THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in South East Group Limited, you should at once hand this circular together with the enclosed form of proxy to the purchaser or the transferee or to the bank or stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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

(Incorporated in Bermuda with limited liability)

(Stock Code: 726)

VERY SUBSTANTIAL DISPOSAL

REALIZATION OF INTERESTS IN A JOINTLY CONTROLLED ENTITY

AND

AMENDMENTS TO THE BYE-LAWS

A notice convening a special general meeting of South East Group Limited to be held at Rooms 02-03, 9th Floor, Wyndham Place, 44 Wyndham Street, Central, Hong Kong on 28 November 2006 at 10:00 a.m. is set out on pages 90 to 93 of this circular. A form of proxy for use in the special general meeting is enclosed. Whether or not you are able to attend and vote at the special general meeting, you are requested to complete and return the enclosed proxy form in accordance with the instructions printed thereon and return it to the Company at its principal place of business at Rooms 02-03, 9th Floor, Wyndham Place, 44 Wyndham Street, Central, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the special general meeting or any adjourned meeting thereof. Completion and return of the proxy form shall not preclude you from attending and voting in person at the special general meeting or any adjourned meeting thereof should you so wish.

13 November 2006

* *For identification purposes only*

CONTENTS

In this circular, the following expressions shall have the following meanings unless the context requires otherwise:

"Adjacent Land"	a piece of land of approximately 70,952 square metres adjacent to the Property and is owned by Ying Zhi Lun, of which Heng Fa and Jin Yun had, before the Transfer, the right of development, accordingly should bear all development costs incurred and receive all revenues derived therefrom
"Board"	the board of Directors
"BPDL"	Benelux Property Development (Shanghai) Limited, a wholly owned subsidiary of the Company
"Bye-Laws"	the bye-laws of the Company, as from time to time altered
"Company"	South East Group Limited, a company incorporated in Bermuda with limited liability whose shares are listed on the Stock Exchange
"Companies Act"	the Companies Act 1981 of Bermuda
"Directors"	the directors of the Company
"First Candidate"	the bidder listed as the first candidate for winning the tender of 35% equity interest in Ying Zhi Lun owned by Heng Fa
"Fung Dao"	上海豐道投資管理有限公司(Shanghai Fung Dao Investment Management Limited)
"Group"	the Company and its subsidiaries
"Heng Fa"	上海浦東恒發房地產開發公司(Shanghai Pudong Heng Fa Property Development Company), being a state-owned enterprise and having a 35% equity interest in Ying Zhi Lun before the Transfer. To the best knowledge of the Directors and having made all reasonable enquiries, it and its ultimate beneficial owners are independent of the Company and connected persons (as defined under the Listing Rules) of the Company, save as its interest in Ying Zhi Lun
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC

"Jin Yun"	上海金韻房地產發展有限公司 (Shanghai Jin Yun Property Development Limited) having a 32% equity interest in Ying Zhi Lun before the Transfer. To the best knowledge of the Directors and having made all reasonable enquiries, it and its ultimate beneficial owners are independent of the Company and connected persons (as defined under the Listing Rules) of the Company, save as its interest in Ying Zhi Lun
"Latest Practicable Date"	10 November 2006, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange
"Lot"	a vacant site of approximately 105,899 square metres situated in Songjiang District, Shanghai, the PRC (consists of the Property and the Adjacent Land) known as Shanghai Songjiang District Song Xin Jian Lot. No. 19-2 (上海市松江區松新建19-2號地塊) owned by Ying Zhi Lun as evidenced by the Shanghai Certificate of Real Estate Ownership (上海市房地產權證) issued by Shanghai Housing and Land Resources Administration Bureau (上海市房屋土地資源管理局) on 5 September 2005
"Realization"	the realization of interests in Ying Zhi Lun (including the 33% equity interest and the shareholder's loan contributed by BPDL) by BPDL pursuant to the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement
"Remaining Group"	the Group remained subsequent to the Realization
"PRC"	the People's Republic of China
"Property"	a parcel of land of approximately 34,947 square metres, which forms an integral part of the Lot, with its right of development obtained by BPDL through acquisition of a 33% equity interest in Ying Zhi Lun in October 2003, which has not been developed since its acquisition.

"SGM"	the special general meeting of the Company to be convened on 28 November 2006 to consider and, if thought fit, (i) confirm and ratify the Realization pursuant to the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement and the transactions contemplated thereunder and (ii) approve the proposed amendments to the Bye-Laws
"Shareholder(s)	registered holder(s) of the shares of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Transfer"	the transfer of equity interest in Ying Zhi Lun from the Transferors to the Transferees on 17 October 2006 pursuant to the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement
"Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement"	a conditional agreement entered into on 26 May 2006 by BPDL together with Heng Fa and Jin Yun with the Transferees for transferring the ownership of the 100% equity interest in and the entire shareholders' loan advanced to Ying Zhi Lun
"Transferees"	the transferees as referred to in the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement, being Zhong Cheng and Fung Dao
"Transferors"	the transferors as referred to in the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement, being Heng Fa, BPDL and Jin Yun
"Ying Zhi Lun"	上海英之倫房地產發展有限公司(Shanghai Ying Zhi Lun Property Development Limited), a company incorporated in Shanghai, the PRC, mainly engaged in property development, and owned as to 35% by Heng Fa, 33% by BPDL and 32% by Jin Yun immediately before the Transfer, and is owned as to 90% by Zhong Cheng and 10% by Fung Dao immediately thereafter
"Zhong Cheng"	浙江中成建工集團有限公司(Zheijiang Zhong Cheng Jian Gong Group Limited)
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"RMB"	Renminbi, the lawful currency of the PRC
"%"	Per cent.

If there is any inconsistency between the Chinese names of the PRC entities and their English translations, the Chinese version shall prevail.

SOUTH EAST GROUP LIMITED
（東南國際集團有限公司）*
(Incorporated in Bermuda with limited liability)
(Stock Code: 726)

Executive Director:
Budiman Rahardja *(Chairman)*

Non-executive Directors:
Chen Zhi Yung
Lo Yuk Lam*
Wong Kam Wah*
Ng Chun Hung, Lawrence*

** Independent non-executive director*

Registered Office:
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Principal Place of Business:
Rooms 02-03, 9th Floor
Wyndham Place
44 Wyndham Street
Central, Hong Kong

13 November 2006

To the shareholders for information only

Dear Sir or Madam,

VERY SUBSTANTIAL DISPOSAL
REALIZATION OF INTERESTS IN A JOINTLY CONTROLLED ENTITY
AND AMENDMENTS TO BYE-LAWS

INTRODUCTION

The Company announced on 23 August 2006 that, BPDL (a wholly owned subsidiary of the Company) together with Heng Fa and Jin Yun entered into the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement with the Transferees for transferring the ownership of the 100% equity interest in and the entire shareholders' loan advanced to Ying Zhi Lun. BPDL held a 33% equity interest in Ying Zhi Lun before the Transfer, which was therefore a jointly controlled entity of the Group.

The Company further announced on 26 September 2006 that Zhong Cheng has won the tender of Heng Fa's 35% equity interest in Ying Zhi Lun, so that the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement could proceed further. Accordingly, BPDL has proceeded with the Realization pursuant to the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement.

** For identification purposes only*

The Realization pursuant to the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement constitutes a very substantial disposal of the Company pursuant to Rule 14.06(4) of the Listing Rules and should have been subject to prior shareholders' approval.

At the SGM, a proposal to amend the Bye-Laws to keep them in line with certain amendments made in February 2006 by the Stock Exchange to the Listing Rules will also be put forward to the Shareholders for approval.

The purpose of this circular is to provide the Shareholders with further information relating to, amongst other things, the Realization pursuant to the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement; other disclosures in such regard as required under the Listing Rules in respect of a very substantial disposal; the amendments to the Bye-laws and a notice of the SGM to be convened to consider and, if thought fit, to confirm and ratify the Realization pursuant to the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement and the transactions contemplated thereunder and to approve the amendments to the Bye-laws.

THE REALIZATION

Reference is made to the Company's announcements dated 29 October 2003 and 8 September 2004 respectively, and a circular to the Shareholders dated 19 November 2003 in relation to the acquisition of 33% equity interest in Ying Zhi Lun by BPDL for the purpose of acquiring the right of the Property. BPDL invested in Ying Zhi Lun a total amount of RMB41,200,000 pursuant to the Transfer of Equity Interest Agreement and the Supplemental Agreement, both dated 23 October 2003, by paying the consideration for the 33% equity interest in Ying Zhi Lun and by contributing to Ying Zhi Lun for the acquisition of the Property. Under the provisions of the Supplemental Agreement dated 23 October 2003, BPDL shall bear all development costs incurred from the development of the Property and receive all revenues from the unit sales of the residential buildings constructed thereon. On the other hand, BPDL shall not be responsible for the development of the Adjacent Land, nor be entitled to share any profits attributable thereto.

The Group initially proposed to be engaged in the development of certain residential properties on the Property. Development of the Property has been delayed for the reasons set out in the section headed "Reasons for the Realization pursuant to the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement". The Property has not been developed since its acquisition, therefore no profits attributable to the Property have been recorded. Because of the change in intention of Heng Fa and Jin Yun of developing the Lot held by Ying Zhi Lun, BPDL had to change its plan for developing the Property such that the Property was held for re-sale rather than for development.

Pursuant to the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement, the asset to be disposed of by BPDL is its 33% equity interest in Ying Zhi Lun and the shareholder's loan owing by Ying Zhi Lun to BPDL amounting to RMB35,800,000, being the balance as at 31 December 2005 according to the latest audited accounts of Ying Zhi Lun for the year ended 31 December 2005, at a total consideration of RMB46,822,105 (equivalent to approximately HK$45,417,000). Details of Ying Zhi Lun and of the Property are set out in the sections headed "Information on Ying Zhi Lun" and "Information on the Property" respectively in this circular.

The Directors propose to seek the Shareholders' approval of the ordinary resolution (Resolution No. 1 as set out in the notice of the SGM contained in this circular), confirming and ratifying the Realization pursuant to the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement and the transactions contemplated thereunder.

THE TRANSFER OF OWNERSHIP OF EQUITY INTEREST AND SHAREHOLDERS' LOAN AGREEMENT

Date: 26 May 2006

Parties:

(1) 上海浦東恒發房地產開發公司 (Shanghai Pudong Heng Fa Property Development Company)

(2) Benelux Property Development (Shanghai) Limited

(3) 上海金韻房地產發展有限公司 (Shanghai Jin Yun Property Development Limited)

of the part of Transferors; and

(1) 浙江中成建工集團有限公司 (Zhejiang Zhong Cheng Jian Gong Group Limited)

(2) 上海豐道投資管理有限公司 (Shanghai Fung Dao Investment Management Limited)

of the part of Transferees

To the best knowledge of the Directors and having made all reasonable enquiries, the Transferees and their ultimate beneficial owners are not connected persons (as defined under the Listing Rules) of the Company and are third parties independent of the Company and connected persons of the Company.

BPDL is a wholly foreign-owned enterprise established under the laws of the PRC, which is a wholly owned subsidiary of the Company, and is principally engaged in property development and investment in the PRC. To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, Heng Fa and Jin Yun are both principally engaged in property development in the PRC, while Zhong Cheng is principally engaged in the construction business and Fung Dao is principally engaged in property development and investment in the PRC.

General nature of the transaction:

Pursuant to the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement, the Transferors will dispose of and the Transferees will acquire the 100% equity interest in and the entire shareholders' loan of RMB106,158,000 advanced to Ying Zhi Lun (by Heng Fa, BPDL and Jin Yun in the amounts of RMB37,184,000, RMB35,800,000 and RMB33,174,000 respectively, being the balances as at 31 December 2005 according to the latest audited accounts of Ying Zhi Lun for the year ended 31 December 2005, which were prepared under the PRC accounting standards), which has acquired the rights of the Lot (BPDL is beneficially interested in the Property which represents approximately one-third of the Lot). The balance of shareholder's loan advanced by BPDL to Ying Zhi Lun amounted to RMB35,800,000 as at 31 August 2006. The net book value of the Lot was approximately RMB107,985,200 whereas the development costs amounted to RMB2,154,650 as at 31 December 2005 according to the audited accounts of Ying Zhi Lun for the year ended 31 December 2005. Ying Zhi Lun has recorded no income or expenses since its incorporation up to 31 December 2005.

Ying Zhi Lun was incorporated on 29 April 2003 in the PRC and is principally engaged in the business of property development in the PRC. Its net asset value at 31 December 2005 amounted to approximately RMB8 million according to its latest audited accounts for the year ended 31 December 2005. As there has been no development on the Lot, there has been no profit or loss since its incorporation. Ying Zhi Lun does not have any subsidiaries, associated companies or investments (save for the investment in the Lot). Except for the interest in the Lot, Ying Zhi Lun is not holding other major assets.

Consideration:

The consideration of RMB141,376,500 in cash (of which BPDL will be entitled to RMB46,822,105 (equivalent to approximately HK$45,417,000)) will be payable by the Transferees to the Transferors for the 100% equity interest in and the entire shareholders' loan advanced to Ying Zhi Lun. The consideration was arrived at after arm's length negotiations between the parties to the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement with reference to the net assets value of Ying Zhi Lun as at 31 December 2005 according to its latest audited accounts for the year ended 31 December 2005. RHL Appraisal Limited, an independent property valuer, has valued the Lot on market value basis in the existing state as at 30 September 2006 for RMB140,000,000. The consideration of RMB141,376,500 under the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement represents an approximately 1% premium to the latest independent valuation of the Lot as at 30 September 2006. BPDL is entitled to the consideration (including the premium) in such amount which is proportionate to its shareholding in Ying Zhi Lun.

Payment Terms:

A 10% deposit had been paid by the Transferees to Shanghai Notary Public Office (上海市公證處) as stakeholders upon signing of the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement. Given that the transaction certificate (產權交易憑證) in respect of the transfer of 35% equity interest in Ying Zhi Lun from Heng Fa to Zhong Cheng was issued by Shanghai United Assets and Equity Exchange (上海聯合產權交易所) on 25 September 2006, the balance of 90% was paid by the Transferees to Shanghai Notary Public Office (上海市公證處) as stakeholders on 12 October 2006.

If the conditions precedent have been fulfilled, the consideration of RMB141,376,500 (of which BPDL will be entitled to RMB46,822,105 (equivalent to approximately HK$45,417,000)) will be released to the Transferors upon completion of the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement, subject to the following:

(i) the granting of a two-year guarantee (from the date of issuance of a new business licence of Ying Zhi Lun to the Transferees) for any undisclosed liabilities of Ying Zhi Lun by the Transferors severally in accordance with their percentage ratios of equity interest in Ying Zhi Lun immediately before the equity transfer pursuant to the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement, and

(ii) the granting of a two-year guarantee (from the date of issuance of a new business licence of Ying Zhi Lun to the Transferees) for any undisclosed liabilities of Ying Zhi Lun separately by the respective guarantors nominated by each of Heng Fa, BPDL and Jin Yun to accept liabilities of any possible claims made by the Transferees to the extent in accordance with the percentage ratios of equity interest in Ying Zhi Lun in which each of the Transferors was interested in immediately before the equity transfer pursuant to the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement. As in the case for BPDL, the Company will provide guarantee to the Transferees to an extent up to 33% of any possible claims made by the Transferees.

The conditions precedent as set out on the section headed "conditions precedent" below had been satisfied. Accordingly, BPDL received the consideration of RMB46,822,105 (equivalent to approximately HK$45,417,000) on 24 October 2006 pursuant to the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement.

Conditions precedent:

The Transfer of Ownership of Equity Interest and Shareholders" Loan Agreement is conditional upon, inter alia, (i) the approval from State-owned Assets Administration Office of Shanghai Municipal Government (上海市國有資產管理辦公室) authorizing Heng Fa (one of the Transferors), being a state-owned enterprise, to pursue with the transactions contemplated under the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement and (ii) no tender other than from Zhong Cheng (one of the Transferees) is received during the period when 35% equity interest in Ying Zhi Lun owned by Heng Fa is offered for sale on the Shanghai United Assets and Equity Exchange (上海聯合產權交易所). Heng Fa obtained the necessary approval from the State-owned Assets Administration Office of Shanghai Municipal Government (上海市國有資產管理辦公室) on 11 July 2006. The 35% equity interest in Ying Zhi Lun owned by Heng Fa was put on tender on the United Assets and Equity Exchange (上海聯合產權交易所) from 13 July 2006 up to and including 11 August 2006. If no tender other than from Zhong Cheng is received during the tender period, the agreement will become unconditional after the expiry of the tender period.

Tender result:

Despite that tender was also received from the First Candidate, Zhong Cheng ultimately won the tender of Heng Fa's 35% equity interest in Ying Zhi Lun and was granted a transaction certificate (產權交易憑證) by Shanghai United Assets and Equity Exchange (上海聯合產權交易所) in such regard on 25 September 2006. Since Zhong Cheng has won the tender of the Heng Fa's 35% equity interest in Ying Zhi Lun, the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement has become unconditional and could proceed further according to the terms and conditions contained therein.

Completion of the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement took place after obtaining confirmation from Shanghai Administration for Industry and Commerce (上海市工商行政管理局) in respect of the transfer of 100% equity interest in Ying Zhi Lun from the Transferors to the Transferees. Such confirmation was obtained and, accordingly, the 100% equity interest in Ying Zhi Lun was transferred from the Transferors to the Transferees (which resulted in Ying Zhi Lun being owned as to 90% by Zhong Cheng and 10% by Fung Dao) on 17 October 2006.

INFORMATION ON YING ZHI LUN

Ying Zhi Lun was incorporated on 29 April 2003 in Shanghai, the PRC, which was owned as to 35% by Heng Fa, 33% by BPDL and 32% by Jin Yun immediately before the Transfer, and is owned as to 90% by Zhong Cheng and 10% by Fung Dao immediately thereafter. Both of Heng Fa and Jin Yun are companies incorporated in the PRC, the former is also a state-owned enterprise. To the best knowledge of the Directors and having made all reasonable enquiries, both of Heng Fa and Jin Yun and their ultimate beneficial owners are independent of the Company and connected persons (as defined under the Listing Rules) of the Company, save as its interest in Ying Zhi Lun.

