

South Sea Holding Company Limited



南海控股有限公司
SOUTH SEA HOLDING COMPANY LTD

South Sea Holding Company Limited

南海控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 680)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2004

INTERIM RESULTS

The directors of South Sea Holding Company Limited (the “Company”) hereby announce the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2004, together with the comparative figures for the six months ended 30 September 2003 as follows:

**CONDENSED CONSOLIDATED PROFIT AND LOSS
ACCOUNT – UNAUDITED**

For the six months ended 30 June 2004

| | <i>Notes</i> | For the six months ended 30 June 2004 <i>HK\$'000</i> | 30 September 2003 <i>HK\$'000</i> |
|--|--------------|--|--|
| Turnover | 2 | 883 | 7,723 |
| Cost of sales | | (600) | (9,979) |
| Gross profit/(loss) | | 283 | (2,256) |
| Other revenue | | 10,989 | 13,121 |
| Engineering expenses | | (55) | (181) |
| Administrative expenses | | (5,753) | (1,391) |
| Depreciation and amortisation | 3 | (864) | (2,772) |
| Other operating expenses | | (110) | (347) |
| Profit from operations | 3 | 4,490 | 6,174 |
| Finance costs | | (310) | (14,623) |
| Share of results of associates | | 582 | (376) |
| Profit/(Loss) before taxation | | 4,762 | (8,825) |
| Taxation | 4 | – | – |
| Profit/(Loss) before minority interests | | 4,762 | (8,825) |
| Minority interests | | – | – |
| Profit/(Loss) for the period attributable to shareholders | | 4,762 | (8,825) |
| | | <i>HK cents</i> | <i>HK cents</i> |
| Basic earnings/(loss) per share | 5 | 0.016 | (0.03) |

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Notes:

1. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements are prepared in compliance with Hong Kong Statement of Standard Accounting Practice 25 "Interim Financial Reporting" and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies and basis of preparation used in the preparation of the interim condensed financial statements are the same as those used in the audited financial statements for the year ended 31 December 2003.

2. SEGMENT INFORMATION

(a) The following analysis presents turnover and profit/(loss) for the Group's business segments for the period ended 30 June 2004:

| | Turnover | | Profit/(Loss) | |
|--|-----------------------------|----------------------------------|-----------------------------|----------------------------------|
| | Six months ended | | Six months ended | |
| | 30 June 2004 HK\$'000 | 30 September 2003 HK\$'000 | 30 June 2004 HK\$'000 | 30 September 2003 HK\$'000 |
| Business segments: | | | | |
| <i>Continuing operations:</i> | | | | |
| Consumer packaged electronics | 883 | 1,379 | (326) | (1,368) |
| Property development | - | - | 873 | 4,564 |
| <i>Discontinued operations:</i> | | | | |
| Electronic manufacturing services | - | 6,344 | - | (1,596) |
| Telecommunication products | - | - | (2) | (3) |
| | <u>883</u> | <u>7,723</u> | <u>545</u> | <u>1,597</u> |
| Other income | | | 3,945 | 4,577 |
| Profit from operations | | | 4,490 | 6,174 |
| Finance costs | | | (310) | (14,623) |
| Share of results of associates | | | 582 | (376) |
| Profit/(Loss) before taxation | | | 4,762 | (8,825) |
| Taxation | | | - | - |
| Profit/(Loss) before minority interests | | | 4,762 | (8,825) |
| Minority interests | | | - | - |
| Profit/(Loss) attributable to shareholders | | | <u>4,762</u> | <u>(8,825)</u> |

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- (b) The following analysis presents the Group's turnover and profit from operations by geographical segments:

| | Turnover | | Profit from operations | |
|-------------------------------|--------------|-------------------|------------------------|-------------------|
| | 30 June 2004 | 30 September 2003 | 30 June 2004 | 30 September 2003 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Geographical segments: | | | | |
| Europe | 59 | 601 | 3 | (596) |
| Asia | 824 | 7,122 | 542 | 2,193 |
| | <u>883</u> | <u>7,723</u> | <u>545</u> | <u>1,597</u> |

