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# SOUTH EAST GROUP LIMITED

(東南國際集團有限公司)\*

(Incorporated in Bermuda with limited liability)

(Stock Code: 726)

## ANNUAL RESULTS FOR THE YEAR ENDED 31 MARCH 2011

### AUDITED RESULTS

The board of directors (the “Directors”) of South East Group Limited (the “Company”) announces the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 March 2011 with comparative figures for the previous corresponding year as follows:

### CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 MARCH 2011

|                                                | Note | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
|------------------------------------------------|------|------------------|------------------|
| <b>CONTINUING OPERATIONS</b>                   |      |                  |                  |
| TURNOVER                                       | 3    | 1,383            | 244              |
| COST OF PROPERTIES SOLD                        |      | (883)            | (150)            |
| <b>GROSS PROFIT</b>                            |      | <b>500</b>       | 94               |
| OTHER REVENUES                                 | 3    | 1,106            | 956              |
| SELLING AND DISTRIBUTION COSTS                 |      | (3)              | (6)              |
| ADMINISTRATIVE EXPENSES                        |      | (18,110)         | (13,283)         |
| GAIN ON DISPOSAL OF SUBSIDIARIES               | 4(b) | —                | 2,561            |
| <b>LOSS FROM OPERATIONS</b>                    |      | <b>(16,507)</b>  | (9,678)          |
| FINANCE COSTS                                  | 5    | (3,352)          | (3,285)          |
| <b>LOSS BEFORE TAXATION</b>                    | 6    | <b>(19,859)</b>  | (12,963)         |
| TAXATION                                       | 7(a) | (15)             | (8)              |
| LOSS FOR THE YEAR FROM CONTINUING OPERATIONS   |      | (19,874)         | (12,971)         |
| LOSS FOR THE YEAR FROM DISCONTINUED OPERATIONS | 4(a) | —                | (96)             |
| <b>LOSS FOR THE YEAR</b>                       |      | <b>(19,874)</b>  | <b>(13,067)</b>  |

\* For identification purposes only

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME** *(Continued)*  
**FOR THE YEAR ENDED 31 MARCH 2011**

|                                                                 | <i>Note</i> | <b>2011</b><br><b>HK\$'000</b> | 2010<br><i>HK\$'000</i> |
|-----------------------------------------------------------------|-------------|--------------------------------|-------------------------|
| <b>OTHER COMPREHENSIVE INCOME/(LOSS):</b>                       |             |                                |                         |
| TRANSLATION DIFFERENCE                                          |             | <b>1,127</b>                   | (2)                     |
| CHANGE IN FAIR VALUE OF<br>AVAILABLE-FOR-SALE FINANCIAL ASSETS  |             | <u><b>506</b></u>              | <u>3,231</u>            |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR                         |             | <u><b>1,633</b></u>            | <u>3,229</u>            |
| <b>TOTAL COMPREHENSIVE LOSS FOR THE YEAR</b>                    |             | <u><b>(18,241)</b></u>         | <u>(9,838)</u>          |
| <b>LOSS FOR THE YEAR ATTRIBUTABLE TO:</b>                       |             |                                |                         |
| OWNERS OF THE COMPANY                                           |             | <u><b>(19,874)</b></u>         | <u>(13,067)</u>         |
| <b>LOSS PER SHARE ATTRIBUTABLE TO<br/>OWNERS OF THE COMPANY</b> |             |                                |                         |
| <b>From continuing operations:</b>                              |             |                                |                         |
| Basic and diluted (cents)                                       | 8           | <u><b>(5.75)</b></u>           | <u>(3.77)</u>           |
| <b>From discontinued operations:</b>                            |             |                                |                         |
| Basic (cents)                                                   | 8           | <b>N/A</b>                     | (0.03)                  |
| Diluted (cents)                                                 | 8           | <u><b>N/A</b></u>              | <u>N/A</u>              |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AS AT 31 MARCH 2011**