Ying Zhi Lun is principally engaged in property development in the PRC. Its registered capital amounting to RMB8,000,000. Ying Zhi Lun is interested in the land use right of the Lot. Based on the valuation report prepared by RHL Appraisal Limited, an independent property valuer, the market value of the Lot as at 30 September 2006 amounted to RMB140,000,000. As there has been no development on the Lot, there has been no profit and loss since its incorporation. Except for the interest in the Lot, Ying Zhi Lun is not holding other major assets.

INFORMATION ON THE PROPERTY

The Property is a parcel of land of approximately 34,947 square metres, which forms an integral part of the Lot. The right of development of the Property was obtained by BPDL at an aggregate consideration of RMB41,200,000 in October 2003 by way of acquisition of a 33% equity interest in Ying Zhi Lun and contribution to Ying Zhi Lun for the acquisition of the Property. The Property has not been developed since its acquisition.

The Property has been valued by Shanghai Urban & Rural Assets Appraisal Co., Ltd., a professional property valuer and is independent of the Company, the Transferors and the Transferees, at approximately HK$42,000,000 on an open market basis as at 31 March 2006. The audited net book value of BPDL's interest in Ying Zhi Lun as at 31 March 2006 was approximately HK$36,909,000 (including the 33% equity interest and the shareholder's loan contributed by BPDL) according to the Company's latest audited accounts for the year ended 31 March 2006. Based on the consideration of RMB46,822,105 (approximately HK$45,417,000) to be received by BPDL from realization of its 33% equity interest in and shareholder's loan advanced to Ying Zhi Lun, it is estimated that a net gain of approximately RMB8.3 million (approximately HK$8 million) will be recognized by the Group from the Realization under the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement.

REASONS FOR THE REALIZATION PURSUANT TO THE TRANSFER OF OWNERSHIP OF EQUITY INTEREST AND SHAREHOLDERS' LOAN AGREEMENT

Because of the change in the operating environment and the property market in Shanghai, the development of the Lot, and hence the Property, has experienced delay. There was also disagreement between shareholders of Ying Zhi Lun on the direction of the project in regards to construction and sales. Affected by the decision of Heng Fa and Jin Yun to dispose of the Adjacent Land by way of transferring their ownership of the 67% equity interest in and shareholders' loan advanced to Ying Zhi Lun, it has become not practicable for BPDL to develop the Property on its own because only one single title deed was issued to the Lot. To resolve the deadlock situation, BPDL together with Heng Fa and Jin Yun entered into the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement on 26 May 2006 with the Transferees for transferring the ownership of the 100% equity interest in and the entire shareholders' loan advanced to Ying Zhi Lun, in which BPDL holds a 33% equity interest and is a jointly controlled entity of the Company. The Directors consider that it is a good opportunity for the Group to realize its investment in Ying Zhi Lun under such circumstances.

The Directors are also of the view that the Realization pursuant to the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement will provide the Group with additional liquidity to capitalize on other business opportunities available. Having regard to the consideration of RMB46,822,105 (equivalent to approximately HK$45,417,000) that BPDL will be entitled to and the expected gain of approximately RMB8.3 million (approximately HK$8 million) arising therefrom, the Directors consider that the Realization pursuant to the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement and the transactions contemplated thereunder are on normal commercial terms, and are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

PROPOSED USE OF PROCEEDS

At this stage, it is estimated that the net proceeds from the Realization pursuant to the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement will be used as to 20% for the Group's general working capital and 80% for investments when the Group identifies new business opportunities. As at the Latest Practicable Date, no investment target has been identified.

EFFECTS OF THE TRANSACTION ON THE EARNINGS AND ASSETS AND LIABILITIES OF THE COMPANY

The Group has an indirect interest in Ying Zhi Lun through BPDL, which is a wholly owned subsidiary of the Company. BPDL has a 33% equity interest in Ying Zhi Lun. Through its effective interest in Ying Zhi Lun, BPDL is interested in the Property. After completion of the proposed transaction relating to the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement, BPDL will cease to have any equity interest in Ying Zhi Lun and, accordingly, will not have any interest in the Property. It is expected that as a result of the Realization pursuant to the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement, the Group would record a gain of approximately RMB8.3 million (approximately HK$8 million) and will be reflected in the consolidated accounts of the Company for the year ending 31 March 2007.

Upon completion of the Realization pursuant to the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement, the Group's net assets will increase by approximately HK$8 million, while there will be no effect on the liabilities of the Group. The information regarding the effects of the transaction on the earnings and assets and liabilities of the Group can be referred to Appendix II to this circular for details.

INFORMATION ON THE GROUP

The Company is an investment holding company with its subsidiaries are principally engaged in property development and investment, manufacturing and trading of data storage media products, manufacturing and trading of grape wine and other strategic investments projects. BPDL is a wholly owned subsidiary of the Company incorporated in the PRC and is principally engaged in property development and investment in the PRC. The accountants' report of the Group is set out in Appendix I to this circular.

AMENDMENTS TO THE BYE-LAWS

In February 2006, the Stock Exchange made certain amendments to Appendix 3 to the Listing Rules which states the requirements for articles of association of listed companies. Such amendments, which came into effect on 1 March 2006, require that the articles of association of listed companies shall provide that directors may be removed at any time by ordinary resolution of the members. According to the Bye-Laws currently in force, the Company may only remove any Director before the expiration of his period of office by special resolution.

In this connection, the Company proposes that certain provisions of the existing Bye-Laws be changed to keep in line with the Stock Exchange's amendments to Appendix 3 to the Listing Rules. Certain housekeeping amendments to the Bye-Laws will also be proposed at the SGM.

A full text of the proposed amendments to the Bye-Laws is set out in Resolution No. 2 of the notice of SGM contained in this circular.

THE SGM

The Realization pursuant to the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement and the transactions contemplated thereunder constitute a very substantial disposal of the Company pursuant to Rule 14.06(4) of the Listing Rules and therefore should have been subject to prior shareholders' approval in a general meeting of the Company on a show of hands unless a poll is demanded. To the best knowledge of the Directors, each of the Transferors (excluding BPDL), Transferees and their respective associates (as defined in the Listing Rules) are not interested in any Shares of the Company as at the Latest Practicable Date. So far as is known to the Directors, no Shareholder has a material interest in the Realization pursuant to the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement and accordingly no Shareholder is required to abstain from voting at the SGM to confirm and ratify the Realization pursuant to the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement and the transactions contemplated thereunder.

The business of Ying Zhi Lun was managed by the board of directors of Ying Zhi Lun, which consisted of 3 directors. BPDL had the right to nominate 1 director to the board of directors of Ying Zhi Lun. As it was the intention of both Heng Fa and Jin Yun to capture the opportunity available to realize their investment in Ying Zhi Lun, BPDL was not able to reach an agreement with Heng Fa and Jin Yun to make the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement conditional on approval by the Shareholders of the Company. The Company deeply apologizes for non-compliance with Rule 14.49 of the Listing Rules for failing to obtain prior shareholders' approval for the Realization before its completion. An ordinary resolution will be put forth at the SGM to seek the approval of the Shareholders to confirm and ratify the Realization pursuant to the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement and the transactions contemplated thereunder.

A special resolution to amend the Bye-Laws which require not less than 75% of the votes cast by the Shareholders attending and entitled to vote at the SGM will also be put forth for consideration and, if thought fit, approval by the Shareholders at the SGM.

A notice convening the SGM is set out on pages 90 to 93 of this circular for the purpose of considering and, if thought fit, passing the resolutions set out therein.

A form of proxy is enclosed for use at the SGM. Whether or not you are able to attend and vote at the special general meeting, you are requested to complete and return the enclosed proxy form in accordance with the instructions printed thereon and return it to the Company's principal place of business at Rooms 02-03, 9/F., Wyndham Place, 44 Wyndham Street, Central, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the special general meeting or any adjourned meeting thereof. Completion and return of the proxy form shall not preclude you from attending and voting in person at the special general meeting or any adjourned meeting thereof should you so wish.

PROCEDURES TO DEMAND A POLL

Pursuant to Bye-law 70 of the Bye-Laws, every resolution put to the vote of a general meeting shall be decided on a show of hands in the first instance, but a poll may be demanded (before or on the declaration of the result of the show of hands) by:

(1) the chairman of the meeting; or

(2) at least three members present in person or by proxy having the right to vote at the meeting;

(3) a member or members present in person or by proxy representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(4) a member or members present in person or by proxy holding Shares.

RECOMMENDATION

Taking into consideration of the reasons set out in the sections headed "Reasons for the Realization pursuant to the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement" and "Amendments to the Bye-Laws" above, the Directors consider that (i) the terms of the Realization pursuant to the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement and the transactions contemplated thereunder and (ii) the proposed amendments to the Bye-Laws are fair and reasonable and/or are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the resolutions as set out in the notice of the SGM.

FURTHER INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular and the notice of Special General Meeting.

Yours faithfully,
For and on behalf of the Board
South East Group Limited
Budiman Rahardja
Chairman

1. ACCOUNTANTS' REPORT OF THE GROUP FOR THE THREE YEARS ENDED 31 MARCH 2006 AND THE FIVE MONTHS ENDED 31 AUGUST 2006

The following is the text of a report, prepared solely for the purpose of inclusion in this Circular.

劉白 **BKR Lew & Barr Ltd**
Certified Public Accountants

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13 November 2006

The Directors
South East Group Limited

Dear Sirs,

We set out below our report on the financial information regarding South East Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for each of the three years ended 31 March 2004, 2005 and 2006 and the five months ended 31 August 2006 (together the "Relevant Periods") and the comparative financial information of the Group for the five months ended 31 August 2005, for inclusion in the circular of the Company dated 13 November 2006 (the "Circular") in connection with the proposed disposal of the Group's 33% equity interest in Shanghai Ying Zhi Lun Property Development Limited and the shareholders' loan of RMB35,800,000 thereto.

The Company was incorporated as an exempted company with limited liability in Bermuda on 28 February 1991 under the Company Act 1981 of Bermuda (as amended). The Company's shares are listed on The Stock Exchange of Hong Kong Limited.

During the Relevant Periods, the principal activity of the Company was investment holding. The principal activities of its subsidiaries are set out in note 12 of Section II below.

All companies comprising the Group have adopted 31 March as their financial year end date for statutory reporting purposes.

For the purposes of this report, the directors of the Company have prepared the consolidated results, cash flows and statements of changes in equity of the Group for the Relevant Periods and the balance sheets and consolidated balance sheets of the Company and the Group, respectively, as at 31 March 2004, 2005, 2006 and 31 August 2006 together with the notes thereon set out in this report (collectively the "Financial Information") in accordance with accounting principles generally accepted in Hong Kong. We have audited the consolidated financial statements of the Group for each of the three years ended 31 March 2004, 2005 and 2006 and the five months ended 31 August 2006 in accordance with Statements of Auditing Standards ("SASs") and Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). The directors of the Company are responsible for preparing the consolidated financial statements of the Group for the Relevant Periods which give a true and fair view. In preparing the consolidated financial statements for the Relevant Periods, it is fundamental that appropriate accounting policies are selected and applied consistently.

For the purpose of this report, we have examined the audited consolidated financial statements of the Group or, where appropriate, the unaudited consolidated management accounts of the Company and the Group for the Relevant Periods in accordance with the SASs and HKSAs and carried out such additional procedures as we considered necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the reporting accountant" issued by the HKICPA.

The summaries of the consolidated income statements, the consolidated statements of changes in equity and the consolidated cash flow statements of the Group for the Relevant Periods and of the consolidated balance sheets of the Group and the balance sheets of the Company as at 31 March 2004, 2005 and 2006 and 31 August 2006 (collectively the "Summaries") as set out in this report have been prepared, and are presented on the basis as set in Notes 2 and 3 of Section II below.

The directors of the Company are responsible for the Financial Information. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion.

In our opinion, the Financial Information prepared on the basis as explained above gives, for the purpose of this report, a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2004, 2005 and 2006 and 31 August 2006 and of the Group's results and cash flows for the Relevant Periods.

The comparative income statement, statement of changes in equity and cash flow statement for the five months ended 31 August 2005, together with the notes thereon have been extracted from the unaudited financial information of the Group for the same period (the "Comparative Financial Information") which was prepared by the directors of the Company. We have reviewed the Comparative Financial Information in accordance with SAS 700 "Engagements to review interim financial report" issued by the HKICPA. Our review consisted principally of making enquiries of management of the Group and applying analytical procedures to the Comparative Financial Information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as test of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the Comparative Financial Information. On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the Comparative Financial Information.

I. FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENTS

		Five months ended 31 August		Year ended 31 March		
		2006	**2005**	**2006**	**2005**	**2004**
	NOTE	*HK$'000*	*HK$'000* *(unaudited)*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER	*3*	2,486	2,940	17,778	65,862	192,850
COST OF INVENTORIES SOLD		(1,668)	(5,486)	(19,687)	(88,320)	(132,194)
GROSS PROFIT/(LOSS)		818	(2,546)	(1,909)	(22,458)	60,656
OTHER REVENUES	*3*	992	44	612	501	1,035
SELLING AND DISTRIBUTION COSTS		(751)	(2,067)	(4,011)	(9,400)	(23,277)
ADMINISTRATIVE EXPENSES		(4,509)	(3,246)	(11,408)	(24,882)	(22,734)
CLAIM SETTLEMENT	*4*	—	—	(3,108)	—	—
BAD DEBT WRITTEN OFF	*5*	—	—	(2,755)	—	—
(LOSS)/PROFIT FROM OPERATIONS	*6*	(3,450)	(7,815)	(22,579)	(56,239)	15,680
FINANCE COSTS	*7*	(254)	(145)	(447)	(270)	(335)
(LOSS)/PROFIT BEFORE TAXATION		(3,704)	(7,960)	(23,026)	(56,509)	15,345
TAXATION	*8*	165	(179)	(179)	39	(4,789)
(LOSS)/PROFIT FOR THE PERIOD/YEAR	*9 & 23*	(3,539)	(8,139)	(23,205)	(56,470)	10,556
Attributable to:						
Equity holders of the Company		(2,504)	(6,992)	(20,764)	(50,475)	12,765
Minority interests		(1,035)	(1,147)	(2,441)	(5,995)	(2,209)
		(3,539)	(8,139)	(23,205)	(56,470)	10,556
DIVIDENDS						
Proposed final		—	—	—	—	—
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY						
Basic and diluted (Cents)	10	(0.8)	(2.1)	(6.3)	(15.3)	3.9

CONSOLIDATED BALANCE SHEETS

		As at 31 August		Year ended 31 March		
		2006	2005	2006	2005	2004
	NOTE	*HK$'000*	*HK$'000 (unaudited)*	*HK$'000*	*HK$'000*	*HK$'000*
NON-CURRENT ASSETS						
Property, plant and equipment	*11*					
— Other property, plant and equipment		9,640	12,477	10,768	12,321	17,729
— Interests in leasehold land held for own use under operating leases		2,064	2,099	2,085	2,093	2,143
		11,704	14,576	12,853	14,414	19,872
Interests in jointly controlled entities	*13*	36,909	39,246	36,909	5,991	29,460
Available-for-sale investments	*14*	964	964	964	964	1,840
Properties under development	*15*	—	16,171	24,133	15,670	—
		49,577	70,957	74,859	37,039	51,172
CURRENT ASSETS						
Properties under development	*15*	24,239	—	—	—	34,495
Deposits paid	*16*	—	—	—	32,868	—
Tax recoverable		338	—	—	—	—
Inventories	*17*	8,465	13,404	8,593	20,986	33,518
Trade and other receivables	*18*	17,015	15,693	10,125	8,348	23,197
Cash and cash equivalents	*4*	7,689	10,282	10,530	18,707	48,810
		57,746	39,379	29,248	80,909	140,020
CURRENT LIABILITIES						
Trade and other payables	*19*	34,817	24,072	28,469	25,304	32,444
Bank loan, secured	*20*	4,560	4,512	4,560	4,465	13,865
Amount due to a director	*21*	4,894	1,000	4,408	—	—
		44,271	29,584	37,437	29,769	46,309
NET CURRENT ASSETS/ (LIABILITIES)		13,475	9,795	(8,189)	51,140	93,711
NET ASSETS		63,052	80,752	66,670	88,179	144,883
CAPITAL AND RESERVES						
Share capital	*22*	33,057	33,057	33,057	33,057	33,057
Reserves	*23*	29,839	45,263	32,422	51,543	102,077
SHAREHOLDERS' FUNDS		62,896	78,320	65,479	84,600	135,134
MINORITY INTERESTS		156	2,432	1,191	3,579	9,749
		63,052	80,752	66,670	88,179	144,883

BALANCE SHEETS

		As at 31 August		As at 31 March		
		2006	**2005**	**2006**	**2005**	**2004**
	NOTE	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
			(unaudited)			
NON-CURRENT ASSETS						
Interests in subsidiaries	*12 & 30*	154,668	155,452	154,127	154,739	146,046
CURRENT ASSETS						
Trade and other receivables		78	186	168	236	297
Cash and cash equivalents	*4*	6,287	6,805	6,292	7,154	19,213
		6,365	6,991	6,460	7,390	19,510
CURRENT LIABILITIES						
Trade and other payables		4,544	1,258	4,358	1,334	299
Amount due to a director	*21*	3,750	1,000	2,908	—	—
		8,294	2,258	7,266	1,334	299
NET CURRENT (LIABILITIES)/ ASSETS		(1,929)	4,733	(806)	6,056	19,211
NET ASSETS		152,739	160,185	153,331	160,795	165,257
CAPITAL AND RESERVES						
Share capital	*22*	33,057	33,057	33,057	33,057	33,057
Reserves	*23*	119,682	127,128	120,264	127,738	132,200
SHAREHOLDERS' FUNDS		152,739	160,185	153,331	160,795	165,257