3. PROFIT FROM OPERATIONS

The Group's operating profit is arrived at after charging/(crediting):

| | For the six months ended | |
|--|--------------------------|-------------------|
| | 30 June 2004 | 30 September 2003 |
| | HK\$'000 | HK\$'000 |
| Depreciation for property, plant and equipment | 322 | 2,772 |
| Amortisation of goodwill | 542 | - |
| Provision of stock obsolescence | - | 18 |
| Gain on disposal of fixed assets | - | (2,609) |
| Negative goodwill released | <u>(7,044)</u> | <u>(7,044)</u> |

4. TAXATION

There is no taxation in the condensed consolidated profit and loss account for the six months ended 30 June 2004 and 30 September 2003.

No provision for Hong Kong profits tax and overseas tax has been made as the Group did not generate any assessable profits arising in Hong Kong and elsewhere during the period (6 months ended 30 September 2003: Nil).

5. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the period of HK\$4,762,000 (6 months ended 30 September 2003: loss of HK\$8,825,000) and the weighted average number of 29,931,804,183 (6 months ended 30 September 2003: 29,931,804,183) ordinary shares in issue during the period.

Diluted earnings/loss per share for the periods ended 30 June 2004 and 30 September 2003 have not been shown as there were no dilutive potential ordinary shares during those periods.

6. CHANGE IN FINANCIAL YEAR END

The Company has changed its financial year end from 31 March to 31 December in 2003. The interim results for the current period cover a six-month period from 1 January 2004 to 30 June 2004. The comparative figures for the last corresponding period cover the period of six months from 1 April 2003 to 30 September 2003 as reported in the Company's 2003 interim results announcement.

7. SUBSEQUENT EVENT

On 30 July 2004, the Company issued HK\$200,000,000 convertible notes to Robina Profits Limited ("Robina"), a wholly-owned subsidiary of Sino-i Technology Limited (the Company's holding company) for partial settlement of a shareholder's loan by way of set off against the consideration payable by Robina for the aforesaid convertible notes issued by the Company in accordance with the subscription agreement entered into between the Company and Robina on 29 December 2003. These convertible notes bear interest rate at 1% per annum and are due on 30 July 2005. Each of the convertible notes carries the right at any time commencing on the date of issue but before the due date to convert the whole or part of the outstanding principal amounts of the notes into ordinary shares of the Company at a conversion price of HK\$0.018 per share (subject to adjustment in certain circumstances).

INTERIM DIVIDEND

The directors of the Company have resolved not to declare an interim dividend for the six months ended 30 June 2004 (6 months ended 30 September 2003: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATION REVIEW

During the period, the Group was principally engaged in property development; and design and marketing of consumer packaged electronics. Turnover for the period under review was approximately HK\$0.9 million (6 months ended 30 September 2003: HK\$7.7 million) and a net profit of HK\$4.8 million (6 months ended 30 September 2003: a net loss of HK\$8.8 million) was recorded. The net assets value of the Group amounted to HK\$2,418.5 million, representing a value of HK\$0.081 per share.

Given that the management of the Group disposed of its manufacturing facilities in December 2003, and revenue from its property division is yet to contribute, the Group recorded a further decline in overall

turnover. The Group's net profit of HK\$4.8 million was mainly attributable to negative goodwill released and interest income for the period under review.

Property Development

During the period under review, the Group recorded no turnover (6 months ended 30 September 2003: nil) and a segment profit of approximately HK\$0.9 million (6 months ended 30 September 2003: 4.6 million) for this business division. The profit was attributable to negative goodwill released for the period under review.

Regarding the progress of the major development project in Shenzhen, the piling and basement excavation works have begun early this year, and such works are expected to complete in late 2004. Meanwhile, the superstructure construction is expected to commence immediately subsequent to the completion of piling and basement excavation works. Development of this project will be progressed in five phases. A renowned French design company, selected by means of public tender, has completed the first phase construction design involving gross floor area of approximately 170,000 sq. m. involving 8 blocks of residential buildings. This project is expected to generate strong cash flow for the Group in the next few years.

In addition, the Guangzhou project involves a total gross floor area of 1.08 million sq. m., and detailed urban planning design has been approved, and construction work for the first phase is expected to commence in the fourth quarter of 2004.