|                                                      | <i>Note</i> | <b>2011</b><br><b>HK\$'000</b> | 2010<br><i>HK\$'000</i> |
|------------------------------------------------------|-------------|--------------------------------|-------------------------|
| <b>NON-CURRENT ASSETS</b>                            |             |                                |                         |
| Property, plant and equipment                        |             | <b>591</b>                     | 947                     |
| Goodwill                                             |             | —                              | —                       |
| Available-for-sale financial assets                  |             | <b>6,194</b>                   | 5,688                   |
| <b>Total non-current assets</b>                      |             | <b>6,785</b>                   | 6,635                   |
| <b>CURRENT ASSETS</b>                                |             |                                |                         |
| Held-to-maturity investments                         |             | <b>780</b>                     | 780                     |
| Properties held for sale                             |             | <b>21,778</b>                  | 22,182                  |
| Inventories                                          |             | —                              | —                       |
| Trade and other receivables                          | 9           | <b>1,242</b>                   | 2,381                   |
| Tax prepayment                                       | 7(b)        | <b>183</b>                     | 191                     |
| Cash and cash equivalents                            |             | <b>68,691</b>                  | 82,272                  |
| <b>Total current assets</b>                          |             | <b>92,674</b>                  | 107,806                 |
| <b>CURRENT LIABILITIES</b>                           |             |                                |                         |
| Trade and other payables                             | 10          | <b>3,055</b>                   | 3,279                   |
| Convertible bond                                     |             | <b>1,877</b>                   | 1,700                   |
| <b>Total current liabilities</b>                     |             | <b>4,932</b>                   | 4,979                   |
| <b>NET CURRENT ASSETS</b>                            |             | <b>87,742</b>                  | 102,827                 |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>         |             | <b>94,527</b>                  | 109,462                 |
| <b>NON-CURRENT LIABILITIES</b>                       |             |                                |                         |
| Convertible bond                                     |             | <b>65,844</b>                  | 64,374                  |
| <b>NET ASSETS</b>                                    |             | <b>28,683</b>                  | 45,088                  |
| <b>EQUITY</b>                                        |             |                                |                         |
| <b>Equity attributable to owners of the Company:</b> |             |                                |                         |
| Share capital                                        |             | <b>34,795</b>                  | 34,433                  |
| Reserves                                             |             | <b>(6,112)</b>                 | 10,655                  |
| <b>TOTAL EQUITY</b>                                  |             | <b>28,683</b>                  | 45,088                  |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 MARCH 2011

## 1. BASIS OF PREPARATION

These consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), which in collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKASs”), and Interpretations (“Ints”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”).

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

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting year of the Group. Note 2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

## 2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

### (a) Amendments to existing standards effective for the Group’s annual financial year beginning on 1 April 2010 and relevant to the Group

In the current year, the Group has adopted the following new and amended HKFRSs issued by the HKICPA.

|                      |                                                                           |
|----------------------|---------------------------------------------------------------------------|
| HKFRS 2 (Amendments) | Share-based Payment — Group Cash-settled Share-based payment transactions |
| HKFRS 3 (Revised)    | Business Combinations                                                     |
| HKAS 27 (Revised)    | Consolidated and Separate Financial Statements                            |
| HKFRSs (Amendments)  | Improvements to HKFRSs (2009)                                             |

The principal effects of adopting these new and revised HKFRSs are as follows:

***HKFRS 2 (Amendments), “Group cash-settled share-based payment transactions” - effective from 1 January 2010.***

In addition to incorporating HK(IFRIC) 8, “Scope of HKFRS 2”, and HK(IFRIC) 11, “HKFRS 2 - Group and treasury share transactions”, the amendments expand on the guidance in HK(IFRIC) 11 to address the classification of group arrangements that were not covered by that interpretation.

***HKFRS 3 (Revised), “Business combinations”, and consequential amendments to HKAS 27 “Consolidated and separate financial statements”, are effective prospectively to business combinations for which the acquisition date is on or after 1 April 2010.***

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest’s proportionate share of the acquiree’s net assets. All acquisition-related costs should be expensed. HKFRS 3 (revised) has had no impact on the current period, as there have been no contingent payments included in the purchase costs of the acquisition of the subsidiaries during the period.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2011**

**2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS**  
*(Continued)*

**(a) Amendments to existing standards effective for the Group's annual financial year beginning on 1 April 2010 and relevant to the Group** *(Continued)*

***HKFRSs (Amendments) — Improvements to HKFRSs (2009)***

The “Improvements to HKFRSs (2009)” comprises a number of minor and non-urgent amendments to a range of HKFRSs which the HKICPA has issued as an omnibus batch of amendments. The impact of these amendments is not considered to be material to the Group and have not resulted in changes to the Group's accounting policies.

