildings held for own use	—	5,526	5,526
Prepaid leasehold land	—	2,093	2,093
Long-tem investments	964	(964)	—
Available-for-sale investments	—	964	964

2. TURNOVER AND REVENUES

The Group engages in the manufacturing and selling of data storage media products, property holding and developing, wine producing, investing and related services. Revenues recognised during the year are as follows:

	2006	2005
	HK$'000	*HK$'000*
Turnover		
Sales of data storage media products	**5,062**	7,631
Sales of property under development	**8,240**	50,507
Sales of wine	**4,476**	7,724
	17,778	65,862
Other revenues		
Interest income	**77**	357
Sundry income	**535**	144
	612	501
Total revenues	**18,390**	66,363

3. SEGMENT INFORMATION

	2006		2005	
		Contribution to operating profit/(loss)		Contribution to operating profit/(loss)
	Turnover		Turnover	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
By principal activities:				
— Sales of data storage media products and related equipment	**5,062**	**(9,115)**	7,631	(37,566)
— Sales of property under development	**8,240**	**(9,312)**	50,507	(4,766)
— Sales of wine	**4,476**	**(4,764)**	7,724	(14,408)
	17,778	**(23,191)**	65,862	(56,740)
Other revenue		**612**		501
		(22,579)		(56,239)
By geographical markets				
— Hong Kong	**16**	**(2,345)**	219	(4,849)
— The United States of America and Canada	**1,128**	**(1,963)**	2,006	(1,499)
— The People's Republic of China	**16,283**	**(15,164)**	63,003	(50,011)
— Australia and New Zealand	**—**	**(3,108)**	—	93
— Others	**351**	**(611)**	634	(474)
	17,778	**(23,191)**	65,862	(56,740)
Other revenue		**612**		501
		(22,579)		(56,239)

	2006	2005
	HK$'000	*HK$'000*
Assets		
Segment assets		
— Sales of data storage media products and related equipment	**2,772**	12,569
— Sales of property under development	**74,016**	71,375
— Sales of wine	**19,877**	25,537
— Unallocated corporate assets	**7,442**	8,467
	104,107	117,948
Liabilities		
Segment liabilities		
— Sales of data storage media products and related equipment	**2,900**	2,910
— Sales of property under development	**10,284**	8,338
— Sales of wine	**18,595**	17,187
— Unallocated corporate liabilities	**5,658**	1,334
	37,437	29,769
Net assets	**66,670**	88,179

4. FINANCE COSTS

	2006	2005
	HK$'000	*HK$'000*
Interest on bank overdraft and bank loan repayable within five years	**349**	270
Interest on other loan without fixed repayment term	**98**	—
	447	270

5. TAXATION

Taxation in the income statement represents: -

	2006	2005
	HK$'000	*HK$'000*
PRC income tax		
— Under/(over)provision for prior year	**51**	(39)
— Provision for the year	**128**	—
Total tax expenses/(income)	**179**	(39)

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 (2005 : Nil).

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

6. LOSS PER SHARE

The calculation of loss per share is based on the consolidated loss attributable to shareholders for the year of HK$20,764,000 (2005: HK$50,475,000) and on the weighted average of 330,571,880 (2005: 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 both years.

7. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables of HK$505,000 (2005 : HK$1,704,000). The Group maintains a defined credit policy.

For sales of data storage media products and wine, the Group allows an average credit period of 30 days to 90 days to its customers. The aged analysis of trade receivables at the balance sheet date is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Less than 30 days	**117**	830
1 to 3 months	**68**	801
Over 3 months	**320**	73
	505	1,704

8. TRADE AND OTHER PAYABLES

Included in the trade and other payables are trade payables of HK$6,707,000 (2005 : HK$5,674,000). The aged analysis of trade payables at the balance sheet date is as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Less than 30 days	**184**	2,810
1 to 3 months	**807**	37
Over 3 months	**5,716**	2,827
	6,707	5,674

RESULTS

For the year ended 31 March 2006, the Group's turnover amounted to approximately HK$ 17,778,000, compared to HK$65,862,000 reported in the preceding year. The Group reported a loss attributed to shareholders for the year at approximately HK$20,764,000, representing a drop of HK$29,711,000 as compared with last year. The loss included allowances for bad debts, and the provision for loss on settlement of legal proceedings.

BUSINESS REVIEW

During the year under review, property development and investment was still the Group's core business segment, while the Group continued the businesses of manufacturing and trading of data storage media products and manufacturing and trading of wine.