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	*HK$'000*
Total equity at 1 April 2003		118,360
Exchange differences arising on translation of foreign subsidiaries	*23*	4,009
Net gain not recognised in the income statement		4,009
Net profit for the year	*23*	12,765
Total equity at 1 April 2004		135,134
Exchange differences arising on translation of foreign subsidiaries	*23*	(59)
Net loss not recognised in the income statement		(59)
Net loss for the year	*23*	(50,475)
Total equity at 1 April 2005		84,600
Exchange differences arising on translation of foreign subsidiaries	*23*	1,216
Net gain not recognised in the income statement		1,216
Net loss for the year	*23*	(20,764)
Share-based payment expenses transfer to employee share-based payment reserve		427
Total equity at 31 March 2006		65,479
Exchange differences arising on translation of foreign subsidiaries	*23*	(79)
Net loss not recognised in the income statement		(79)
Net loss for the period	*23*	(2,504)
Total equity at 31 August 2006		62,896
Total equity at 1 April 2005		84,600
Exchange differences arising on translation of foreign subsidiaries (unaudited)	*23*	712
Net gain not recognised in the income statement		712
Net loss for the period (unaudited)	*23*	(6,992)
Total equity at 31 August 2005 (unaudited)		78,320

CONSOLIDATED CASH FLOW STATEMENT

	Five months ended 31 August		Year ended 31 March		
	2006	2005	2006	2005	2004
	HK$'000	*HK$'000* (*unaudited*)	*HK$'000*	*HK$'000*	*HK$'000*
OPERATING ACTIVITIES					
(Loss)/profit before taxation	(3,704)	(7,960)	(23,026)	(56,509)	15,345
Adjustments for:					
Depreciation	861	363	2,219	2,383	3,085
Impairment loss on property, plant and equipment	—	—	—	3,000	—
Impairment loss on available-for-sale investments	—	—	—	876	890
Gain on disposals of property, plant and equipment	(144)	—	(91)	(92)	(219)
Allowance for loss on obsolete inventories	—	—	1,361	25,863	—
Allowance for doubtful debts	170	—	536	—	—
Bad debt written off	—	—	2,755	—	—
Share-based payment expenses	—	—	427	—	—
Loss on investment previously overcharged written back	—	—	—	(175)	—
Interest income	(60)	(43)	(77)	(357)	(894)
Interest expenses	254	145	447	270	335
Operating (loss)/profit before working capital changes	(2,623)	(7,495)	(15,449)	(24,741)	18,542
Decrease/(increase) in inventories	128	7,582	11,032	(8,958)	(18,420)
(Increase)/decrease in properties under development	(106)	(501)	(8,463)	14,452	36,796
Increase in trade and other receivables	(7,060)	(7,345)	(2,313)	(18,019)	(10,171)
(Increase)/decrease in pledged and restricted bank deposits	(57)	(66)	(56)	14,017	(13,980)
Increase in amount due to a director	486	1,000	4,408	—	—
Increase/(decrease) in trade and other payables	6,094	(1,377)	3,165	(5,928)	8,738
Cash (used in)/from operations	(3,138)	(8,202)	(7,676)	(29,177)	21,505
Income taxes paid	(173)	(179)	(179)	(1,441)	(3,309)
Interest received	60	43	77	357	894
Interest paid	—	—	(3)	(2)	(707)
NET CASH (USED IN)/FROM OPERATING ACTIVITIES	(3,251)	(8,338)	(7,781)	(30,263)	18,383

CONSOLIDATED CASH FLOW STATEMENT

	Five months ended 31 August		Year ended 31 March		
	2006	**2005**	**2006**	**2005**	**2004**
	HK$'000	*HK$'000* *(unaudited)*	*HK$'000*	*HK$'000*	*HK$'000*
INVESTING ACTIVITIES					
Purchases of property, plant and equipment	(3)	(402)	(413)	(100)	(602)
Proceeds from sale of property, plant and equipment	435	—	132	262	13,562
Decrease/(increase) in interest in a jointly controlled entity	—	—	—	23,469	(29,460)
Purchase of available-for-sale investments	—	—	—	—	(1,560)
NET CASH GENERATED FROM/ (USED IN) INVESTING ACTIVITIES	432	(402)	(281)	23,631	(18,060)
FINANCING ACTIVITY					
Repayment of bank loans	—	—	—	(9,400)	(28,405)
NET CASH USED IN FINANCING ACTIVITY	—	—	—	(9,400)	(28,405)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,819)	(8,740)	(8,062)	(16,032)	(28,082)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD/YEAR	4,314	12,547	12,547	28,633	56,728
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(79)	249	(171)	(54)	(13)
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD/YEAR	1,416	4,056	4,314	12,547	28,633
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS					
Cash and bank balances	7,689	10,282	10,530	18,707	48,810
Bank deposit restricted *(note 4)*	(6,273)	(6,226)	(6,216)	(6,160)	(6,160)
Bank deposits pledged	—	—	—	—	(14,017)
	1,416	4,056	4,314	12,547	28,633

II. NOTES TO THE FINANCIAL STATEMENTS

1. GENERAL INFORMATION

The Company is a public limited company incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The address of its registered office is Canon’s Court, 22 Victoria Street, Hamilton HM12, Bermuda and the address of its principal office is Rooms 02-03, 9/F., Wyndham Place, 44 Wyndham Street, Central, Hong Kong.

The Company is an investment holding company. Its subsidiaries are principally engaged in the businesses of manufacturing, trading of data storage media products and related equipment, investing and developing properties and wine producing in the People’s Republic of China (the “PRC”).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods/years presented, unless otherwise stated.

(a) Basis of preparation of financial statements

The consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of financial instruments and in accordance with Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations (“HK(SIC)-Int”) (collectively the “HKFRSs”), accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on the Stock Exchange.

The adoption of HKAS 32 “Financial Instruments: Disclosure and Presentation” and HKAS 39 “Financial Instruments: Recognition and Measurement” 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.

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

— HKAS 1 “Presentation of Financial Statements” - 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 profit for the year ended 31 March 2004.

— HKAS 17 “Leases” - 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 “Financial Instruments: Recognition and Measurement” - 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 2003.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Basis of preparation of financial statements *(continued)*

The adoption of these new policies does not have a significant impact on the Group's results for the five months ended 31 August 2006 and 2005 and years ended 31 March 2006 and 2005 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 2004 to reflect the reclassification of non-current assets are as follows:

Non-current assets	As at 31 March 2004 (originally stated)	Adjustments	As at 31 March 2004 (restated)
	HK$'000	*HK$'000*	*HK$'000*
Land and buildings	25,120	(25,120)	—
Land and buildings held for own use	—	22,927	22,927
Prepaid leasehold land	—	2,193	2,193
Long-term investments	1,840	(1,840)	—
Available-for-sale investments	—	1,840	1,840

The Group and the Company have not early applied the following new HKFRSs that have been issued but are not yet effective. The directors of the Company have commenced considering the potential impact of these new HKFRSs. The directors anticipate that the adoption of these new HKFRSs should not result in any significant changes in the future as to how the results and financial position are prepared and presented. The Group and the Company are still not in the position to reasonably estimate the impact that may arise from HKAS 39 and HKFRS 4 (Amendments).

HKAS 1 (Amendment)	Capital Disclosures[1]
HKFRS 7	Financial Instruments: Disclosures[1]

[1] *Effective for annual periods beginning on or after 1 January 2007.*

The financial statements are presented in Hong Kong dollars, the currency in which the majority of the Company's transactions are denominated.

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 March 2004, 2005 and 2006 and 31 August 2005 and 2006 with the exception of those excluded from consolidation as disclosed in note 30 to the financial statements.

(c) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 are recognised at their values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss. The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The results of unconsolidated subsidiaries are accounted by the Group to the extent of dividend received and receivable during the year. The Group's investments in unconsolidated subsidiaries are stated at cost less provision, if necessary, for any impairment losses.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(e) Joint venture

A joint venture is a contractual arrangement where the Group and other parties undertake an economic activity which is subject to joint control with none of the participating parties having any unilateral control over the economic activity of the joint venture.

Jointly controlled entity

A joint venture arrangement which involves the establishment of a separate entity in which each venturer has joint control over the economic activity of the entity is referred to as a jointly controlled entity.

The Group's interest in a jointly controlled entity is included in the consolidated balance sheet at the Group's share of the net assets of the jointly controlled entity. The Group's share of post-acquisition results of jointly controlled entity is included in the consolidated income statement.

(f) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(g) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Foreign currency translation *(continued)*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(h) Property, plant and equipment

Property, plant and equipment other than plant and machinery under installation and factory buildings under construction are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial year in which they are incurred.

Increases in the carrying amount arising on revaluation of buildings are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against fair value reserves directly in equity; all other decreases are expensed in the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset expensed in the income statement and depreciation based on the asset's original cost is transferred from fair value reserve to retained earnings.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, as follows:

— Furniture and fixtures	5 years
— Computer equipment	3 years
— Machinery	5-10 years
— Moulds	3-5 years
— Motor vehicles	5 years

Depreciation of leasehold buildings/improvements is calculated to write off their costs on the straight-line basis over the unexpired periods of the leases or their expected useful lives, whichever is shorter.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

(h) Property, plant and equipment *(continued)*

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

(i) Intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries and jointly controlled entities is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life is reviewed at least at each balance sheet date.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

(j) Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

(k) Investments

Financial instruments

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Gains or losses on investments held for trading are recognised in the income statement.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Investments *(continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and bills receivables, prepayments, deposits and other receivables) are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets in listed and unlisted equity securities that are designated as available-for-sale or are not classified in any of the other two categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities.

Other financial liabilities

Other financial liabilities including trade and bills payables, other payables and accruals, bank borrowings and obligations under finance lease are subsequently measured at amortised cost, using the effective interest rate method.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; a discounted cash flow analysis and option pricing models.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Investments *(continued)*

Fair value *(continued)*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement — is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

For financial liabilities, they are removed from the Group's balance sheet when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration received or receivable is recognised in profit or loss.

(l) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the standard costing method, which approximates actual cost and is arrived as follows:

— Raw material — invoiced prices plus procurement costs.

— Finished goods and work in progress — cost of direct materials, direct labour and related production overheads (based on nominal operating capacity).

They exclude borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses and where appropriate, the cost of conversion from their existing state to a finished condition.

(m) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other company in making financial and operating decisions or vice versa. Parties are also considered to be related if they are subject to common control or common significant influence.

Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the company where those parties are individuals and post-employment benefit plans which are for the benefit of employees of the company or any entity that is a related party of the company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

(o) Share capital

Ordinary shares are classified as equity. Mandatorily redeemable preference shares are classified as liabilities.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

(p) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

(q) Taxation

Income tax expense represents the sum of the current tax and deferred tax. Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(r) Employee benefits

(i) Employee entitlements

Employee entitlements to annual leave and long service payments are recognised when they accrue to employees.

(ii) Pension obligations

The Group operates two defined contribution schemes in Hong Kong which comply with all the respective requirements under the Occupational Retirement Schemes Ordinance (ORSO) and Mandatory Provident Fund Ordinance (MPF). All the assets under the schemes are held separately from the Group under independently administered fund. Contributions to the MPF Scheme follow the MPF Ordinance while contributions to the ORSO Scheme are at a rate of 5% or 10% of basic salary.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

(r) Employee benefits *(continued)*

(ii) Pension obligations *(continued)*

Contributions are charged to the income statement as incurred and are reduced by contributions forfeited form employees under the ORSO scheme who left the Group prior to vesting fully in their contributions.

The Group's contributions to the MPF Scheme are expensed as incurred.

(iii) Share-based compensation

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(s) Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

(t) Revenue recognition

Revenue comprises the fair value for the sale of goods, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

Sales of goods

Sales of goods are recognised when a Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

Sales of land

Sale of land is recognised when the title has passed or when the sale contract signed becomes unconditional, whichever is earlier.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Revenue recognition *(continued)*

Profit on pre-sales of property under development for sale

Profit is recognised over the course of the development and profit recognised on properties pre-sold during the accounting period is calculated by reference to the proportion of construction cost incurred up to the accounting date over total estimated construction costs to completion, with due allowance for contingencies.

(u) Leases

Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

Finance lease

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

(v) Properties under development

Properties under development are stated at cost less any identified impairment loss. Cost comprises the cost of the land together with direct costs attributable to the development of the properties and borrowing costs capitalised during the period of development. Properties under development which are due for completion more than one year from the balance sheet date are shown as non-current assets while properties under development which are due for completion within one year from the balance sheet date are shown as current assets.

(w) Land acquired for development

Land acquired for development is carried at cost, less any identified impairment loss. Cost includes all development expenditures, interest charges capitalised and other direct costs attributable to such land.

A lease with unexpired period of not less than 50 years is classified as long term lease. A lease with unexpired period of less than 50 years but not less than 10 years is classified as medium term lease.

(x) Critical accounting judgements and key sources of estimation uncertainty

The preparation of these financial statements in conformity with HKFRSs requires management to make estimates and judgements that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Allowances for bad and doubtful debts

The policy of allowance for bad and doubtful debts of the Group is based on the evaluation of collectibility and aging analysis of accounts and on management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial conditions of customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(x) Critical accounting judgements and key sources of estimation uncertainty *(continued)*

Allowances for inventories

The management of the Group reviews an aging analysis at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that are no longer suitable for use in production or selling. The management estimates the net realisable value for such finished goods and work-in progress based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and makes allowance for obsolete items.

3. 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 period/year are as follows:

	Five months ended 31 August		Year ended 31 March		
	2006	**2005**	**2006**	**2005**	**2004**
	HK$'000	*HK$'000* *(unaudited)*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover					
Sales of data storage media products	1,481	1,459	5,062	7,631	15,185
Sales of property under development	501	—	8,240	50,507	167,178
Sales of wine	504	1,481	4,476	7,724	10,487
	2,486	2,940	17,778	65,862	192,850
Other revenues					
Interest income	60	43	77	357	894
Sundry income	146	1	535	144	141
Write back of obsolete inventories	642	—	—	—	—
Gain on disposal of property, plant and equipment	144	—	—	—	—
	992	44	612	501	1,035
Total revenues	3,478	2,984	18,390	66,363	193,882

4. CLAIM SETTLEMENT

As referred to note 27 to the financial statements for the year ended 31 March 2005, the Company made an application to the Supreme Court of New South Wales for an exclusion order to set aside a restraining order made by the Supreme Court of New South Wales respecting the monies in an account held by the Company with a bank in Hong Kong.

At 31 August 2006, the monies in the bank account restrained was HK$6,273,000 (at 31/3/2006 HK$6,216,000). The restraining order was discharged on 25 October 2006.

The said monies in the bank account restrained 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 transactions had been disclosed in the Connected Transaction Announcement from the Company on 19 May 2000.

4. CLAIM SETTLEMENT *(continued)*

It was alleged that the Australian authorities were investigating the original sources of funds of the Connected Party in Australia, although there was no allegation by the Australian authorities that the Company was involved in any of the transactions that were under investigation.

The Company, having considered the effect on the Company's financial and administrative resources of a protracted litigation with the Australian authorities, entered into a settlement with the Australian authorities on 2 June 2006 with respect to the restrained amount under which the company agreed to pay a settlement sum of HK$3,108,000.

The financial statements have reflected this claim settlement as a charge to the income statement for the year ended 31 March 2006.

5. BAD DEBT WRITTEN OFF

One of the subsidiaries of the Group, Benelux Property Development (Shanghai) Limited ("BPDL") advanced the amount of RMB2,900,000 to its jointly controlled entity for reimbursement of certain costs and expenses that the joint venture partners had previously designated for the joint venture project. Due to management changes in the joint venture partners during the year ended 31 March 2006, BPDL was not able to obtain confirmation of the funds paid to the joint venture partners. The Group, having considered the overall situation and the adverse effects on the joint venture project should the relationship with the joint venture partners be jeopardised, decided to treat the amount of RMB2,900,000 so advanced as bad debt and charged it to the income statement for the year ended 31 March 2006.

6. (LOSS)/PROFIT FROM OPERATIONS

(Loss)/profit from operations is arrived at after charging and (crediting):—

	Five months ended 31 August		**Year ended 31 March**		
	2006	**2005**	**2006**	**2005**	**2004**
	HK$'000	*HK$'000* *(unaudited)*	*HK$'000*	*HK$'000*	*HK$'000*
Auditors' remuneration					
— Current year	124	220	245	255	294
— Under-provision for prior years	—	—	—	35	13
	124	220	245	290	307
Cost of inventories sold	1,668	5,486	19,687	88,320	132,194
Depreciation	861	363	2,219	2,383	3,085
Impairment loss on property, plant and equipment	—	—	—	3,000	—
Impairment loss on available-for-sale investments	—	—	—	876	890
(Gain) on disposals of property, plant and equipment	(144)	—	(91)	(92)	(219)
Net exchange loss/(gain)	4	5	(359)	8	(362)
Operating lease payments	272	373	648	755	922
Allowance for loss on obsolete inventories	—	—	1,361	25,863	10,320
Allowance for doubtful debts	170	—	536	—	—
Employee benefits expenses (excluding directors' remuneration)					
— Salaries and allowance	1,385	1,732	3,442	5,349	5,872
— Retirement benefit scheme contributions	(10)	97	62	374	259

7. FINANCE COSTS

	Five months ended 31 August		Year ended 31 March		
	2006	**2005**	**2006**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(unaudited)			
Interest on bank overdraft, bank loans and other loans wholly repayable within five years	144	145	349	270	335
Interest on other loan without fixed repayment terms	110	—	98	—	—
	254	145	447	270	335

8. TAXATION

(a) Taxation in the income statement represents:—

	Five months ended 31 August		Year ended 31 March		
	2006	**2005**	**2006**	**2005**	**2004**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(unaudited)			
Hong Kong profits tax					
— Underprovisoin for prior years	—	—	—	—	183
PRC income tax					
— (Over)/underprovision for prior year	(165)	51	51	(39)	—
— Provision for the period/year	—	128	128	—	4,606
Total tax (income)/expenses	(165)	179	179	(39)	4,789

No provision for Hong Kong profits tax has been made in the financial statements as the Group did not derive any assessable profits in Hong Kong for the period (five months ended 31 August 2005 and years ended 31 March 2006, 2005 and 2004: Nil).