**(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted**

The following new standards, amendments and interpretations to existing standards (collectively, the “Amendments”) have been published that are mandatory for the Group's accounting periods beginning on or after 1 April 2011. Some of the Amendments are relevant and applicable to the Group. However, they have not been early adopted in these consolidated financial statements. The Group has commenced, but not yet completed, an assessment of the impact of the applicable Amendments on its results of operations and financial positions. The directors are of the view that the impact on the consolidated financial statements would not be significant other than certain additional disclosures.

|                                    |                                                                          |
|------------------------------------|--------------------------------------------------------------------------|
| HKFRSs (Amendments)                | Improvements to HKFRSs issued in 2010 <sup>1</sup>                       |
| HKAS 12 (Amendments)               | Deferred tax: Recovery of underlying assets <sup>5</sup>                 |
| HKAS 24 (Revised)                  | Related party disclosures <sup>3</sup>                                   |
| HKFRSs 7 (Amendments)              | Disclosures — Transfers of financial assets <sup>4</sup>                 |
| HKFRS 9                            | Financial instruments <sup>6</sup>                                       |
| HK(IFRIC) — INT 14<br>(Amendments) | Prepayments of a minimum funding requirement <sup>3</sup>                |
| HK(IFRIC) — INT 19                 | Extinguishing financial liabilities with equity instruments <sup>2</sup> |

<sup>1</sup> Effective for accounting periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.

<sup>2</sup> Effective for accounting periods beginning on or after 1 July 2010.

<sup>3</sup> Effective for accounting periods beginning on or after 1 January 2011.

<sup>4</sup> Effective for accounting periods beginning on or after 1 July 2011.

<sup>5</sup> Effective for accounting periods beginning on or after 1 January 2012.

<sup>6</sup> Effective for accounting periods beginning on or after 1 January 2013.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2011**

**3. TURNOVER AND OTHER REVENUES**

|                                     | <b>2011</b><br><b>HK\$'000</b> | 2010<br>HK\$'000    |
|-------------------------------------|--------------------------------|---------------------|
| <b>TURNOVER</b>                     |                                |                     |
| — Sales of properties held for sale | <u>1,383</u>                   | <u>244</u>          |
| Total turnover                      | <u><b>1,383</b></u>            | <u><b>244</b></u>   |
| <b>OTHER REVENUES</b>               |                                |                     |
| — Interest income                   | 592                            | 669                 |
| — Investment income                 | 72                             | 88                  |
| — Recovery of trade receivables     | 240                            | —                   |
| — Sundry income                     | <u>202</u>                     | <u>199</u>          |
| Total other revenues                | <u><b>1,106</b></u>            | <u><b>956</b></u>   |
| Total turnover and other revenues   | <u><b>2,489</b></u>            | <u><b>1,200</b></u> |

**4. DISCONTINUED OPERATIONS**

On 26 March 2009, the Company entered into an agreement to sell its entire interests in South Perfect International Limited, a company that directly held 55% equity interests in Qingdao Fushiwang Grape Wine Co., Limited (“QFGW”) (collectively, the “SPI Group”), at a consideration of HK\$1,600,000. SPI Group was principally engaged in manufacturing and trading of wine products. The disposal was completed on 13 May 2009. The Group’s another subsidiary, Qingdao Southeast Commercial Limited (“QSC”), which carried on the trading of wine products, was put into voluntary liquidation following completion of the disposal of SPI Group. QSC was de-registered on 21 January 2010. Accordingly, the results of the manufacturing and trading of wine products attributable to the aforementioned subsidiaries were presented as discontinued operations in accordance with HKFRS 5 (“Non-current assets held for sale and discontinued operations”).

**(a) Results of the discontinued operations**

The results of the discontinued operations included in the consolidated statement of comprehensive income are as follows:

|                                                       | <b>2011</b><br><b>HK\$'000</b> | 2010<br>HK\$'000   |
|-------------------------------------------------------|--------------------------------|--------------------|
| Turnover                                              | —                              | 30                 |
| Cost of inventories sold                              | <u>—</u>                       | <u>—</u>           |
| <b>Gross profit</b>                                   | —                              | 30                 |
| Other revenues                                        | —                              | —                  |
| Selling and distribution costs                        | —                              | (5)                |
| Administrative expenses                               | <u>—</u>                       | <u>(121)</u>       |
| <b>Loss from operations</b>                           | —                              | (96)               |
| Finance costs                                         | <u>—</u>                       | <u>—</u>           |
| <b>Loss before taxation</b>                           | —                              | (96)               |
| Taxation                                              | <u>—</u>                       | <u>—</u>           |
| <b>Loss for the year from discontinued operations</b> | <u><b>—</b></u>                | <u><b>(96)</b></u> |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2011**