During the year ended 31 March 2006, the property development and investment business contributed to approximately 46.3% of the Group's total turnover, amounting to approximately HK$8,240,000. This was mainly attributable to the sales of the remaining units of the residential property in the Pudong project and commercial units in the Zouping project. As at 31 March 2006, all residential units in the Pudong project were sold out, while all shops for commercial use were sold and accounted for in the previous years. There are 55 car parks remaining for sale. The activities of the Group's property projects were maintained at a modest level during the year, which included work done for adjusting the direction of development to cope with the challenges of the PRC property market. A loss of HK$9,312,000 was recorded for this business segment.

The development of the Group's property located in Song Jiang District in Shanghai is affected by the PRC partners' approach towards whether to pursue development or to dispose of the vacant site in the market, taking into consideration of the influence of the central government's macro-economic measures to regulate the overheated property market. The development of this project has been delayed as a result.

The Group incorporated a wholly owned subsidiary in Zouping County in March 2005 for the property development project. Construction and sales has commenced in the commercial units. Construction is expected to complete in August 2006. Nearly 40% of the commercial units have been sold as of March 31st 2006. The residential portion is currently under its preparatory stage. The Group is exploring several options in regards to the residential plot, including the introduction of strategic partners to co-develop the land.

The Group's data storage media products trading business recorded a turnover of approximately HK$5,062,000, which accounted for 28.5% of the total turnover. A loss of HK$9,115,000 was recorded for this business segment.

Turnover attributable from the subsidiary in Qingdao which is principally engaged in winery business was approximately HK$4,476,000, representing 25.2% of the total turnover. The operating environment for the Group's wine business still remained tough during the year under review. A loss of this business segment to HK$4,764,000.

PROSPECTS

It is expected that property development and investment in the PRC markets will continue to be the Group's core business. As the economy in the PRC continues to sustain growth, the Group will endeavour to capitalize on the business opportunities available there. On the other hand, it will take a cautious and prudent approach in adjusting its existing business and future investment strategies taking into consideration of the macro-control taken out by the central government to cool off the overheated property market.

The Group will maintain the data storage media products business and the wine business for the coming year, if no adverse factors occur. It will continue to take measures to control costs and to improve efficiency in these areas of business.

LIQUIDITY AND FINANCIAL RESOURCES

The Group recorded a net cash outflow of approximately HK$8,233,000 during the year. At 31 March 2006, cash and bank balances of the Group amounted to approximately HK$10,530,000 (2005: HK$18,707,000). Bank and other borrowings of the Group as at the same date amounted to approximately HK$4,560,000 (2005: HK$4,465,000), 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$65,479,000 (2005: HK$84,600,000), representing a decrease of 22.6% over last year.

The Group's gearing ratio, expressed as the percentage of the Group's total borrowings over shareholders' equity, was approximately 6.96%.

EMPLOYEE INFORMATION

At 31 March 2006, the total number of employees of the Group was approximately 265 (2005: 295). 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 2006, the Group pledged certain assets including land and buildings with an aggregate net book value of HK$7,436,000 (2005: HK$7,451,000) to secure the general banking facilities and bank loans granted to the Group.

CAPITAL COMMITMENT AND CONTINGENT LIABILITIES

At 31 March 2006, the Group had no outstanding capital commitments (2005: HK$32,868,000).

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

LITIGATION

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 ("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.

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.

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.

On 22 June 2006, a hearing was held in the Shenzhen Intermediate People's Court (the "Court") for the purpose of the litigation. SZL aggrandized for relief and appealed for additional RMB35 million which included the interest of capital sum of the case from 1 October 1997 to 18 November 2004 (based on their claim). During the hearing, the parties exchanged their exhibits and defended themselves at the Court, and the Court did not award any judgement thereto. According to the legal advice, the case was in the first instance and would not be settled within 2006.

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 the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters for the year ended 31 March 2006.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has met the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 31 March 2006 except the deviations as disclosed in the interim report of the Company for the six months ended 30 September 2005 (save for the change as stated below):

Under Code Provision B.1.1, the Company should establish a remuneration committee with terms of reference which deal clearly with its authority and duties. A majority of the members of the remuneration committee should be independent non-executive directors. The Company set up a remuneration committee in accordance with the relevant requirements of the Code on 31 March 2006. The committee comprises three members, including two independent non-executive directors namely Mr. Lo Yuk Lam and Mr. Wong Kam Wah and one non-executive director namely Mr. Chen Zhi Yung.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by directors of the Company (the "Code of Conduct"). The Company has made specific enquiry to all directors that they have compiled with the Code of Conduct throughout the year ended 31 March 2006.

PUBLICATION OF FINANCIAL INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

All the information required by the Listing Rules will be published on the Stock Exchange's website in due course.

By order of the Board
SOUTH EAST GROUP LIMITED
Budiman Rahardja
Chairman

25 July 2006

The directors of the Company as at the date of this announcement are Mr. Budiman Rahardja (Chairman) as executive director; 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 in The Standard.