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

8. **TAXATION** *(continued)*

(b) At 31 August 2006, the Group had no outstanding income tax payable (2005: Nil).

(c) Reconciliation between total tax (income)/expenses and (loss)/profit before taxation of the Group at the applicable tax rates is as follows:

	Five months ended 31 August		Year ended 31 March		
	2006	**2005**	**2006**	**2005**	**2004**
	HK$'000	*HK$'000* *(unaudited)*	*HK$'000*	*HK$'000*	*HK$'000*
(Loss)/profit before taxation	(3,704)	(7,960)	(23,026)	(56,509)	15,345
Tax calculated at the applicable tax rates	(856)	(2,395)	(5,617)	(10,703)	(361)
Tax effect of non-deductible expenses	165	106	1,700	4,720	23,339
Tax effect of non-taxable income	—	—	—	(36)	(19,721)
Tax effect of utilisation of tax losses not previously recognised	—	—	—	—	(1)
Tax (over)/underprovided for prior years	(130)	51	50	(39)	183
Losses not recognised as deferred tax assets due to concerns as to their recoverability	656	2,059	4,046	6,019	1,350
Total tax (income)/expenses	(165)	179	179	(39)	4,789

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

The Group has not recognised the tax losses as deferred tax assets due to the unpredictability of future profit streams.

The Company did not have any material unprovided deferred taxation as at 31 August 2006.

9. **LOSS ATTRIBUTABLE TO SHAREHOLDERS**

During the period, included in the loss of HK$2,504,000 (five months ended 31/8/2005: HK$6,992,000; year ended 31/3/2006: HK$20,764,000; year ended 31/3/2005: HK$50,475,000; year ended 31/3/2004: profit of HK$12,765,000) attributable to the shareholders of the Company is a loss of HK$582,000 (five months ended 31/8/2005: HK$610,000; year ended 31/3/2006: HK$7,901,000; year ended 31/3/2005: HK$4,462,000; year ended 31/3/2004: HK$26,966,000) which is dealt with in the Company's own financial statements.

10. **(LOSS)/EARNINGS PER SHARE**

The calculation of (loss)/earnings per share is based on the consolidated loss attributable to shareholders for the period of HK$2,504,000 (five months ended 31/8/2005: HK$6,992,000; year ended 31/3/2006: HK$20,764,000; year ended 31/3/2005: HK$50,475,000; year ended 31/3/2004: profit of HK$12,765,000) and on the weighted average of 330,571,880 (five months ended 31/8/2005 and years ended 31/3/2006, 31/3/2005 and 31/3/3004: 330,571,880) shares in issue during the period. 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 period. The Company had no potential dilutive ordinary shares that were outstanding for the five months ended 31 August 2005 and the years ended 31 March 2006, 2005 and 2004.

11. PROPERTY, PLANT AND EQUIPMENT

GROUP

	Land and buildings held for own use HK$'000	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Computer equipment HK$'000	Machinery and moulds HK$'000	Motor vehicles HK$'000	Sub-total HK$'000	Interest in leasehold land held for own use under operating leases HK$'000	Total HK$'000
COST									
At 1 April 2006	6,301	763	204	233	13,397	1,659	22,557	2,248	24,805
Additions	—	—	3	—	—	—	3	—	3
Disposals	(182)	—	—	—	—	(244)	(426)	—	(426)
At 31 August 2006	6,119	763	207	233	13,397	1,415	22,134	2,248	24,382
ACCUMULATED DEPRECIATION									
At 1 April 2006	786	679	136	219	8,836	1,133	11,789	163	11,952
Charge for the period	50	35	9	4	698	44	840	21	861
Written back on disposals	(18)	—	—	—	—	(117)	(135)	—	(135)
At 31 August 2006	818	714	145	223	9,534	1,060	12,494	184	12,678
NET BOOK VALUE									
At 31 August 2006	5,301	49	62	10	3,863	355	9,640	2,064	11,704
Unaudited:									
COST									
At 1 April 2005	6,169	747	198	228	12,992	1,747	22,081	2,202	24,283
Exchange adjustments	58	8	2	2	137	17	224	20	244
Additions	—	—	—	12	127	263	402	—	402
At 31 August 2005	6,227	755	200	242	13,256	2,027	22,707	2,222	24,929
ACCUMULATED DEPRECIATION									
At 1 April 2005	643	576	127	205	7,011	1,198	9,760	109	9,869
Exchange adjustments	8	6	5	2	89	11	121	—	121
Charge for the period	32	—	21	22	193	81	349	14	363
At 31 August 2005	683	582	153	229	7,293	1,290	10,230	123	10,353
NET BOOK VALUE									
At 31 August 2005	5,544	173	47	13	5,963	737	12,477	2,099	14,576

11. PROPERTY, PLANT AND EQUIPMENT *(continued)*

GROUP *(continued)*

	Land and buildings held for own use HK$'000	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Computer equipment HK$'000	Machinery and moulds HK$'000	Motor vehicles HK$'000	Sub-total HK$'000	Interest in leasehold land held for own use under operating leases HK$'000	Total HK$'000
COST									
At 1 April 2005	6,169	747	198	228	12,992	1,747	22,081	2,202	24,283
Exchange adjustments	132	16	5	5	277	33	468	46	514
Additions	—	—	19	—	128	266	413	—	413
Disposals	—	—	(18)	—	—	(387)	(405)	—	(405)
At 31 March 2006	6,301	763	204	233	13,397	1,659	22,557	2,248	24,805
ACCUMULATED DEPRECIATION									
At 1 April 2005	643	576	127	205	7,011	1,198	9,760	109	9,869
Exchange adjustments	15	13	3	4	167	23	225	3	228
Charge for the year	128	90	22	10	1,658	260	2,168	51	2,219
Written back on disposals	—	—	(16)	—	—	(348)	(364)	—	(364)
At 31 March 2006	786	679	136	219	8,836	1,133	11,789	163	11,952
NET BOOK VALUE									
At 31 March 2006	5,515	84	68	14	4,561	526	10,768	2,085	12,853
COST									
At 1 April 2004	6,347	747	137	211	12,972	1,752	22,166	2,202	24,368
Exchange adjustments	—	—	—	—	—	(5)	(5)	—	(5)
Additions	—	—	63	17	20	—	100	—	100
Disposals	(178)	—	(2)	—	—	—	(180)	—	(180)
At 31 March 2005	6,169	747	198	228	12,992	1,747	22,081	2,202	24,283
ACCUMULATED DEPRECIATION									
At 1 April 2004	518	346	116	187	2,382	888	4,437	59	4,496
Charge for the year	131	230	15	18	1,629	310	2,333	50	2,383
Impairment loss	—	—	—	—	3,000	—	3,000	—	3,000
Written back on disposals	(6)	—	(4)	—	—	—	(10)	—	(10)
At 31 March 2005	643	576	127	205	7,011	1,198	9,760	109	9,869
NET BOOK VALUE									
At 31 March 2005	5,526	171	71	23	5,981	549	12,321	2,093	14,414

11. PROPERTY, PLANT AND EQUIPMENT *(continued)*

GROUP *(continued)*

	Land and buildings held for own use	Leasehold improvements	Furniture and fixtures	Computer equipment	Machinery and moulds	Motor vehicles	Sub-total	Interest in leasehold land held for own use under operating leases	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
COST									
At 1 April 2003	50,660	982	2,196	924	73,817	3,934	132,513	2,202	134,715
Exchange adjustments	—	—	—	—	—	23	23	—	23
Additions	356	—	2	6	—	238	602	—	602
Disposals	(44,669)	(235)	(2,061)	(719)	(60,845)	(2,443)	(110,972)	—	(110,972)
At 31 March 2004	6,347	747	137	211	12,972	1,752	22,166	2,202	24,368
ACCUMULATED DEPRECIATION									
At 1 April 2003	27,733	285	2,080	765	61,600	2,788	95,251	9	95,260
Exchange adjustments	—	—	—	—	—	(34)	(34)	—	(34)
Charge for the year	501	296	48	50	1,627	513	3,035	50	3,085
Written back on disposals	(27,716)	(235)	(2,012)	(628)	(60,845)	(2,379)	(93,815)	—	(93,815)
At 31 March 2004	518	346	116	187	2,382	888	4,437	59	4,496
NET BOOK VALUE									
At 31 March 2004	5,829	401	21	24	10,590	864	17,729	2,143	19,872

(a) All land and buildings of the Group are held for own use. The net book value of land and buildings held by the Group is analysed as follows:

	As at 31 August		**As at 31 March**		
	2006	**2005**	**2006**	**2005**	**2004**
	HK$'000	*HK$'000* *(unaudited)*	*HK$'000*	*HK$'000*	*HK$'000*
Land and buildings held outside Hong Kong under:					
— short term lease	—	166	164	168	353
— medium term lease	7,365	7,404	7,436	7,451	7,619
	7,365	7,570	7,600	7,619	7,972

(b) At 31 August 2006, land and buildings situated in the PRC with net book value of HK$7,365,000 (at 31/8/2005: HK$7,404,000; at 31/3/2006: HK$7,436,000; at 31/3/2005: HK$7,451,000; at 31/3/2004: HK$7,619,000) were pledged to a bank to secure the bank loan granted to the Group. Details of the said land and buildings and the bank loan are further described in note 12 to the financial statements.

12. INTERESTS IN SUBSIDIARIES

	Company				
	As at 31 August		As at 31 March		
	2006	**2005**	**2006**	**2005**	**2004**
	HK$'000	*HK$'000* *(unaudited)*	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted shares, at cost	52,927	52,927	52,927	52,927	52,215
Amounts due therefrom	181,976	194,592	181,435	193,845	197,566
Less: Provision for permanent impairment loss	(80,235)	(92,067)	(80,235)	(92,033)	(91,913)
	154,668	155,452	154,127	154,739	157,868
Amount due thereto	—	—	—	—	(11,822)
	154,668	155,452	154,127	154,739	146,046

The amounts due are unsecured, interest free and have no fixed repayment terms.

The following is a summary of the principal subsidiaries of the Company that, in the opinion of the directors, were significant to the results of the period or formed a substantial portion of the net assets of the Group as at 31 August 2006:

	Country/place of incorporation/ operation	Issued and fully paid-up capital or capital contribution	Effective equity interest	Principal activity
Direct subsidiaries:				
Benelux Property Development (Shanghai) Limited	The PRC	US$5,000,000	100%	Property development
Benelux (Far East) Company Limited	Hong Kong	Ordinary HK$100	100%	Trading of data storage media products and related equipment
South Perfect International Limited	Hong Kong	Ordinary HK$2	100%	Investment in a winery in the PRC
Sunshine Universal Development Limited	The British Virgin Islands/ Hong Kong	US$1	100%	Trading of securities
Happy Universal Investment Limited	The British Virgin Islands/ Hong Kong	US$1	100%	Investment holding

12. INTERESTS IN SUBSIDIARIES *(continued)*

	Country/place of incorporation/ operation	Issued and fully paid-up capital or capital contribution	Effective equity interest	Principal activity
Direct subsidiaries:				
South East Property (Shandong) Limited	The PRC	RMB15,000,000	100%	Property development
Formula Ten Limited *(Note 1)*	Hong Kong	Ordinary HK$1,000	100%	Cessation of business
Indirect subsidiaries:				
Benelux International Electronics Co. Limited	The PRC	US$10,000,000	100%	In the process of voluntary winding up
Qingdao Fushiwang Grape Wine Co. Limited ("QFGW") *(Note 2)*	The PRC	US$3,890,000	55%	Wine production and distribution
Shanghai Jia Yuan Computer Sales Company Limited (上海佳遠計算機銷售有限公司) *(Note 3)*	The PRC	RMB500,000	100%	Trading of data storage media products and computer accessories

None of the subsidiaries had issued any debt securities at 31 August 2006 or at any time during the period.

Note 1: The subsidiary has applied for de-registration.

Note 2: According to an investment agreement entered into between South Perfect International Limited, a wholly owned subsidiary of the Company, and Qingdao Yi Min Grape Wine Factory 青島益民葡萄酒廠 ("QYMW"), the party that holds the other 45% interest in QFGW, QYMW is required to transfer all of its assets and liabilities to QFGW as stipulated in the assets transfer agreement. However, up to the date of this report, QYMW has not yet completed the transfer of the title of land and buildings with net book value of HK$7,436,000 (at 31/8/2005: HK$7,404,000; at 31/3/2006: HK$7,436,000; at 31/3/2005: HK$7,451,000; at 31/3/2004: HK$7,619,000) and a bank loan of HK$4,560,000 (at 31/8/2005: HK$4,512,000; at 31/3/2006: HK$4,560,000; at 31/3/2005: HK$4,465,000; at 31/3/2004: HK$13,865,000) which is pledged by the land and buildings at the balance sheet date. On account that in substance QFGW has significant control over all its assets and liabilities including the land and buildings in the name of QYMW, QFGW has included the land and buildings and the bank loan in its own accounts.

Note 3: The capital of the subsidiary is held by two staff members of the subsidiary for and on behalf of the Company. Declarations of trust have been entered into in respect of the holding of interest of the subsidiary in favour of the Company.

13. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Group				
	As at 31 August		As at 31 March		
	2006	**2005**	**2006**	**2005**	**2004**
	HK$'000	*HK$'000* *(unaudited)*	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted investment, at cost	2,482	4,805	2,482	2,482	2,482
Amount due therefrom	34,427	34,441	34,427	3,509	26,978
	36,909	39,246	36,909	5,991	29,460

The amount due is unsecured, interest-free and has no fixed repayment terms.

Particulars of the jointly controlled entities at 31 August 2006 are as follows:

Name of entity	**Business structure**	**Country of incorporation**	**Principal place of operation**	**Principal activity**	**Percentage of interest held**
Shanghai Ying Zhi Lun Property Development Limited （上海英之倫房地產發展有限公司） *(Note 1)*	Incorporated entity	Shanghai, The PRC	Shanghai, The PRC	Property development (Not yet commenced business)	33%
Shandong Zouping South East Yi Lian Property Company Limited （山東鄒平東南怡聯置業有限公司） *(Note 2)*	Incorporated entity	Shangahi, The PRC	Shangahi, The PRC	Property development	50%

Note 1: The interest in the jointly controlled entity is held by Benelux Property Development (Shanghai) Limited ("BPDL"), a wholly owned subsidiary of the Group.

The jointly controlled entity acquired a piece of land in Songjiang, Shanghai, the PRC for property development. An independent valuation has been carried out by RHL Appraisal Limited on an open market value basis. Based on the valuation report, the BPDL's share of the market value of this piece of land is estimated at HK$45,730,000 (at 31/8/2005: N/A; at 31/3/2006 and 31/3/2005: HK$42,000,000; at 31/3/2004: N/A) as at 31 August 2006.

Pursuant to the joint venture agreement, BPDL has agreed to take up a 33% equity interest in this jointly controlled entity. The cooperation mode and profit sharing ratio of this jointly controlled entity are subject to a separate agreement to be agreed among the joint venture partners. The profit sharing ratio by BPDL may vary from its percentage of equity interest in this jointly controlled entity.

The past contributions from the interest in YZL to the Group are summarised as follows:

	Five months ended 31August		**Year ended 31 March**		
	2006	**2005**	**2006**	**2005**	**2004**
	HK$'000	*HK$'000* *(unaudited)*	*HK$'000*	*HK$'000*	*HK$'000*
Consolidated income statement					
Share of results of a jointly controlled entity	—	—	—	—	—

YZL has not yet commenced business.

	Five months ended 31August		**Year ended 31 March**		
	2006	**2005**	**2006**	**2005**	**2004**
	HK$'000	*HK$'000* *(unaudited)*	*HK$'000*	*HK$'000*	*HK$'000*
Consolidated cash flow statement					
Investing activities —					
Decrease/(increase) in interest in a jointly controlled entity	—	—	—	23,469	(29,460)

	As at 31 August		**As at 31 March**		
	2006	**2005**	**2006**	**2005**	**2004**
	HK$'000	*HK$'000* *(audited)*	*HK$'000*	*HK$'000*	*HK$'000*
Consolidated balance sheets					
Interets in jointly controlled entities					
Unlisted shares, at cost	2,482	4,805	2,482	2,482	2,482
Amount due therefrom	34,427	34,441	24,427	3,509	26,978
	36,909	39,246	36,909	5,991	29,460

Note 2: The interest in the jointly controlled entity is held by South East Property (Shandong) Limited ("SEP"), a wholly owned subsidiary of the Group.

According to the Cooperation for Development Agreement dated 31 July 2006, the joint venture partner in this jointly controlled entity is fully responsible for providing working capital to meet with the requirements of the jointly controlled entity, while SEP is only required to inject its property, a vacant site of a gross land area of approximately 34,000 square metres situated at Zouping Economic Development Zone, Zouping County, Shandong Province, the PRC, into the jointly controlled entity. After the completion of SEP's transfer of the land to the jointly controlled entity, SEP will transfer its 50% equity interest into a transferee as specified by the joint venture partner and will not bear any risk of the jointly controlled entity for the development of the property. The details of such arrangement can be referred to the Company's circular dated 8 September 2006.