**4. DISCONTINUED OPERATIONS** (*Continued*)

**(b) Gain on disposal of subsidiaries**

Net gain on disposal of subsidiaries is provided below:

|                                                              | <b>2011</b><br><b>HK\$'000</b> | 2010<br><i>HK\$'000</i> |
|--------------------------------------------------------------|--------------------------------|-------------------------|
| Consideration                                                | —                              | 1,600                   |
| Net liabilities associated with the disposal of subsidiaries | —                              | 1,920                   |
|                                                              | —                              | 3,520                   |
| Other expenses                                               | —                              | (959)                   |
| Net gain on disposal                                         | —                              | 2,561                   |
| Net cash inflow arising on disposal:                         |                                |                         |
| Cash consideration                                           | —                              | 1,600                   |
| Less: Cash and bank balances disposed                        | —                              | (47)                    |
| Other expenses                                               | —                              | (959)                   |
|                                                              | —                              | 594                     |

**5. FINANCE COSTS**

|                                       | <b>2011</b><br><b>HK\$'000</b> | 2010<br><i>HK\$'000</i> |
|---------------------------------------|--------------------------------|-------------------------|
| Interest expenses on convertible bond | <b>3,348</b>                   | 3,272                   |
| Others                                | <b>4</b>                       | 13                      |
| Total                                 | <b>3,352</b>                   | 3,285                   |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2011**

**6. LOSS BEFORE TAXATION**

Loss before taxation was arrived at after charging:

|                                                 | <b>2011</b><br><b>HK\$'000</b> | 2010<br><i>HK\$'000</i> |
|-------------------------------------------------|--------------------------------|-------------------------|
| Auditors' remuneration                          |                                |                         |
| — Current year                                  | <b>205</b>                     | 185                     |
| — Under-provision for prior year                | <b>—</b>                       | 17                      |
|                                                 | <b>205</b>                     | 202                     |
| Impairment loss of trade receivables            | <b>1,315</b>                   | 499                     |
| Cost of properties sold                         | <b>883</b>                     | 150                     |
| Depreciation                                    | <b>358</b>                     | 362                     |
| Impairment on finished goods                    | <b>—</b>                       | 226                     |
| Impairment on goodwill                          | <b>35</b>                      | —                       |
| Operating lease payments                        | <b>2,198</b>                   | 2,194                   |
| Employee share option benefits                  | <b>1,218</b>                   | 91                      |
| Staff costs (excluding directors' remuneration) |                                |                         |
| — Salaries and allowance                        | <b>2,639</b>                   | 2,621                   |
| — Retirement benefit schemes contribution       | <b>137</b>                     | 132                     |

**7. TAXATION**

(a) Taxation in the consolidated statement of comprehensive income represents:

|                              | <b>2011</b><br><b>HK\$'000</b> | 2010<br><i>HK\$'000</i> |
|------------------------------|--------------------------------|-------------------------|
| The PRC corporate income tax |                                |                         |
| — Provision for the year     | <b>15</b>                      | 8                       |
| Total                        | <b>15</b>                      | 8                       |

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group did not derive any assessable profits in Hong Kong for the year (2010: Nil).

Taxation on profits derived in the PRC for subsidiaries has been calculated at the rate of tax prevailing in the PRC corporate income tax rate of 25% (2010: 25%), which is based on existing legislation, interpretations and practices in respect thereof.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2011**

**7. TAXATION (Continued)**

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

|                              | <b>2011</b><br><b>HK\$'000</b> | 2010<br><b>HK\$'000</b> |
|------------------------------|--------------------------------|-------------------------|
| The PRC corporate income tax |                                |                         |
| — tax payable                | (15)                           | (4)                     |
| — tax prepayment             | <u>198</u>                     | <u>195</u>              |
| Total                        | <u><b>183</b></u>              | <u><b>191</b></u>       |