14. AVAILABLE-FOR-SALE INVESTMENTS

	Group				
	As at 31 August		As at 31 March		
	2006	**2005**	**2006**	**2005**	**2004**
	HK$'000	*HK$'000* *(unaudited)*	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted shares, at cost	2,730	2,730	2,730	2,730	2,730
Less: Provision for impairment loss	(1,766)	(1,766)	(1,766)	(1,766)	(890)
	964	964	964	964	1,840

15. PROPERTIES UNDER DEVELOPMENT

	Group				
	As at 31 August		As at 31 March		
	2006	**2005**	**2006**	**2005**	**2004**
	HK$'000	*HK$'000* *(unaudited)*	*HK$'000*	*HK$'000*	*HK$'000*
The properties under development are due for completion					
— within one year	24,239	—	—	—	34,495
— within second to fifth year inclusive	—	16,171	24,133	15,670	—
	24,239	16,171	24,133	15,670	34,495
Amount included under current assets	(24,239)	—	—	—	(34,495)
Amount included under non-current assets	—	16,171	24,133	15,670	—

The properties under development situated in the PRC are held under the following lease term:

	As at 31 August		As at 31 March		
	2006	**2005**	**2006**	**2005**	**2004**
	HK$'000	*HK$'000* *(unaudited)*	*HK$'000*	*HK$'000*	*HK$'000*
Long-term lease	24,239	16,171	24,133	15,670	34,495

At the balance sheet date, there was no interest capitalised included in the properties under development (at 31/8/2005, 31/3/2006 and 31/3/2005: Nil; at 31/3/2004: HK$372,000).

Particulars of the properties under development are as follows:

Project name	**Approximate site area** *Sq.m.*	**Approximate gross floor area (GFA)** *Sq.m.*	**Development status**	**Completed GFA** *Sq.m.*	**GFA under construction** *Sq.m.*	**Interest held by Group**
Shanghai Pudong South East Jin Hua Estate (上海浦東錦華東南苑)	32,323	44,397	Construction completed	44,397	0	100%
Shandong Zouping Economic Development Zone (山東鄒平縣經濟開發區)	10,292	17,600	Construction in progress	Nil	17,600	100%

16. DEPOSITS PAID

Deposits paid represented the amount paid for the acquisition of the piece of land at Songjiang area, Shanghai, the PRC, and was grouped under interest in a jointly controlled entity in the consolidated balance sheet from the year ended 31 March 2006.

17. INVENTORIES

	Group				
	As at 31 August		**As at 31 March**		
	2006	**2005**	**2006**	**2005**	**2004**
	HK$'000	*HK$'000* *(unaudited)*	*HK$'000*	*HK$'000*	*HK$'000*
Finished goods	6,370	13,259	6,436	8,866	25,374
Raw materials	1,807	145	1,803	7,367	7,579
Work in progress	288	—	354	380	565
Properties held for resale	—	—	—	4,373	—
	8,465	13,404	8,593	20,986	33,518

Included above are inventories amounting to HK$1,942,000 (at 31/8/2005: Nil; at 31/3/2006: HK$3,704,000; at 31/3/2005: HK$8,176,000; at 31/3/2004: Nil) stated at net realisable value.

18. TRADE AND OTHER RECEIVABLES

The components of trade and other receivables are as follows:

	Group				
	As at 31 August		**As at 31 March**		
	2006	**2005**	**2006**	**2005**	**2004**
	HK$'000	*HK$'000* *(unaudited)*	*HK$'000*	*HK$'000*	*HK$'000*
Trade receivables	482	4,013	505	1,704	1,517
Payment in advance on property development	13,772	6,572	6,486	—	—
Other receivables and prepayments	2,761	5,108	3,134	6,680	21,680
	17,015	15,693	10,125	8,384	23,197

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				
	As at 31 August		**As at 31 March**		
	2006	**2005**	**2006**	**2005**	**2004**
	HK$'000	*HK$'000* *(unaudited)*	*HK$'000*	*HK$'000*	*HK$'000*
Less than 30 days	247	78	117	830	484
1 to 3 months	60	236	68	801	1,033
Over 3 months	175	3,699	320	73	—
	482	4,013	505	1,704	1,517

19. TRADE AND OTHER PAYABLES

The components of trade and other payables are as follows:

	Group				
	As at 31 August		As at 31 March		
	2006	**2005**	**2006**	**2005**	**2004**
	HK$'000	*HK$'000* *(unaudited)*	*HK$'000*	*HK$'000*	*HK$'000*
Trade payables	12,324	14,346	6,707	5,674	5,001
Receipt in advance on pre-sales contracts	11,752	—	6,625	—	—
Other payables and accruals	10,741	9,726	15,137	19,630	27,443
	34,817	24,072	28,469	25,304	32,444

The aged analysis of trade payables at the balance sheet date is as follows:

	Group				
	As at 31 August		As at 31 March		
	2006	**2005**	**2006**	**2005**	**2004**
	HK$'000	*HK$'000* *(unaudited)*	*HK$'000*	*HK$'000*	*HK$'000*
Less than 30 days	33	130	184	2,810	324
1 to 3 months	304	70	807	37	998
Over 3 months	11,987	14,146	5,716	2,827	3,679
	12,324	14,346	6,707	5,674	5,001

20. BANK LOAN, SECURED

The bank loan is repayable within one year. Interest is charged on the outstanding bank loan at 7.605% per annum (five months ended 31/8/2005: 6% per annum; year ended 31/3/2006: 7.605% per annum; year ended 31/3/2005: 6% per annum; year ended 31/3/2004: 4.536% to 6.3375% per annum). The bank loan is in the name of another party as described in note 12 to the financial statements.

21. AMOUNT DUE TO A DIRECTOR

The loan of HK$3,543,000 (at 31/8/2005: HK$1,000,000; at 31/3/2006: HK$2,810,000; at 31/3/2005 and 31/3/2004: Nil) advanced by a director is charged at interest rate of 8% per annum, unsecured and has no fixed repayment terms.

22. SHARE CAPITAL

	Number of shares	Amount *HK$'000*
Ordinary shares of HK$0.10 each		
Authorised:		
At 31March 2004, 31 March 2005, 31 March 2006, 31 August 2005 and 31 August 2006	4,000,000,000	400,000
Issued and fully paid:		
At 31March 2004, 31March 2005, 31 March 2006, 31 August 2005 and 31 August 2006	330,571,880	33,057

23. RESERVES

	Share Premium *HK$'000*	Contributed Surplus Account *HK$'000*	Exchange Reserve *HK$'000*	Employee Share-based Payment Reserve *HK$'000*	Accumulated Losses *HK$'000*	Total *HK$'000*
Group						
At 1 April 2003	10,000	131,166	(3,755)	—	(52,108)	85,303
Realisatoin on winding up of subsidiaries	—	—	3,965	—		3,965
Translation difference	—	—	44	—		44
Profit for the year	—	—	—	—	12,765	12,765
At 31 March 2004	10,000	131,166	254	—	(39,343)	102,077
Translation difference	—	—	(59)			(59)
Loss for the year	—	—	—	—	(50,475)	(50,475)
At 1 April 2005	10,000	131,166	195	—	(89,818)	51,543
Translation difference	—	—	1,216	—	—	1,216
Loss for the year	—	—	—	—	(20,764)	(20,764)
Share-based payment expenses	—	—	—	427	—	427
At 31 March 2006	10,000	131,166	1,411	427	(110,582)	32,422
Translation difference	—	—	(79)	—	—	(79)
Loss for the period	—	—	—	—	(2,504)	(2,504)
At 31 August 2006	10,000	131,166	1,332	427	(113,086)	29,839
At 1 April 2005	10,000	131,166	195	—	(89,818)	51,543
Translation difference (unaudited)	—	—	712	—	—	712
Loss for the period (unaudited)	—	—	—	—	(6,992)	(6,992)
At 31 August 2005 (unaudited)	10,000	131,166	907	—	(96,810)	45,263

23. RESERVES *(continued)*

	Share Premium HK$'000	Contributed Surplus Account HK$'000	Employee Share-based Payment Reserve HK$'000	Other Reserve (Note) HK$'000	Accumulated Losses HK$'000	Total HK$'000
Company						
At 1 April 2003	10,000	131,166	—	26,789	(8,789)	159,166
Loss for the year	—	—	—	—	(26,966)	(26,966)
At 31 March 2004	10,000	131,166	—	26,789	(35,755)	132,200
Loss for the year	—	—	—	—	(4,462)	(4,462)
At 1 April 2005	10,000	131,166	—	26,789	(40,217)	127,738
Loss for the year	—	—	—	—	(7,901)	(7,901)
Share-based payment expenses	—	—	427	—	—	427
At 1 April 2006	10,000	131,166	427	26,789	(48,118)	120,264
Loss for the period	—	—	—	—	(582)	(582)
At 31 August 2006	10,000	131,166	427	26,789	(48,700)	119,682
At 1 April 2005	10,000	131,166	—	26,789	(40,217)	127,738
Loss of the period (unaudited)	—	—	—	—	(610)	(610)
At 31 August 2005 (unaudited)	10,000	131,166	—	26,789	(40,827)	127,128

Note: The other reserve of the Company represents the net balance arising from the transfer of the share premium account of the Company and the credit balance from the reduction of capital after elimination with the accumulated losses of the Company brought forward and transfer to the contributed surplus account pursuant to the Capital Reorganisation Scheme implemented during the year ended 31 March 2002.

24. SHARE OPTION SCHEME

(i) The Company's share option scheme (the "Scheme") was adopted pursuant to a shareholders' resolution passed on 7 November 2003. The following is a summary of the Scheme adopted:

(a) Purpose

The purpose of the Scheme is to provide incentives or rewards to certain eligible participants for their contribution or potential contribution to the growth and development of the Group.

(b) Participants

Eligible participants of the Scheme include employees or officers (including executive directors), non-executive directors (including independent non-executive directors), suppliers, customers, consultants or advisors, and securities holders of the Group, as to be determined by the Board at its absolute discretion within the categories.

24. SHARE OPTION SCHEME *(continued)*

(c) Total number of shares available for issue

The maximum numbers of shares which may be issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes adopted by the Company must not in aggregate exceed 30% of the shares in issue from time to time. The total number of shares which may be issued upon the exercise of all options to be granted under the Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the shares of the Company in issue as at 7 November 2003, but the Company may seek approval of its shareholders in general meeting to refresh the 10% limit under the Scheme.

(d) Maximum entitlement of each participant

The total number of shares issued and to be issued upon exercise of the share options granted under the Scheme and any other share option schemes of the Company to each participant in any 12-month period up to the date of grant must not exceed 1% of the shares in issue at the date of grant. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates must not exceed 0.1% of the shares of the Company in issue at any time nor with an aggregate value (based on the closing price of the Company's shares at the date of each grant) in excess of HK$5 million, within any 12-month period up to and including the date of such grant.

Subject to separate approval by the shareholders in general meeting with the relevant participant and his associates (as defined in the Listing Rules) abstaining from voting provided the Company shall issue a circular to shareholders before such approval is sought, the Company may grant options to a participant which would exceed this limit.

(e) Option period

The option period within which the shares must be taken up under an option shall be determined by the Board in its absolute discretion at the time of grant, but such period must not exceed 10 years from the date of grant of the relevant option.

(f) Minimum period for which an option must be held before it can be exercised

The minimum period, if any, for which an option must be held before it can be exercised shall be determined by the Board in its absolute discretion. The Scheme itself does not specify any minimum holding period.

(g) Payment on acceptance of the option

HK$10 is payable by the grantee to the Company on acceptance of the option offer. An offer must be accepted within 28 days from the date of grant.

(h) Basis of determining the exercise price

The exercise price shall be determined by the Board in its absolute discretion at the time of the grant but shall not be less than the higher of: (i) the closing price of the shares on the date of grant; (ii) the average closing prices of the shares for the 5 business days immediately preceding the date of grant; and (iii) the par value of a share.

24. SHARE OPTION SCHEME *(continued)*

(i) Remaining life of the scheme

The life of the Scheme is 10 years commencing on the Adoption Date and will expire on 6 November 2013.

(ii) Following to the adoption of HKFRS 2, Share-based Payments the fair value of the employee services received in exchange for the grant of the share options after 7 November 2002 is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the share options granted. The estimated fair value of the options is measured based on binominal lattice model. The variables input into the model are as follows:

Fair value of share options and assumptions

Fair value at measurement date	HK$0.0809
Share price	HK$0.1100
Exercise price	HK$0.1060
Expected volatility	104.9%
Option life	12 years
Expected dividends	0%
Risk-free interest rate	4.375%

The expected volatility is based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

25. PLEDGE OF ASSETS

At 31 August 2006, the Group has pledged land and buildings with net book value of HK$7,365,000 (at 31/8/2005: HK$7,404,000; at 31/3/2006: HK$7,436,000; at 31/3/2005 HK$7,451,000; at 31/3/2004: HK$7,619,000) to secure the general banking facilities and the bank loan granted to the Group.

26. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

Emoluments breakdown of each of the directors for the five months ended 31 August 2006:

	Directors' fees	**Salaries allowances and benefits in kind**	**Retirement benefits scheme contributions**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Mr. Budiman Rahardja	—	500	50	550
Mr. Kwan Kei Chor, Samuel	—	94	4	98
Independent non-executive directors				
Mr. Lo Yuk Lam	25	—	—	25
Mr. Wong Kam Wah	25	—	—	25
	50	594	54	698

26. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

Emoluments breakdown of each of the directors for the five months ended 31 August 2005 (unaudited):

	Directors' fees	Salaries, allowances and benefits in kind	Retirement benefits scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Mr. Budiman Rahardja	—	546	50	596
Mr. Kwan Kei Chor, Samuel	—	207	19	226
Independent non-executive directors				
Mr. Lo Yuk Lam	25	—	—	25
Mr. Wong Kam Wah	25	—	—	25
	50	753	69	872

Emoluments breakdown of each of the directors for the year ended 31 March 2006:

	Directors' fees	Salaries, allowances and benefits in kind	Retirement benefits scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Mr. Budiman Rahardja	—	1,311	120	1,431
Mr. Kwan Kei Chor, Samuel	—	499	44	543
Independent non-executive directors				
Mr. Lo Yuk Lam	60	—	—	60
Mr. Wong Kam Wah	60	—	—	60
	120	1,810	164	2,094

Emoluments breakdown of each of the directors for the year ended 31 March 2005:

	Directors' fees	Salaries, allowances and benefits in kind	Retirement benefits scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Mr. Budiman Rahardja	—	1,639	120	1,759
Mr. Kwan Kei Chor, Samuel	—	534	44	578
Independent non-executive directors				
Mr. Lo Yuk Lam	60	—	—	60
Mr. Wong Kam Wah	60	—	—	60
	120	2,173	164	2,457

Emoluments breakdown of each of the directors for the year ended 31 March 2004:

	Directors' fees	Salaries, allowances and benefits in kind	Retirement benefits scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors				
Mr. Budiman Rahardja	—	1,669	114	1,783
Mr. Kwan Kei Chor, Samuel	—	523	44	567
Ms. Herlina Nuryanti	—	200	15	215
Independent non-executive directors				
Mr. Lo Yuk Lam	60	—	—	60
Mr. Wong Kam Wah	60	—	—	60
	120	2,392	173	2,685

26. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

The five individuals whose emoluments were the highest in the Group for the period include two directors (five months ended 31 August 2005 and years ended 31 March 2006, 2005 and 2004: two directors). Their emoluments have already been disclosed in the analysis presented above.

The details of the remuneration of the remaining three (five months ended 31 August 2005 and years ended 31 March 2006, 2005 and 2004: three) non-director, highest paid employees are as follows:

	Five months ended 31 August		Year ended 31 March		
	2006	**2005**	**2006**	**2005**	**2004**
	HK$'000	*HK$'000* *(unaudited)*	*HK$'000*	*HK$'000*	*HK$'000*
Salaries, allowances and benefits in kind	405	405	1,167	1,053	1,053
Retirement benefits scheme contribution	20	20	56	49	49
	425	425	1,223	1,102	1,102

During the period/year, no emoluments were paid by the Group to any director or employee as an inducement to join or upon joining the Group or as compensation for loss of office.

27. CONTINGENT LIABILITIES

Group and Company

	As at 31 August		As at 31 March		
	2006	**2005**	**2006**	**2005**	**2004**
	HK$'000	*HK$'000* *(unaudited)*	*HK$'000*	*HK$'000*	*HK$'000*
Guarantee in respect of indebtedness of a subsidiary *(Note)*	38,000	38,000	38,000	38,000	38,000
Guarantee for securities trading of a subsidiary	1,000	1,000	1,000	1,000	1,000
	39,000	39,000	39,000	39,000	39,000

Note: This is the purported guarantee which came to the attention of the directors with respect of the alleged indebtedness of a subsidiary as disclosed in note 29 to the financial statements.

The Company denies any liability to the sub-contractor and/or the other party under the purported guarantee but, out of prudence, the directors of the Company have made a decision to treat the purported guarantee as a contingent liability in the Company's financial statements.

28. COMMITMENTS

(a) Capital commitments

	Group				
	As at 31 August		As at 31 March		
	2006	**2005**	**2006**	**2005**	**2004**
	HK$'000	*HK$'000* *(unaudited)*	*HK$'000*	*HK$'000*	*HK$'000*
Contracted but not provided for					
— property development for sale in the PRC	1,961	13,775	9,363	32,868	—
— investment in a jointly controlled entity	—	—	—	—	36,848

(b) Operating lease commitments

At 31 August 2006, the Group had the total of future minimum lease payments under non- cancellable operating leases for each of the following periods:

	As at 31 August		As at 31 March		
	2006	**2005**	**2006**	**2005**	**2004**
	HK$'000	*HK$'000* *(unaudited)*	*HK$'000*	*HK$'000*	*HK$'000*
— Not later than one year	356	46	478	274	349
— Later than one year and not later than five years	16	—	118	79	100
	372	46	596	353	449

The Company did not have any outstanding operating lease commitments at the balance sheet date.

29. LITIGATION

As noted in the 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 the 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 "Court"). The claimant Shenzhen Zerone Science and Technology Development Ltd. 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 the SBEC and the Purported Guarantee. SZL alleged that BML is liable to them in the amount of approximately HK$36 million and the Company is also liable to the joint and several liabilities thereof.

29. LITIGATION *(continued)*

During the year ended 31 March 2006, SZL filed claim for an additional amount of RMB35 million as accrued interest on the alleged indebtedness over the years.

A hearing of the case was held in the Court on 22 June 2006. According to the lawyers engaged by the Company in the court hearing, it is not expected that any court judgement will be handed down by the end of 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 Company or the Group.

30. SUBSIDIARIES EXCLUDED FROM CONSOLIDATION

As disclosed in note 29 to the financial statements, Benelux Manufacturing Limited (In Liquidation) ("BML") was put into liquidation in 1999. The directors have given due and careful consideration of the impact of the liquidation of BML on the Group's operations and financial position and are of the opinion that it will not have a material adverse effect on the Group. As BML was put under severe restrictions which significantly impaired control by the Company over BML's assets and operations, the directors have decided to exclude BML and the subsidiaries of BML from the consolidated financial statements from the date of appointment of the provisional liquidators since 2000.

Details of the subsidiaries excluded from consolidation are as follows:

	Country/ place of incorporation and operation	Issued and fully paid-up capital or capital contribution	Effective equity interest held before liquidation	Nature of business
Direct subsidiary:				
Benelux Manufacturing Limited *(Note 1)*	Hong Kong	Ordinary HK$100 Non-voting deferred HK$5,000,000	100%	In liquidation
Indirect subsidiaries:				
Prime Standard Limited *(Note 2)*	Hong Kong	Ordinary HK$100,000	90%	Ceased operations
P.T. Beneluxindo *(Note 3)*	Indonesia	Ordinary US$10,000,000	100%	Ceased operations

Note 1: Benelux Manufacturing Limited (In Liquidation) ("BML") is excluded from consolidation because severe restrictions which significantly impaired control by the Group over BML's assets and operations.

Note 2: Prime Standard Limited ("PSL") which is a subsidiary of BML, is excluded from consolidation because the Group's control over PSL has been significantly impaired following the appointment of provisional liquidators to BML.

Note 3: P.T. Beneluxindo ("PTB") which is a wholly owned subsidiary of BML, is excluded from consolidation because the Group's control over PTB has been significantly impaired following the appointment of provisional liquidators to BML.

30. SUBSIDIARIES EXCLUDED FROM CONSOLIDATION *(continued)*

The net losses of subsidiaries not consolidated attributable to the Group are:

	Period from 1/4/2006 to 31/8/2006 *HK$'000*	**Previous years since acquisition** *HK$'000*
Dealt with in the financial statements of the Group	Nil	(46,232)
Not dealt with in the financial statements of the Group	Nil	(244,391)

31. FINANCIAL INSTRUMENTS

(a) Financial risk factors

The main risks arising from the Group's financial instruments are credit risk, foreign exchange risk, price risk, liquidity risk and interest rate risk. The directors of the Company meet periodically to analyse and formulate measures to manage the Group's exposure to these risks. Generally, the Group introduces conservative strategies on its risk management. As the Group's exposure to these risks is kept to a minimum, the Group has not used any derivatives and other instruments for hedging purposes. The directors review and agree policies for managing each of these risks and they are summarised as follows:

(i) Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices.

(ii) Foreign exchange risk

The Group's main operations are in Hong Kong and the PRC and it has no significant exposure to any specific foreign currency other than Hong Kong dollar and Renimbi.

(iii) Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the Head of Credit Control.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents and available-for-sale financial assets, the Group's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments.

(iv) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and cash equivalents, and the availability of funding through an adequate amount of funds and credit facilities.

Management has assessed the risks on its financial instruments and has determined that there are no substantial market, foreign exchange, credit and liquidity risks associated with them because of the short maturity and nature of such accounts.

(b) Fair value estimation

The carrying amounts of cash and cash equivalents, trade and other receivables, and trade and other payables approximate to their fair values.

32. CONNECTED PARTY TRANSACTIONS

In addition to the transactions detailed elsewhere in these financial statements, the Group and the Company paid interest of HK$110,000 (five months ended 31/8/2005: Nil; year ended 31/3/2006: HK$98,000; years ended 31/3/2005 and 31/3/2004: Nil) to one of the directors, Mr. Budiman Rahardja, regarding the loan advanced by him as stated in note 21 to the financial statements.

33. POST BALANCE SHEET EVENT

Subsequent to the end of the year ended 31 March 2006, on 26 May 2006, a wholly owned subsidiary of the Group, Benelux Property Development (Shanghai) Limited ("BPDL"), together with other joint venture partners of a jointly controlled entity, Shanghai Ying Zhi Lun Property Development Limited ("YZL") (as set out in note 12 to the financial statements), entered into the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement (the "Transfer Agreement") to transfer their entire ownership interest in YZL, as well as their loans to YZL, to a non-related arms-length third party (collectively the "Transfer"). BPDL has 35% interest in YZL and its share of the consideration amounting to approximately RMB46,800,000 (approximately HK$45,400,000) is expected to yield a net gain of approximately RMB8.3 million for the Group.

On account that one of the joint venture partners of YZL is a state-owned enterprise, the Transfer underwent a duly held public tender process. The public tender process has since been completed and it is expected that the terms of the said Transfer Agreement shall in due course be completed. Further details regarding the Transfer and the Transfer Agreement are set out in the announcement of the Company dated 23 August 2006.

The disposal of YZL would be regarded as discontinued operation of the Group for the year ending 31 March 2007. As YZL has not yet commenced business, this would have no impact on the core business of the Group.

34. 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

	Five months ended 31 August				Year ended 31 March					
	2006		2005		2006		2005		2004	
	Turnover	Contribution to operating profit/(loss)	Turnover	Contribution to operating profit/(loss)	Turnover	Contribution to operating profit/(loss)	Turnover	Contribution to operating profit/(loss)	Turnover	Contribution to operating profit/(loss)
	HK$'000	*HK$'000*	*HK$'000 (unaudited)*	*HK$'000 (unaduited)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
By principal activities:										
— Sales of data storage media products and related equipment	1,481	(626)	1,459	(3,400)	5,062	(9,115)	7,631	(37,566)	15,185	(5,276)
— Sales of property under development	501	(1,022)	—	(1,869)	8,240	(9,312)	50,507	(4,766)	167,178	26,335
— Sales of wine	504	(2,794)	1,481	(2,590)	4,476	(4,764)	7,724	(14,408)	10,487	(6,414)
	2,486	(4,442)	2,940	(7,859)	17,778	(23,191)	65,862	(56,740)	192,850	14,645
Other revenues		992		44		612		501		1,035
		(3,450)		(7,815)		(22,579)		(56,239)		15,680

34. SEGMENT INFORMATION *(continued)*

RESULTS *(continued)*

	Five months ended 31 August				Year ended 31 March					
	2006		2005		2006		2005		2004	
	Turnover	Contribution to operating profit/(loss)	Turnover	Contribution to operating profit/(loss)	Turnover	Contribution to operating profit/(loss)	Turnover	Contribution to operating profit/(loss)	Turnover	Contribution to operating profit/(loss)
	HK$'000	*HK$'000*	*HK$'000 (unaudited)*	*HK$'000 (unaduited)*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
By geographical markets:										
— Hong Kong	26	(915)	9	(440)	16	(2,345)	219	(4,849)	190	(4,315)
— The United States of America and Canada	756	(762)	318	(732)	1,128	(1,963)	2,006	(1,499)	2,302	813
— The People's Republic of China	1,544	(2,603)	2,474	(6,367)	16,283	(15,164)	63,003	(50,011)	189,945	17,185
— Australia and New Zealand	—	—	—	—	—	(3,108)	—	93	—	816
— Others	160	(162)	139	(320)	351	(611)	634	(474)	413	146
	2,486	(4,442)	2,940	(7,859)	17,778	(23,191)	65,862	(56,740)	192,850	14,645
Other revenues		992		44		612		501		1,035
		(3,450)		(7,815)		(22,579)		(56,239)		15,680

FINANCIAL POSITIONS

	Five months ended 31 August		As at 31 March		
	2006	2005	2006	2005	2004
	HK$'000	*HK$'000 (unaudited)*	*HK$'000*	*HK$'000*	*HK$'000*
Assets					
Segment assets:					
— Sales of data storage media products and related equipment	3,031	9,942	2,772	12,569	49,992
— Sales of property under development	78,978	70,406	74,016	71,375	85,294
— Sales of wine	17,969	21,994	19,877	25,537	32,852
— Unallocated corporate assets	7,345	7,994	7,442	8,467	23,054
	107,323	110,336	104,107	117,948	191,192
Liabilities					
Segment liabilities:					
— Sales of data storage media products and related equipment	3,812	2,805	2,900	2,910	1,317
— Sales of property under development	15,046	8,470	10,284	8,338	33,716
— Sales of wine	19,065	16,051	18,595	17,187	10,977
— Unallocated corporate liabilities	6,348	2,258	5,658	1,334	299
	44,271	29,584	37,437	29,769	46,309
Net assets	63,052	80,752	66,670	88,179	144,883

The financial statements do not include any disclosures of the carrying amount of segment assets and liabilities analysed by geographical area.

Yours faithfully,
BKR Lew & Barr Limited
Certified Public Accountants
Hong Kong
So Kwok Keung Keith
Director
Practising Certificate No. P1724

II. STATEMENT OF INDEBTEDNESS

As at 31 August 2006, being the latest practicable date prior to the printing of this circular for ascertaining information for inclusion in this statement of indebtedness, the Group had an outstanding secured bank loan of approximately HK$4,560,000 and an interest bearing, unsecured loan of approximately HK$3,543,000.

As at 31 August 2006, the Group and the Company had a guarantee in respect of indebtedness of a subsidiary and a guarantee for securities trading of a subsidiary amounting to approximately HK$38,000,000 and HK$1,000,000 respectively.

Saved as disclosed above and apart from intra-group liabilities and normal trade debts payable, none of the companies of the Group had any outstanding loan capital issued and outstanding or agreed to be issued, bank overdrafts, terms loans, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, finance lease and hire purchase commitments, guarantees or other material contingent liabilities as at 31 August 2006, being the latest practicable date.

The guarantee mentioned above in respect of indebtedness of a subsidiary refers to the Purported Guarantee disclosed as under the section headed “Litigation” in this appendix.

III. WORKING CAPITAL

The Directors of the Company are of the opinion that, after taking into account the internal resources available to the Group, the net estimated proceeds from the realization of BPDL’s interests in Ying Zhi Lun pursuant to the Transfer of Ownership of Equity Interest and Shareholders’ Loan Agreement, the Group will have sufficient working capital for its present requirements and for the next twelve months from the date of this circular.

IV. MANAGEMENT DISCUSSION AND ANALYSIS OF THE REMAINING GROUP

For the year ended 31 March 2004

(a) Business Review

The Group has been able to achieve remarkable growth during the financial year ended 31 March 2004. During the year under review, the Group was able to overcome the market challenges and continued to do well with its property business in the PRC. The Group’s consolidated turnover increased by more than threefold to HK$192,850,000 (2003: HK$60,252,000). The Group accomplished fruitful returns from the PRC property business. Net profit attributable to shareholders was approximately HK$12,765,000, reversing a loss of approximately HK$33,700,000 in the previous year.

The Group’s strategy to actively develop and explore the China markets proved to be a success. Percentage sales for the PRC market have increased substantially by approximately 55% to 98% during the year, which has contributed to the improvement in the overall results of the Group.

The division of property development and investment represented the largest business segment generating most of the Group's revenue and profitability. It represented approximately 87% of the Group's total turnover, while sales of data storage media products and wine products accounted for approximately 8% and 5% respectively.

The residential property development project in Pudong, Shanghai was the dominant revenue and profit contributor over the year under review. The project was 94% completed during the year, generating a profit of approximately HK$26,300,000. As at 31 March 2004, approximately 90% of the residential units and all commercial units were sold, most of them to local residents in Shanghai. The remaining 10% of the residential units were launched in the market in March 2004. Sales and profits attributed from such portion of the project would be recognized in subsequent years.

As the property project in Pudong is near its completion, the Group has taken on a new development project in another premium area in Shanghai. In October 2003, the Group contracted to acquire an equity interest of 33% in a real estate company established in Shanghai with an ultimate goal of participating in a residential development project in the Song Jiang area. The 33% owned real estate company won the public tender for the target land in February 2004 at a final price of approximately HK$36,848,000 that was higher than originally intended. Because of the recent restrictive measures of some local governments in theYangtze River Delta, for example, contract tax imposed on pre-sales of unfinished properties and banning of mortgages to pre-sale housing, coupled with price increases of building materials, the Group would take a more cautious approach when planning the development project in Song Jiang. The overall development schedule of this property project will inevitably be affected.

Continuous efforts have been made to reform the product mix and to establish brand awareness of the data storage media products. In response to the contracting business of magnetic media products among the data storage media products, the Group terminated the operation of its plant in Changzhou, the PRC in December 2003. The negative contribution of this business segment for the year under review has been attributed to the impact sustained as a result of SARS outbreak in the early period of the year.

After a year of consolidation and reform, the operation of the 55% owned winery in Qingdao became smoother and thus closer to the market needs. Intensified marketing initiatives have been taken to broaden the customer base in the PRC market. These include setting up a sales office in Shanghai for entering the local supermarkets, hotels and restaurants. The Company recorded sales of wine products amounting to HK$10,487,000 in the year under review. However, loss incurred mainly due to increases in (i) selling expenses attributed to higher marketing and promotion costs in response to the intensified market competition and (ii) general and administration expenses representing mainly the redundancy pay resulted from streamlining the operation.

(b) *Liquidity and Financial Resources and Capital Structure*

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%).

(c) *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.

(d) *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-preformed employees. The Company also adopted a share option scheme in November 2003 to reward employees of the Group for their contributions to the Company.

(e) 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.

(f) Capital Commitment and Contingent Liabilities

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

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 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.

Base 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.

(g) Prospects

It is believed that the real estate market in the PRC can offer a good return given the robust macroeconomic growth and strong demand for properties, despite the policies recently taken by the central government to avoid overheating of economy. Measures to curb speculative housing investments may cause short-term market fluctuations, however, with he improvement of the financing market and opening of land transactions, the healthy development of the real estate sector will result in the long run.

Seeing the event of the World Expo 2010 in Shanghai as an opportunity, the Group will continue to focus on the property development and investment business in Shanghai, which is also known for its wealth, while searching for other opportunities in the country's real estate sector.

Witnessed the growing popularity of the data storage medial products, like USB Flash chips and flash cards, in the PRC market, the Group will also focus on growing this business segment with the addition of new items that have rapid demand growth and hence better profit margin. Leveraging on our extensive sales and distribution network, logistics support as well as knowledge of the PRC market, this business may offer good growth potential.

While striving to achieve balanced performance between the property business and the data storage media products business, the Group plans to develop strategies like improving market responsiveness, magnifying sales activity, forming strategic alliance with business partners and strengthening cost control.

For the year ended March 2005

(a) Business Review

The Group's turnover for the year ended 31 March 2005 was HK$65,862,000, compared to HK$192,850,000 reported in the preceding year. Because of the reduced activities of all business segments, especially the property development projects in the People's Republic of China (the "PRC"), the Group's total turnover was affected as a result. The Group reported a loss attributed to shareholders of HK$50,475,000, representing a drop of HK$63,240,000 as compared with last year. The loss included the provision for impairment loss against the data storage media products business and the wine business amounting to HK$25,821,000 and HK$3,000,000 respectively.

Following the gradual shift of business strategy over the past few years, the Group's main business focus in 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, Shandong 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.

(b) Liquidity, Financial Resources and Capital Structure

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%.

(c) 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 (South East Property (Shandong) Limited) as its wholly owned subsidiary for carrying on a property development project in Zouping, Shandong.

Dissolution of Benelux International Electronics Company Limited, and 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.

(d) 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.

(e) 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.

(f) Captial Commitment and Contigent 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 has been treated by the directors of the Company on ground of prudence as a contingent liability in the Company's financial statements.

(g) 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.

For the year ended 31 March 2006

(a) Business Review

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.

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. 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 by way of pre-completion contacts as of 31 March 2006, so the revenue has not been accounted for in the year under review. 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 attributable to this business segment was HK$4,764,000.

(b) Liquidity, Financial Resources and Capital Structure

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%.

(c) 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.

(d) 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.

(e) Capital Commitment and Contingent Liabilites

As 31 March 2006, the Group had outstanding capital commitments amounting to HK$9,363,000 (2005: HK$32,868,000).

The Purported Guarantee has been treated by the directors of the Company on the ground of prudence as a contingent liability in the Company's financial statements.

(f) 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.

For the five months ended 31 August 2006

(a) Business Review

For the five months ended 31 August 2006, the Group recorded an audited consolidated turnover of approximately HK$2,486,000 (2005: HK$2,940,000), representing a decrease of approximately HK$454,000 compared with the corresponding period last year. Net loss from ordinary activities attributable to shareholders for the period was approximately HK$2,504,000, representing an improvement of approximately HK$4,488,000 from a loss of approximately HK$6,992,000 for the corresponding period last year.

During the five months ended 31 August 2006, property development and investment remained the main focus of the Group's business development. This business segment generated a turnover of approximately HK$501,000 in the five months to August, representing approximately 20.2% of the Group's total turnover. This was mainly derived from sales of car parks in the Pudong project. The results of this business segment have a negative contribution of HK$1,022,000.

The macro-control measures deployed by the Beijing government have helped contain the momentum of the overheat property market, which should be healthful for the industry in the long run. The Group has adjusted its business policy in response to the market situation. This included regulating its investment strategy by adopting a prudent approach to conserve financial resources.

Sales of data storage media products amounted to approximately HK$1,481,000 for the period under review, representing approximately 59.6% of the total turnover. The turnover generated from this business segment was maintained at a similar level of the corresponding period last year. A loss of HK$626,000 was recorded during the period under review.