(c) Reconciliation between tax expenses and loss before taxation of the Group at the applicable tax rates are as follows:

|                                            | <b>2011</b><br><b>HK\$'000</b> | 2010<br><b>HK\$'000</b> |
|--------------------------------------------|--------------------------------|-------------------------|
| Loss before taxation                       | <u>(19,859)</u>                | <u>(12,963)</u>         |
| Tax calculated at the applicable tax rates | (3,348)                        | (2,361)                 |
| Tax effect of non-deductible expenses      | 305                            | —                       |
| Tax effect of non-taxable income           | (87)                           | (3,767)                 |
| Tax loss not recognised                    | <u>3,145</u>                   | <u>6,136</u>            |
| Total tax expenses                         | <u><b>15</b></u>               | <u><b>8</b></u>         |

(d) At the end of reporting period, the Group has unused tax losses that are available indefinitely for offsetting against future taxable profits. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

As at 31 March 2011 and 31 March 2010, there were no significant unrecognised deferred tax liabilities for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries as the Group has no liability to additional tax should such amounts be remitted.

**8. LOSS PER SHARE**

The calculation of basic loss per share is based on the consolidated loss attributable to owners for the year of approximately HK\$19,874,000 (2010: loss of approximately HK\$13,067,000 which comprises the loss from continuing operations of approximately HK\$12,971,000 and from discontinued operations of approximately HK\$96,000) and on the weighted average of 345,863,219 (2010: 343,456,620) ordinary shares in issue during the year. No diluted loss per share has been presented as the exercise of the Company's outstanding share options and convertible bond would result in a decrease in loss per share for the year. The Company had no potential dilutive ordinary shares that were outstanding for the years ended 31 March 2011 and 31 March 2010.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2011**

**9. TRADE AND OTHER RECEIVABLES**

|                                     | <b>2011</b><br><i>HK\$'000</i> | 2010<br><i>HK\$'000</i> |
|-------------------------------------|--------------------------------|-------------------------|
| Trade receivables                   | <b>1,929</b>                   | 2,135                   |
| Less: Provision for impairment      | <b>(1,904)</b>                 | (796)                   |
|                                     | <hr/>                          | <hr/>                   |
| Trade receivables, net of provision | <b>25</b>                      | 1,339                   |
| Deposit and other receivables       | <b>655</b>                     | 648                     |
|                                     | <hr/>                          | <hr/>                   |
| Maximum exposure to credit risk     | <b>680</b>                     | 1,987                   |
| Prepayments                         | <b>562</b>                     | 394                     |
|                                     | <hr/>                          | <hr/>                   |
|                                     | <b>1,242</b>                   | 2,381                   |
|                                     | <hr/> <hr/>                    | <hr/> <hr/>             |

The carrying amounts of trade and other receivables approximate their fair values as at 31 March 2011 and 31 March 2010. The Group does not hold any collateral over these balances.

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

All trade receivables, net of provision of the Group were past due over twelve months but not impaired. The balance relates to a number of independent customers for whom there was no recent history of default.

The movements on the provision for impairment of trade receivables are as follows:

|                                              | <b>2011</b><br><i>HK\$'000</i> | 2010<br><i>HK\$'000</i> |
|----------------------------------------------|--------------------------------|-------------------------|
| At 1 April                                   | <b>796</b>                     | 297                     |
| Provision for impairment of trade receivable | <b>1,315</b>                   | 499                     |
| Recovery of trade receivables                | <b>(240)</b>                   | —                       |
| Exchange difference                          | <b>33</b>                      | —                       |
|                                              | <hr/>                          | <hr/>                   |
| At 31 March                                  | <b>1,904</b>                   | 796                     |
|                                              | <hr/> <hr/>                    | <hr/> <hr/>             |

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

|                   | <b>2011</b><br><i>HK\$'000</i> | 2010<br><i>HK\$'000</i> |
|-------------------|--------------------------------|-------------------------|
| Renminbi          | <b>121</b>                     | 1,461                   |
| Hong Kong dollars | <b>1,121</b>                   | 920                     |
|                   | <hr/>                          | <hr/>                   |
|                   | <b>1,242</b>                   | 2,381                   |
|                   | <hr/> <hr/>                    | <hr/> <hr/>             |

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 MARCH 2011**

**10. TRADE AND OTHER PAYABLES**

|                             | <b>2011</b><br><b>HK\$'000</b> | 2010<br><i>HK\$'000</i> |
|-----------------------------|--------------------------------|-------------------------|
| Trade payables              | <b>328</b>                     | 498                     |
| Other payables and accruals | <b>2,727</b>                   | 2,781                   |
|                             | <b>3,055</b>                   | 3,279                   |