The turnover of the Group's wine business was approximately HK$504,000, representing approximately 20.3% of the total turnover. Affected by the operational restructuring of the winery, this branch of business recorded a 66.0% decrease in turnover over the corresponding period of last year. The loss attributable to this business segment amounted to HK$2,794,000 for the period under review.

(b) Liquidity, Financial Resources and Capital Structure

As at 31 August 2006, cash and bank balances of the Group amounted to approximately HK$7,689,000. Bank and other borrowings of the Group amounted to approximately HK$4,560,000, 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.

Shareholder's equity as at 31 August 2006 was HK$62,896,000. The Group's gearing ratio, expressed as the percentage of the Group's total borrowings over shareholders' equity, was approximately 7.25%.

(c) *Disposal of Assets*

On 31 July 2006, South East Property (Shandong) Limited (東南(山東)置業有限公司), a wholly owned subsidiary of the Company, and Mr. Huang Jian Rong (黄建榮) entered into a cooperation for development agreement in relation to, among others, the formation of a joint venture in the PRC (to be equally owned by the parties thereto), the transfer of title from South East Property (Shandong) Limited to the joint venture in the PRC in respect of a vacant site of gross land area of approximately 34,116.96 square metres situated at Zouping Economic Development Zone (鄒平經濟開發區), Zouping County, Shandong Province, the PRC; and the transfer of 50% equity interest in the joint venture in the PRC from South East Property (Shandong) Limited to a transferee as specified by Mr. Huang Jian Rong, for an aggregate consideration of RMB14,100,000.

(d) *Employee Information*

As at 31 August 2006, the total number of employees of the Group was approximately 264. 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.

(e) *Charges on Group Assets*

As at 31 August 2006, the Group pledged certain assets including land and buildings with an aggregate net book value of HK$7,365,000 to secure the general banking facilities and bank loans granted to the Group.

(f) *Capital Commitment and Contingent Liabilites*

As at 31 August 2006, the Group had outstanding capital commitments of approximately HK$1,961,000, mainly related to the construction costs payable in respect of the Group's property development project in Zouping, the PRC.

The Purported Guarantee (as defined in the section headed "Litigation" in Appendix IV of this circular) has been treated by the Directors on the ground of prudence as a contingent liability during the period under review.

(g) *Financial and Trading Prospect of the Group*

The main direction for business development of the Group in the near future will continue to be property development and investment in the PRC, while it will maintain its businesses of trading of data storage media products and manufacturing and trading of wine. The Realization pursuant to the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement allows the Group an opportunity to realize the value of its investments in Ying Zhi Lun. It will effectively increase the Group's cash flows, and hence enhance its financial stability and flexibility. The Group will continue to look for potential investments in properties, should opportunities arise in future. As at the Latest Practicable Date, no investment target has been identified yet. Taking into account of the above reasons, it is expected that the financial and trading prospect of the Group will improve for the current financial year.

I. REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE GROUP

The following is the text of a report, prepared for the purpose of inclusion in this circular received from the independent reporting accountants of the Company, BKR Lew & Barr Limited, Certified Public Accountants, Hong Kong.

劉白 **BKR Lew & Barr Ltd**
Certified Public Accountants

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Ruttonjee Centre
11 Duddell Street
Hong Kong

Tel : (852) 2521 2328
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The Board of Directors
South East Group Limited

13 November 2006

Dear Sirs,

We report on the unaudited pro forma financial information (the "Pro Forma Financial Information") of South East Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"), which has been prepared by the directors for illustrative purposes only, to provide information about how the proposed disposal by the Group of its equity interest in and shareholder's loan to Shanghai Ying Zhi Lun Property Development Limited (the "Disposal") might have affected the financial information presented, for inclusion as Appendix I in this circular dated 13 November 2006 (the "Circular"). The basis of preparation of the Pro Forma Financial Information is set out on page 71 to the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (HKSIR) 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

(a) the financial position of the Group at 31 March 2006 or any future date; or

(b) the results and cash flows of the Group for the year ended 31 March 2006 or any future periods.

Opinion

In our opinion:

(a) the Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,
BKR Lew & Barr Limited
Certified Public Accountants
Hong Kong
So Kwok Keung Keith
Director
Practising Certificate No. P1724

II. UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE GROUP

Basis of preparation

The unaudited pro forma financial information comprises unaudited pro forma consolidated balance sheet of the Group as at 31 March 2006, unaudited pro forma consolidated income statement and unaudited pro forma consolidated cash flow statement of the Group for the year ended 31 March 2006 and the accompanying notes (collectively referred to as the "Pro Forma Financial Information").

For illustrative purposes only, the Pro Forma Financial Information prepared in accordance with paragraph 4.29 of the Listing Rules is set out below to illustrate the effect of the proposed disposal of the Group's 33% equity interest in Shanghai Ying Zhi Lun Property Development Limited ("YZL") and the shareholder's loan of RMB35.8 million thereto (the "Disposal") on (i) the consolidated balance sheet of the Group as at 31 March 2006 as if the Disposal had been taken place on 31 March 2006; and (ii) the consolidated income statement and consolidated cash flow statement of the Group for the year ended 31 March 2006 as if the Disposal had been taken place on 1 April 2005.

The Pro Forma Financial Information has been prepared based on the audited consolidated financial information of the Group for the year ended 31 March 2006 as set out in the Accountants' Report in Appendix I of this circular after giving effect to the pro forma adjustments described in the accompanying note.

The Pro Forma Financial Information has been prepared for illustrative purposes only and because of its nature, may not give a true picture of the actual financial position, results of operations or cash flows of the Remaining Group that would have been attained had the Disposal actually occurred on the dates indicated herein. In addition, the Pro Forma Financial Information does not purport to predict the Remaining Group's future financial position, results of operations or cash flows.

The Pro Forma Financial Information should be read in conjunction with the Accountants' Report on the Group as set out in Appendix I and other financial information included elsewhere in this Circular.

(i) Unaudited pro forma consolidated balance sheet of the Group

	Audited consolidated balance sheet as at 31 March 2006	**Pro forma adjustment**	**Unaudited pro forma consolidated balance sheet after the Disposal**
	HK$'000	*HK$'000*	*HK$'000*
		(# 1)	
NON-CURRENT ASSETS			
Property, plant and equipment			
— Other property, plant and equipment	10,768		10,768
— Interests in leasehold land held for own use under operating leases	2,085		2,085
	12,853		12,853
Interest in a jointly controlled entity	36,909	(36,909)	—
Available-for-sale investments	964		964
Properties under development	24,133		24,133
	74,859		37,950
CURRENT ASSETS			
Inventories	8,593		8,593
Trade and other receivables	10,125		10,125
Cash and cash equivalents	10,530	44,957	55,487
	29,248		74,205

(i) Unaudited pro forma consolidated balance sheet of the Group *(Continued)*

	Audited consolidated balance sheet as at 31 March 2006	**Pro forma adjustment**	**Unaudited pro forma consolidated balance sheet after the Disposal**
	HK$'000	*HK$'000*	*HK$'000*
		(# 2)	
CURRENT LIABILITIES			
Trade and other payables	28,469		28,469
Bank loan, secured	4,560		4,560
Amount due to a director	4,408		4,408
	37,437		37,437
NET CURRENT (LIABILITIES)/ASSETS	(8,189)		36,768
NET ASSETS	66,670		74,718
CAPITAL AND RESERVES			
Share capital	33,057		33,057
Reserves	32,422	8,048	40,470
SHAREHOLDERS' FUNDS	65,479		73,527
MINORITY INTERESTS	1,191		1,191
	66,670		74,718

(ii) Unaudited pro forma consolidated income statement of the Group

	Audited consolidated income statement for the year ended 31 March 2006 *HK$'000*	Pro forma adjustment *HK$'000* *(# 2)*	Unaudited pro forma consolidated income statement after the Disposal *HK$'000*
TURNOVER	17,778		17,778
COST OF INVENTORIES SOLD	(19,687)		(19,687)
GROSS LOSS	(1,909)		(1,909)
OTHER REVENUES	612		612
GAIN ON DISPOSAL OF INTEREST IN A JOINTLY CONTROLLED ENTITY		8,048	8,048
CLAIM SETTLEMENT	(3,108)		(3,108)
BAD DEBT WRITTEN OFF	(2,755)		(2,755)
SELLING AND DISTRIBUTION COSTS	(4,011)		(4,011)
ADMINISTRATIVE EXPENSES	(11,408)		(11,408)
LOSS FROM OPERATIONS	(22,579)		(14,531)
FINANCE COSTS	(447)		(447)
LOSS BEFORE TAXATION	(23,026)		(14,978)
TAXATION	(179)		(179)
LOSS FOR THE YEAR	(23,205)		(15,157)
Attributable to:			
Equity holders of the Company	(20,764)		(12,716)
Minority interests	(2,441)		(2,441)
	(23,205)		(15,157)

(iii) Unaudited Pro Forma Consolidated Cash Flow Statement of the Group

	Audited consolidated cash flow statement for the year ended 31 March 2006 *HK$'000*	**Pro forma adjustment** *HK$'000* *(# 2)*	**Unaudited pro forma consolidated cash flow statement after the Disposal** *HK$'000*
OPERATING ACTIVITIES			
Loss before taxation	(23,026)	8,048	(14,978)
Adjustments for:			
Depreciation	2,219		2,219
Gain on disposals of property, plant and equipment	(91)		(91)
Gain on disposal of interest in a jointly controlled entity		(8,048)	(8,048)
Allowance for loss on obsolete inventories	1,361		1,361
Allowance for doubtful debts	536		536
Bad debt written off	2,755		2,755
Share based payment expenses	427		427
Interest income	(77)		(77)
Interest expenses	447		447
Operating loss before working capital changes	(15,449)		(15,449)
Decrease in inventories	11,032		11,032
Increase in properties under development	(8,463)		(8,463)
Increase in trade and other receivables	(2,313)		(2,313)
Increase in restricted bank deposits	(56)		(56)
Increase in amount due to a director	4,408		4,408
Increase in trade and other payables	3,165		3,165
Cash used in operations	(7,676)		(7,676)
Income taxes paid	(179)		(179)
Interest received	77		77
Interest paid	(3)		(3)
NET CASH USED IN OPERATING ACTIVITIES	(7,781)		(7,781)

	Audited consolidated cash flow statement for the year ended 31 March 2006 *HK$'000*	Pro forma adjustment *HK$'000* *(# 1)*	Unaudited pro forma consolidated cash flow statement after the Disposal *HK$'000*
NET CASH USED IN OPERATING ACTIVITIES	(7,781)		(7,781)
INVESTING ACTIVITIES			
Purchases of property, plant and equipment	(413)		(413)
Proceeds from sale of property, plant and equipment	132		132
Repayment of advance to a jointly controlled entity	—	34,427	34,427
Proceeds on disposal of investment in a jointly controlled entity	—	10,530	10,530
NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES	(281)		44,676
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(8,062)		36,895
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	12,547		12,547
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(171)		(171)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	4,314		49,271
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	10,530	44,957	55,487
Bank deposit restricted	(6,216)		(6,216)
	4,314		49,271

(iv) Notes to unaudited pro forma financial information

Pro forma adjustments

(1) The adjustment takes into account the consideration received for the Disposal of approximately HK$45,417,000 of which repayment of approximately HK$34,427,000 from YZL and net proceeds of approximately HK$10,530,000 on disposal of YZL, and the estimated expenses directly attributable to the Disposal of approximately HK$460,000. The gain on the Disposal is approximately HK$8,048,000.

(2) The adjustment reflects the gain on the Disposal, which represents a net gain of approximately HK$8,048,000 on the Disposal.

The following is the text of the letter and valuation certificate prepared for the purposed of incorporation in this circular, received from RHL Appraisal Limited, an independent valuer, in connection with their valuation of the Lot as at 30 September 2006 held by Ying Zhi Lun.

永利行評值顧問有限公司 | RHL Appraisal Ltd
Surveying Practices - Corporate Valuation and Property Consultancy
License No.: C-015672

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13 November 2006

The Board of Directors
South East Group Ltd.
Rooms 02-03, 9th Floor
Wyndham Place
44 Wyndham Street
Central
Hong Kong

Dear Sirs,

Re : Shanghai Songjiang District Song Xin Jian Lot No. 19-2 (the "Lot")

In accordance with the instructions from **South East Group Ltd.** (the "Company") to value the Lot, we confirm that we have carried out inspections of the Lot, made relevant searches and enquiries and obtained such further information as we consider necessary for the purpose of providing the you with our opinion of the market value of the Lot as at **30 September 2006** (referred to as the "Valuation Date")

Basis of Valuation

The valuation is our opinion of the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's — length transaction after proper marketing wherein the parties had each acted knowledgeably prudently and without compulsion."

Valuation Methodology

In valuing the Market Value of the Lot, the comparison method is adopted where comparison based on prices information on comparable properties is made. Comparable properties of similar size, character and location are analysed and carefully weighed against all the respective advantages and disadvantages of each property in order to arrive at a fair comparison of capital values.

Title Investigation

We have been shown copies of various title documents including State-owned Land Use Rights Certificate relating to the Lot and have made relevant enquiries. However, we have not examined the original documents to verify the existing titles to the Property and any material encumbrances that might be attached to the Property. We have relied considerably on the advice given by the Company's PRC legal adviser — Jin Mao Law Firm, concerning the validity of the Company's titles to the Lot.

Assumptions

Our valuation has been made on the assumption that the owner sells the Lot in the open market in its existing state without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangement which would serve to affect the value of the Lot.

As the Lot is held by the owner by means of long term Land Use Rights, we have assumed that the owner has free and uninterrupted right to use the Lot for the whole of the unexpired terms of its Land Use Rights subject to payment of annual land use fee (if any).

Other special assumptions of the Lot, if any, have been stated in the footnotes of the valuation certificate.

Limiting Conditions

We have conducted visual inspection of the Lot. However, we must point out that we have not carried out site investigations to determine the suitability of the ground conditions or the services for the Lot. Our valuation is on the basis that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period.

We have not carried out detailed site measurements to verify the correctness of the site areas in respect of the Lot but have assumed that the site areas shown on the documents handed to us are correct.

We have relied to a considerable extent on the information provided by the Company and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, lettings, occupancy and in the identification of the Lot.

We have had no reason to doubt the truth and accuracy of the information as provided to us by the Company. We have also advised by the Company that no material facts have been omitted from the information supplied.

No allowance has been made in our valuation for any charges, mortgages or amount owing on the Lot nor for any expense or taxation which may be incurred in effecting a sale. We have assumed that the Lot is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

Remarks

In valuing the Lot, we have complied with all the requirements contained in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors effective from 1 January 2005.

All monetary sums stated in this report are in Renminbi (RMB).

The valuation certificate is attached herewith.

Yours faithfully,
For and on behalf of
RHL Appraisal Ltd.

Tse Wai Leung	**Sandra S.W. Lau**
MFin BSc MRICS MHKIS RPS(GP)	*MFin MHKIS AAPI RPS (GP)*
Director	*Director*

Tse Wai Leung, is a member of the Royal Institution of Chartered Surveyors, a member of Hong Kong Institute of Surveyor, a Registered Professional Surveyor in General Practice and a qualified real estate appraiser in the PRC. Sandra S. W. Lau, who is a member of Hong Kong Institute of Surveyors, an Associate of the Australian Property Institute and a Registered Professional Surveyor in General Practice. Both of them are on the list of Property Valuers for Undertaking Valuations for Incorporation or Reference in Listing Particulars and Circulars and Valuations in Connection with Takeovers and Mergers of the Hong Kong Institute of Surveyors, Registered Business Valuer under the Hong Kong Business Valuation Forum and have over 10 years' experience in valuation of properties in Hong Kong, in Macau and in the PRC.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 30 September 2006
Shanghai Songjiang District Song Xin Jian Lot No. 19-2 (the "Lot") Shanghai The PRC	The Lot comprises a parcel of cleared and vacant residential development site with an area of 105,899 square metres. As specified in the Land Use Right Certificate, the Lot is held for a term of 70 years expiring on 14th September 2074 subject to an annual land use fee of RMB1 per square metre in term of land area.	As at the Valuation Date, the Lot was vacant.	RMB140,000,000

Notes:

1. As revealed by a Land Use Right Contract entered into among Shanghai Songjiang Building and Land Administration Bureau (上海市松江區房屋土地管理局) (Party A) and Shanghai Pudong Heng Fa Property Development Company, Benelux Property Development (Shanghai) Limited and Shanghai Jin Yun Property Development Limited (collectively referred to as Party B) on 16th August 2004 and a Supplemental Agreement entered into among Shanghai Songjiang Land Formation and Development Centre (上海市松江區土地整理發展中心) (Party A) and the aforesaid Party B on 16th August 2004, the land use rights in the Lot were granted to Party B at a total land price of RMB104,840,000 (including RMB31,452,000 of land premium and RMB73,388,000 of site formation costs). As confirmed by the Company, the aforesaid land price has been settled in full by Party B.

2. As per the Land Use Right Contract, the Lot is subject to the following material development conditions:

i.	Use	:	Residential
ii.	Site Coverage	:	80%
iii.	Maximum Developable Floor Area	:	84,719 square metres
iv.	Greenery Area	:	not less than 35% of land area
v.	Building Covenant	:	Construction work start not later than 31st December 2004 and full completion on or before 31st December 2006.

In our valuation, we have assumed that the owner of the Lot has successfully applied for the extension of building covenant such that the Lot is not subject to any situation lead to the re-entry by the Government.

3. A Land Use Right Certificate was issued by the Shanghai Building and Land Resources Administration Bureau on 5th September 2005 in the name of Shanghai Ying Zhi Lun Property Development Limited (Ying Zhi Lun). As stated in the Land Use Right Certificate, the land use rights in the Lot were granted for a term of years expiring on 14th September 2074 for residential use.