The carrying amounts of the Group's trade and other payables approximate their fair values as at 31 March 2011 and 31 March 2010 and are denominated in the following currencies:

|                   | <b>2011</b><br><b>HK\$'000</b> | 2010<br><i>HK\$'000</i> |
|-------------------|--------------------------------|-------------------------|
| Hong Kong dollars | <b>2,330</b>                   | 2,031                   |
| Renminbi          | <b>725</b>                     | 1,248                   |
|                   | <b>3,055</b>                   | 3,279                   |

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

**11. SEGMENT INFORMATION**

The chief operating decision-maker has been indentified as the Company's executive directors. The Group's principal activity is property development in the PRC. The executive directors regard it as a single business segment and no segment information is presented.

At the reporting date, non-current assets included property, plant and equipment with carrying amount of approximately HK\$474,000 (2010: HK\$790,000) and approximately HK\$117,000 (2010: HK\$158,000) are located in Hong Kong and the PRC respectively.

## **DIVIDENDS**

The Directors do not recommend the payment of any dividend for the year ended 31 March 2011 (2010: nil).

## **RESULTS**

For the year ended 31 March 2011, the Group's turnover amounted to approximately HK\$1,383,000, which was wholly generated from sale of properties, an improvement as compared with the turnover of HK\$244,000 of the previous year. During the year under review, the Group reported a loss of approximately HK\$19,874,000 attributable to owners of the Company, as compared to the loss of approximately HK\$13,067,000 of last year. The aggravated loss for the year was mainly attributable to increased administrative overhead which comprised professional, consultancy, due diligence and other relevant expenses of approximately HK\$3,816,000 incurred for exploring new business opportunities; provision for impairment loss on trade receivables amounted to approximately HK\$1,315,000; and higher staff costs which included approximately HK\$1,218,000 non-cash expenses arising from granting of share options to the directors and employees of the Group or other eligible persons pursuant to the Company's share option scheme.

## **BUSINESS REVIEW AND PROSPECTS**

In the year ended 31 March 2011, property development and investment remained the Group's only core business. For the year under review, the Group's turnover was wholly generated by its business of property development and investment in the People's Republic of China (the "PRC"), which represented sales of car park units located at Pudong, Shanghai amounted to HK\$1,383,000 (2010: HK\$244,000). No sales of commercial properties in Zouping, Shandong were recorded during the year (2010: nil). At 31 March 2011, completed properties held for sale by the Group consisted of commercial properties with a gross floor area of approximately 8,137 square metres in Zouping, Shandong, and 11 car park units in Pudong, Shanghai. The Group continued to lease out some of the commercial properties held in Zouping, Shandong for expedience sake. Accordingly, rental income of approximately HK\$202,000 (2010: HK\$153,000) was recorded and was accounted for as other revenues for the year ended 31 March 2011.

As stated in the previous annual and interim reports, the management has been actively seeking investment opportunities to build a sustainable business portfolio. It was reported in the Group's interim report for the six months ended 30 September 2010 that the management had serious discussions and negotiations with a potential vendor in respect of a new investment opportunity in the PRC. Unfortunately, this investment did not materialize as a result of vendor's back off from the intended transaction for personal reasons. Nevertheless, the management will continue to explore other business opportunities to replace the said investment, and has a couple of projects under evaluation.

## **LIQUIDITY AND FINANCIAL RESOURCES**

At 31 March 2011, the Group had cash and bank balances amounted to approximately HK\$68,691,000 (2010: HK\$82,272,000). At the year-end date, the Group's total borrowings represented the carrying amount of the Convertible Bond (as defined below) of approximately HK\$67,721,000 (2010: HK\$66,074,000).

During the financial year under review, the Group's business operations were mainly in Hong Kong and the PRC. Hence, most of the transactions were denominated and settled in Hong Kong dollars and Renminbi. As there was no significant exposure to foreign exchange fluctuation arising from the normal course of operations, the Group did not enter into any foreign exchange hedge arrangement to reduce foreign exchange risk and exposure.

Shareholders' equity at 31 March 2011 was HK\$28,683,000 (2010: HK\$45,088,000), representing a decrease of 36% over last year.

The Group's gearing ratio at 31 March 2011, expressed as the percentage of the Group's total borrowings over shareholders' equity, was approximately 236% (2010: 147%).

## **CAPITAL STRUCTURE**

During the year under review, 3,628,000 new ordinary shares of HK\$0.10 each have been issued and allotted upon exercise of share options granted by the Company. The proceeds from the exercise of share options amounted to approximately HK\$619,000. 10,424,000 new share options were granted on 9 March 2011 to eligible participants pursuant to the Company's share option scheme; all of which remained outstanding and unexercised at the year-end date.

At 31 March 2011, the Company's issued share capital was HK\$34,795,388 with 347,953,880 ordinary shares of HK\$0.10 each in issue.

The Company had an outstanding convertible bond as at 31 March 2011. The convertible bond was issued on 7 May 2008 by the Company to Loyal Delight Group Limited, an independent third party, with a principal amount of HK\$68,000,000 bearing an annual interest rate of 2.5% and expiring on the third anniversary of the issue date, which was convertible into shares of the Company at an initial conversion price of HK\$1.03 each before expiry (the "Convertible Bond"). On 9 March 2011, the Company and Loyal Delight Group Limited entered into a deed of amendment (the "Deed of Amendment") to amend various terms of the Convertible Bond. The Deed of Amendment was approved by the shareholders of the Company at a special general meeting held on 18 April 2011. The Convertible Bond with an outstanding principal amount of HK\$68,000,000 in aggregate was amended accordingly, which included, among others, the extension of the maturity date for 5 years to 7 May 2016, adjustment of the conversion price to HK\$0.418 per share and adjustment of the interest rate to 3% per annum with effect from 8 May 2011. Details of the Deed of Amendment are set out in the Company's circular dated 31 March 2011.

## **ACQUISITION OF SUBSIDIARIES**

On 7 July 2010, the Company acquired the entire equity interest in Ricco Mining Investment Limited (“Ricco Mining”), a company incorporated in Hong Kong, at a consideration of HK\$1 from Ricco Energy (Holdings) Limited which is a private company beneficially owned by Mr. Wu Siu Chung, the Chairman and an executive director of the Company. Ricco Mining has not started business since its incorporation. Except for holding the entire equity interest in Excel Profit International Investment Limited, a company incorporated in the British Virgin Islands, Ricco Mining is not holding other assets. Upon completion of the above share transfer, Ricco Mining and Excel Profit International Investment Limited (through Ricco Mining) have become wholly owned subsidiaries of the Company. Such subsidiaries are intended to be used as vehicles for the Company’s possible investments in the future.

## **EMPLOYEE INFORMATION**

At 31 March 2011, the total number of employees of the Group was 23 (2010: 19). 10 (2010: 10) of them worked in the PRC while 13 (2010: 9) of them worked in Hong Kong.

Employees are basically remunerated based on the nature of their job and their performance as well as the prevailing market trend. Year-end discretionary bonus would be granted to reward and motivate those well-performed employees. The Company also adopted a share option scheme in November 2003 to reward employees for their contributions to the Group.

## **CHARGES ON GROUP ASSETS**

At 31 March 2011, the Group had no assets pledged to banks to secure general banking facilities and bank loan granted to the Group (2010: nil).

## **CAPITAL COMMITMENT AND CONTINGENT LIABILITIES**

At 31 March 2011, the Group had no outstanding capital commitments (2010: nil) and no material contingent liabilities (2010: nil).

## **LITIGATION**

As reported in previous years, a claim was brought in July 1998 against Benelux Manufacturing Limited (In Liquidation) (“BML”), a company in which the Company has a direct wholly owned interest but not treated as a subsidiary, by its sub-contractor, Shenzhen Benelux Enterprise Co., Limited (“SBEC”), alleging that BML was liable for the payment of approximately HK\$38 million, comprising charges in connection with the processing and assembling work rendered by SBEC and the breach of an alleged loan agreement relating to certain alleged letters of credit. SBEC further alleged that the Company had granted a guarantee to SBEC in respect of the alleged BML’s indebtedness to SBEC (the “Purported Guarantee”) in/around January 1999. Notwithstanding the allegation, SBEC has not initiated any proceedings against the Company based on the Purported Guarantee. BML was put into compulsory liquidation on 28 April 2000.

The Directors, after seeking legal advice, were of the opinion that the liquidation of BML would not have a material adverse effect on the Group. The investments in BML and the amounts due from BML brought forward had been fully provided for in the previous years.