4. According to a Joint Venture Agreement entered into among Shanghai Pudong Heng Fa Property Development Company (Party A), Benelux Property Development (Shanghai) Limited (Party B, a wholly-owned subsidiary of the Company) and Shanghai Jin Yun Property Development Limited (Party C) on 16th August 2004, Ying Zhi Lun is a joint venture company established by the three parties on 29th April 2003 for the purpose of developing the Lot. A business licence (Registration No. 3102272064867) was by the Shanghai Administration of Industrial and Commerce on 22nd November 2005.

5. We have been provided with a legal opinion regarding the Lot by the Company's PRC legal adviser — Jin Mao Law Firm, which contains, inter alia, the followings:

   5.1 According to the Land Use Rights Certificate issued by the Shanghai Building and Land Resources Administration Bureau, the land use rights in the Lot are held by Ying Zhi Lun;

   5.2 Ying Zhi Lun has completed all necessary application and obtained all relevant approval, consent and permit for its establishment for the purpose of developing the subject project. As at the date of legal opinion, there was no legal impediment for Ying Zhi Lun's obtaining necessary consent and approval for continuing its operations in the foreseeable future. Benelux Property Development (Shanghai) Limited which is wholly-owned by the Company and has an effective interest of 33% in Ying Zhi Lun; and

   5.3 up to the date of the PRC legal opinion, the Lot was free from any encumbrances and was not subject to any adverse conditions leading to re-entry by the Government.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors

As at the Latest Practicable Date, details of the interests of the Directors' and chief executive of the Company in the equity and debt securities of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance (the "SFO") which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director is taken or deemed to have under such provisions of the SFO); or (b) were required pursuant to section 352 of the SFO to be entered in the register referred to therein; or (c) were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") to be notified to the Company and the Stock Exchange as follows:

(i) Long positions in Shares of the Company

Name of Director	Capacity	Number of Shares	Percentage of issued share capital
Budiman RAHARDJA	Beneficially owned and through a controlled corporation *(Note)*	137,364,131	41.55%

(ii) Long positions in underlying Shares — share options

Name of Directors	Date of grant	Exercise price per Share *(HK$)*	Exercisable from	Exercisable until	Number of underlying shares comprised in the options	Total Interests (Shares)	Percentage of issued share capital
Budiman RAHARDJA	18 Dec 2003	0.106	18 Dec 2003	17 Dec 2013	3,305,000		
	18 Dec 2003	0.106	18 Dec 2004	17 Dec 2014	3,305,000		
	18 Dec 2003	0.106	18 Dec 2005	17 Dec 2015	3,305,000	9,915,000	3.00%
LO Yuk Lam	18 Dec 2003	0.106	18 Dec 2003	17 Dec 2013	330,000		
	18 Dec 2003	0.106	18 Dec 2004	17 Dec 2014	330,000		
	18 Dec 2003	0.106	18 Dec 2005	17 Dec 2015	330,000	990.000	0.30%
WONG Kam Wah	18 Dec 2003	0.106	18 Dec 2003	17 Dec 2013	330,000		
	18 Dec 2003	0.106	18 Dec 2004	17 Dec 2014	330,000		
	18 Dec 2003	0.106	18 Dec 2005	17 Dec 2015	330,000	990,000	0.30%

Note: Of 137,364,131 Shares, 21,382,001 Shares were beneficially owned by Mr. Budiman RAHARDJA. He was deemed to be interested in 115,982,130 Shares by virtue of the fact that he was interested in the Company's Shares through his beneficial shareholding interests in Easy Lead Corporation Limited, which was owned as to 50% by Mr. Budiman RAHARDJA and 50% by his mother, Madam Wasi Hastuti SRI.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company was interested in the equity and debt securities of the Company or any associated corporations (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 & 8 or Part XV of the SFO (including interests and short positions which the Director is taken or deemed to have under such provisions of the SFO); or (b) were required pursuant to section 352 of the SFO to be entered in the register referred to therein; or (c) were required pursuant to the Model Code to be notified to the Company and the Stock Exchange.

(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholders

As at the Latest Practicable Date, so far as is known to the Directors and the chief executive of the Company, the following parties (not being Directors or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Company, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were directly and indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in al circumstances at general meetings of any member of the Group:

Name	Capacity	Number of Shares	Percentage of issued share capital
Easy Lead Corporation Limited	Directly beneficially owned	115,982,130 *(Note)*	35.09%
Madam Wasi Hastuti SRI	Through a controlled corporation	115,982,130 *(Note)*	35.09%

Note: These shareholdings are duplicated and refer to the same parcel of Shares held by Easy Lead Corporation Limited as set out in the note in respect of directors' interests above.

Save as disclosed above, as at the Latest Practicable Date, as far as the Directors are aware, no other person had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of the Divisions 2 and 3 of Part XV of the SFO, or who was directly and indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

There is no Directors or proposed directors of the Company who is an employee of a company which has interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO.

(c) As at the Latest Practicable Date, none of the Directors or experts (as named in this circular) had any interest, either direct or indirect, in any assets which have been, since 31 March 2006, being the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

(d) As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which is subsisting as at the date of this circular and is significant in relation to the business of the Group.

3. DIRECTORS' SERVICE CONTRACTS

Mr. Budiman RAHARDJA has entered into a service agreement with the Company for a period of four years from 1 April 2003 and will continue thereafter unless and until terminated by either party by two months' prior notice. Pursuant to the service agreement, Mr. Rahardja is entitled to salary which is determined with reference to his duties and responsibilities within the Group, discretionary bonus to be determined by the Board from time to time with reference to his services and contribution to the Company, contribution to retirement scheme and other fringe benefits such as company car and medical insurance. For the year ended 31 March 2006, Mr. Rahardja has received directors' emoluments in a total sum of HK$1,430,992.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had any existing or proposed service contract with any member of the Group (excluding contracts expiring or determinable within one year without payment of compensation other than statutory compensation).

4. COMPETING BUSINESS

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors or their respective associates has interest in business which competes or is likely to compete, either directly or indirectly, with the business of any member of the Group.

5. LITIGATION

As noted in the Company's audited financial statements since the financial year ended 31 March 1999, 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 the SBEC and the breach of 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 "Court"). The claimant Shenzhen Zerone Science and Technology Development Limited (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 the 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. SZL subsequently filed a claim for an additional amount of RMB35 million as accrued interest on the alleged indebtedness over the years. Save as disclosed above, SZL did not and does not have any relationship with the Group.

A hearing of the case was held in the Court on 22 June 2006. According to the lawyers engaged by the Company in the court hearing, it is not expected that any court judgment will be handed down by the end of 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 previous years.

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

6. MATERIAL CONTRACTS

The following contracts (not being contract entered into in the ordinary course of business) have been entered into by the Company or its subsidiaries within the two years immediately preceding the Latest Practicable Date, which are or may be considered to be material:

(a) the cooperation for development agreement dated 26 June 2006 entered into between South East Property (Shandong) Limited (東南(山東)置業有限公司) ("South East Property (Shandong)"), a wholly owned subsidiary of the Company, and Mr. Wang Bing Rong (王炳榮) (the 'Investor") in relation to, among others, the formation of a joint venture in the PRC (to be equally owned by South East Property (Shandong) and the

Investor); the transfer of title to the joint venture in the PRC in respect of a vacant site of a gross land area of approximately 34,116.96 square metres situated at Zouping Economic Development Zone (鄒平經濟開發區), Zouping County, Shandong Province, the PRC for residential development purpose; and the transfer of 50% equity interest in the joint venture in the PRC to the Investor for an aggregate consideration of RMB14,100,000, which was terminated on 31 July 2006 by the parties involved;

(b) the cooperation for development agreement dated 31 July 2006 entered into between South East Property (Shandong) and Mr. Huang Jian Rong (黃建榮) (the "New Investor") in relation to, among others, the formation of a joint venture in the PRC (to be equally owned by South East Property (Shandong) and the New Investor); the transfer of title to the joint venture in the PRC in respect of a vacant site of a gross land area of approximately 34,116.96 square metres situated at Zouping Economic Development Zone (鄒平經濟開發區), Zouping County, Shandong Province, the PRC for residential development purpose; and the transfer of 50% equity interest in the joint venture in the PRC to a transferee as specified by the New Investor for an aggregate consideration of RMB14,100,000; and

(c) the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement as referred to in this circular.

Save as disclosed above, there have been no other contracts (not being contract entered into in the ordinary course of business) entered into by the Company or its subsidiaries within the two years immediately preceding the Latest Practicable Date, which are or may be considered to be material.

7. EXPERTS' CONSENT AND QUALIFICATION

The following are the qualifications of the experts who have given opinion and advice which is contained or referred to in this circular:

Name	Qualification
BKR Lew & Barr Ltd.	Certified public accountants
RHL Appraisal Ltd.	Qualified surveyors
Jin Mao Law Firm	PRC lawyers

Each of BKR Lew & Barr Ltd., RHL Appraisal Ltd. and Jin Mao Law Firm has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and report and the reference to its name in the form and context in which they appear.

As at the Latest Practicable Date, BKR Lew & Barr Ltd., RHL Appraisal Ltd. and Jin Mao Law Firm were not beneficially interested in the share capital of any member of the Group, and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group or any interest, either direct or indirect, in any assets which have been, since 31 March 2006, being the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

8. GENERAL

(a) The Company's head office is situated at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda and its principal place of business is situated at Rooms 02-03, 9th Floor, Wyndham Place, 44 Wyndham Street, Central, Hong Kong. The Company's Hong Kong share registrar and transfer office is Computershare Hong Kong Investor Services Limited at Rooms 1712 — 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

(b) The qualified accountant of the Company is Mr. Leung Woon Che who is a fellow member of The Association of Chartered Certified Accountants and an associate member of Hong Kong Institute of Certified Public Accountants. The secretary of the Company is Ms. Chan Sau Chee who is an associate member of the Hong Kong Institute of Company Secretaries and the Institute of Chartered Secretaries and Administrators.

(c) If there is any inconsistency between the Chinese names of the PRC individuals and/or entities and their English translations, the Chinese version shall prevail. Otherwise, the English text of this circular shall prevail over the Chinese text.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the Company's head office and principal place of business in Hong Kong at Rooms 02-03, 9th Floor, Wyndham Place, 44 Wyndham Street, Central, Hong Kong during normal business hours on any week day (except public holidays) from 13 November 2006 up to and including 28 November 2006 and will also be available for inspection at the SGM:

(a) the bye-laws of the Company;

(b) the annual reports of the Company for each of the two years ended 31 March 2005 and 2006;

(c) the service agreement referred to in the section headed "Directors' Service Contracts" in this appendix

(d) the contracts referred to in the section headed "Material Contracts" in this appendix

(e) the accountants' report of the Group prepared by BKR Lew & Barr Ltd., the text of which is set out in Appendix I to this circular;

(f) the letter on the unaudited pro forma financial information of the Remaining Group prepared by BKR Lew & Barr Ltd., the text of which is set out in Appendix II to this circular;

(g) the valuation report prepared by RHL Appraisal Ltd., the text of which is set out in Appendix III to this circular;

(h) the written consents referred to in the section headed "Experts' Consent and Qualification" in this appendix; and

(i) all the circulars of the Company issued pursuant to the requirements set out in Chapter 14 and/or Chapter 14A of the Listing Rules which have been issued since the date of the latest published audited accounts of the Company, being 31 March 2006.

— the circular of the Company dated 8 September 2006 in relation to the disposal referred to under paragraph (b) in the section headed "Material Contracts" in this appendix and

— this circular.

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

(Incorporated in Bermuda with limited liability)
(Stock Code: 726)

NOTICE IS HEREBY GIVEN that a special general meeting of South East Group Limited (the "Company") will be held at Rooms 02-03, 9th Floor, Wyndham Place, 44 Wyndham Street, Central, Hong Kong on 28 November 2006 at 10:00 a.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution(s), with or without modifications, as an ordinary resolution or as the case may be, a special resolution of the Company:

ORDINARY RESOLUTION

1. "**THAT**

(a) the realization of interests in Shanghai Ying Zhi Lun Property Development Limited (上海英之倫房地產發展有限公司) (the "Realization") by Benelux Property Development (Shanghai) Limited, a wholly subsidiary of the Company, pursuant to the transfer of ownership of equity interest and shareholders' loan agreement dated 26 May 2006 (the "Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement") and the transactions contemplated thereunder be and are hereby confirmed and ratified;

(b) the contents of the Transfer of Ownership of Equity Interest and Shareholders' Loan Agreement (a copy of which has been produced to this meeting marked "A" and signed by the chairman of this meeting for the purpose of identification) be and is hereby, confirmed and ratified; and

(c) any of the directors of the Company be and is/are hereby authorised to do all such acts and to enter into all such transactions, arrangements and agreements in his/their absolute discretion as he/they may consider fit or appropriate to give effect to the Realization pursuant to theTransfer of Ownership of Equity Interest and Shareholders' Loan Agreement, for and on behalf of the Company, and the implementation of all transactions contemplated thereunder."

SPECIAL RESOLUTION

2. "**THAT** the bye-laws of the Company (the "Bye-Laws") (a copy of the revised Bye-Laws, with mark-up indicating the proposed amendments, having been produced to the meeting marked "B" and signed by the chairman of the meeting for the purposes of identification) be and they are hereby amended in the following manner:

* *For identification purposes only*

(a) by deleting Bye-Law 4 in its entirety and substituting therefor the following new Bye-Law 4:

“4. The Board may issue warrants or convertible securities or securities of similar nature conferring the right upon the holders thereof to subscribe for any class of shares or securities of the Company, which warrants or convertible securities or securities of similar nature may be issued on such terms as the Board may from time to time determine. Where warrants or convertible securities or securities of similar nature are issued to bearer, no certificate thereof shall be issued to replace one that has been lost unless the Board is satisfied beyond reasonable doubt that the original certificate thereof has been destroyed and the Company has received an indemnity in such form as the Board shall think fit with regard to the issue of any such replacement certificate.”

(b) by deleting Bye-Law 70 in its entirety and substituting therefor the following new Bye-Law 70:

“70. Subject to any special rights or restrictions as to voting for the time being attached to any shares by or in accordance with these Bye-Laws, at any general meeting on a show of hands every member present in person (or being a corporation, is present by its duly authorised representative), or by proxy shall have one vote and on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or instalments is treated for the foregoing purposes as paid up on the share. Notwithstanding anything contained in these Bye-Laws, where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands. A resolution put to the vote of a meeting shall be decided on a show of hands unless voting by way of a poll is required by the rules of the Designated Stock Exchange or (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded:

(a) by the chairman of such meeting; or

(b) by at least three members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy for the time being entitled to vote at the meeting; or

(c) by a member or members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and representing not less than one-tenth of the total voting rights of all members having the right to vote at the meeting; or

(d) by a member or members present in person or in the case of a member being a corporation by its duly authorised representative or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all shares conferring that right; or

(e) if required by the rules of the Designated Stock Exchange, by any Director or Directors who, individually or collectively, hold proxies in respect of shares representing five per cent. (5%) or more of the total voting rights at such meeting.

A demand by a person as proxy for a member or in the case of a Member being a corporation by its duly authorised representative shall be deemed to be the same as a demand by a Member."

(c) by inserting the following words immediately after the words "The result of the poll shall be deemed to be the resolution of the meeting at which the poll was demanded." appearing in the seventh line of the existing Bye-Law 71:

"The Company shall only be required to disclose the voting figures on a poll if such disclosure is required by the rules of the Designated Stock Exchange."

(d) by deleting the existing Bye-Law 97(A)(vi) in its entirety and substituting therefor the following new Bye-Law 97(A)(vi):

"(vi) if he shall be removed from office by an Ordinary Resolution of the Company under Bye-Law 104."

(e) By deleting the existing Bye-Law 99(A) and (B) in its entirety and substituting therefor the following new Bye-Law 99(A), (B) and (C):

"99. (A) Notwithstanding any other provisions in these Bye-Laws or other terms on which any Director may be engaged, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not three or a multiple of three (3), then the number nearest to but not less than one-third) shall retire from office by rotation, provided that every Director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

(B) The Directors to retire by rotation shall include (so far as necessary to obtain the number required) any Director who wishes to retire and not to offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re-election or appointment and so that as between persons who became or were last re-elected Directors on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot.

(C) A Director is not required to retire upon reaching any particular age."

(f) by deleting existing Bye-Law 102(A) and (B) in its entirety and substituting therefor the following new Bye-Law 102(A) and (B):

"102. (A) Subject to the Statues and the provisions of these Bye-Laws, the Company may from time to time in general meeting by Ordinary Resolution elect any person to be a Director either to fill a casual vacancy or as an additional Director.

(B) Subject to authorisation by the shareholders in a general meeting, the Directors shall until and unless such authorization shall be revoked, have power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy or (subject to the provisions of the Companies Act) as an additional Director but so that the number of Directors so appointed shall not exceed the maximum number determined from time to time by the shareholders in general meeting. Any Director so appointed shall hold office only until the next following general meeting of the Company (in the case of the filling of casual vacancy) or the next following annual general meeting of the Company (in the case of an additional Director) and shall then be eligible for re-election at the meeting but shall not be taken into account in determining the Directors or the number of Directors who are to retire by rotation at such meeting."

(g) by replacing the word "Special" appearing in the first line of the existing Bye-Law 104 with the word "Ordinary"."

By order of the Board
South East Group Limited
Budiman Rahardja
Chairman

Hong Kong, 13 November 2006

Notes:

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint a proxy to attend and, in the event of a poll, vote in his stead. A proxy need not be a member of the Company.

2. In order to be valid, the form of proxy together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power of attorney or authority must be deposited at the Company at its principal place of business at Rooms 02-03, 9th Floor, Wyndham Place, 44 Wyndham Street, Central, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

3. Completion and return of the form of proxy will not preclude a member of the Company from attending and voting in person at the meeting convened and any adjournment thereof and in such event, the authority of the proxy shall be deemed to be revoked.

4. For joint registered holders of any share attending the meeting on the same occasion, the vote of the holder whose name stands first on the register who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders.

The directors of the Company as at the date of this notice 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.

If there are any inconsistency between the Chinese names of the PRC entities and their English translations, the Chinese version shall prevail.