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

In April 2006, SZL filed a claim for an additional amount of approximately RMB35 million as accrued interest in respect of the alleged indebtedness over the years, making the total amount being claimed at approximately HK\$72 million.

On 10 October 2007, the Company received a judgment awarded by Shenzhen Intermediate Court, in which the claims under the litigation lodged by SZL against the Company for undertaking the joint and several liabilities in relation to the alleged BML's indebtedness and the interest accrued thereon were dismissed. SZL then lodged an appeal to Guangdong High People's Court ("Guangdong High Court") to seek to revoke the first instance judgment made by Shenzhen Intermediate Court. Guangdong High Court made a final judgment on 30 June 2008 (according to the date set out in the final judgment) and served upon the Company on 14 August 2008. The final judgment maintained the original judgment awarded by Shenzhen Intermediate Court and dismissing the claim of SZL.

As advised by the Company's PRC lawyers, according to the relevant regulations of the Civil Procedure Law of the PRC (the "Civil Procedure Law"), after the first instance trial by Shenzhen Intermediate Court and the second trial by Guangdong High Court, the judgment made by the latter is a final judgment which is not subject to any or further appeal by any party to the case. However, under circumstances when certain preconditions contained in the Civil Procedure Law being fulfilled, the case may be remanded for retrial. Such circumstances include, for instance, the court of procuratorate quashing the final civil judgment and remanding the case for retrial; or on application to the court by any party to the case, which has to be made within two years from the date the final judgment came into effect. The Company's PRC lawyers further advised that, if SZL were to apply for retrial, it has to file its Application for Retrial with the Supreme People's Court of the PRC in Beijing, while observing the two-year limitation and certain preconditions contained in the Civil Procedure Law. As at the date hereof, neither the Company nor the PRC lawyers acting for the Company, were aware of any indication for the retrial of the above case. According to the legal opinion of the Company's PRC lawyers, as SZL had not applied to the Court for retrial within the two-year limit valid through 13 August 2010, its right for applying for retrial of the above case lapsed therefor. Based on the legal advice obtained, the Directors believed that the above litigation should have come to an end.

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.

## **PURCHASE, SALE OR REDEMPTION OF OWN SHARES**

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

## **AUDIT COMMITTEE**

The Company has established an Audit Committee in accordance with the code provisions of the Code on Corporate Governance Practices for the purpose of reviewing and providing supervision over the Company's financial reporting procedures and internal control system. The Audit Committee, comprising two independent non-executive directors and one non-executive director, has reviewed with the management, the accounting principles and practices adopted by the Group and has discussed the auditing, internal control and financial reporting matters for the year.

## **CODE ON CORPORATE GOVERNANCE PRACTICES**

The Company has complied with the applicable code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules throughout the year ended 31 March 2011 except the following:

Under Code Provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. Currently, the Company's non-executive directors are not appointed for a specific term but are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's bye-laws, so accomplishing the same purpose as a specific term of appointment.

The Company's annual report for the year ended 31 March 2011 will contain further information regarding corporate governance practices in accordance with Appendix 23 to the Listing Rules in respect of Corporate Governance Report.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its code of conduct regarding securities transactions by directors of the Company. The Company has made specific enquiry to all Directors that they have complied with the required standard set out in the Model Code throughout the year ended 31 March 2011.

## **PUBLICATION OF FINANCIAL INFORMATION ON THE STOCK EXCHANGE'S WEBSITE**

The Company's annual report for the year ended 31 March 2011 containing all applicable information required by the Listing Rules will be despatched to the shareholders of the Company and published on the Stock Exchange's website and on the Company's website ([http://www.ilinkfin.net/south\\_east\\_group](http://www.ilinkfin.net/south_east_group)) in due course.

By order of the Board of  
**SOUTH EAST GROUP LIMITED**  
**Wu Siu Chung**  
*Chairman*

Hong Kong, 17 June 2011

*The directors of the Company as at the date of this announcement are Mr. Wu Siu Chung (Chairman) and Mr. Chen Xiaoping as executive directors; Mr. Chen Yuan Shou, Budiman and Mr. Eduard William Rudolf Helmuth Will as non-executive directors; and Mr. Lo Yuk Lam, Mr. Wong Kam Wah and Mr. David R. Peterson as independent non-executive directors.*