Consumer Packaged Electronics

During the period, turnover from this division was approximately HK\$0.9 million (6 months ended 30 September 2003: 1.4 million) and a reduced segment loss of approximately HK\$0.3 million (6 months ended 30 September 2003: HK\$1.4 million) was recorded.

In view of the ongoing difficult business environment, the management of the Group has disposed of the manufacturing facilities in December 2003 after careful consideration, and decided to remain the business of design and trading of consumer packaged electronic products.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL

The Group continues to adopt prudent funding and treasury policies. As at 30 June 2004, net assets value of the Group amounted to approximately HK\$2,418.5 million, including cash and bank balances of approximately HK\$4.3 million which was denominated mainly in Renminbi and Hong Kong dollars. As at 30 June 2004, the Group's bank and other borrowings decreased to HK\$369 million (at 31 December 2003: HK\$425 million). The decrease in bank and other borrowings is mainly due to loan repayment of HK\$55.8 million during the period. For the Group's bank and other borrowings at 30 June 2004, approximately HK\$189 million were bearing interest at fixed rates while approximately HK\$180 million were at floating rates. The gearing ratio of the Group, measured on the basis of total bank and other borrowings as a percentage of total shareholders' equity decreased to 15% as of 30 June 2004 from 18% as at 31 December 2003. The Group's contingent liabilities at 30 June 2004 were HK\$31 million due to the guarantees given in connection with credit facilities.

As at 30 June 2004, land with lot no. K708-5 at Liu Wan, Shekou, China together with all its sales proceeds were pledged as securities for credit facilities.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATE

As the majority of the Group's borrowings and transactions are denominated in Hong Kong dollars, US dollars and Renminbi, the Group's exposure to exchange rate fluctuations is relatively insignificant. In general, the Group mainly utilizes its Renminbi income receipt for capital requirements expenditures in China and has not used any financial instruments for hedging Renminbi bank borrowings during the period and such borrowings were mainly used for Renminbi capital requirements in China.

EMPLOYEES

The Group employs and remunerates its staff based on their qualifications, experience and performance. In addition to basic salary payments, other benefits include contributions to provident fund schemes, group medical insurance, group personal accident insurance and external training sponsorship. Employees are eligible to be granted share options under the Company's share option scheme at the discretion of the board of directors. In general, salary review is conducted annually. At 30 June 2004, the Group had approximately 43 employees (at 30 September 2003: 270 employees). The salaries and allowance of employees for the period ended 30 June 2004 was approximately HK\$2.65 million (6 months ended 30 September 2003: HK\$6 million).

PROSPECT

The Company and its holding company, Sino-i Technology Limited ("Sino-i") have jointly announced on 29 December 2003 a restructuring plan as detailed in the Company's circular dated 23 March 2004. On 16 April 2004, the plan was approved by the independent shareholders of the Company. As part of the restructuring plan, convertible notes amounted to HK\$200 million (bearing an interest rate of 1% per annum and will mature on 30 July 2005) were issued by the Company to Robina Profits Limited, a wholly owned subsidiary of Sino-i, on 30 July 2004 in accordance with the subscription agreement dated 29 December 2003.

Upon the completion of the restructuring plan, the Company will continue to focus on its property development business, and through its subsidiary, Sino-i, will also engage in information technology business, provision of financial information and other IT related services. The management believes that the financial and trading prospects of the enlarged Group would be enhanced since it could enjoy the benefits of the rapidly growing information technology sector in China which Sino-i has been actively participated and shown outstanding performance.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold or redeemed any of the Company's shares during the period.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including the review of the unaudited interim results for the six months ended 30 June 2004.

PUBLICATION OF INTERIM RESULTS ON THE WEBSITE OF THE STOCK EXCHANGE

All information required by paragraphs 46(1) to 46(6) of Appendix 16 to the Listing Rules in force prior to 31 March 2004, which remains applicable to results announcements in respect of accounting periods commencing before 1 July 2004 under the transitional arrangements, will be published on the Stock Exchange's website in due course.

By order of the Board
Zhang Hong Ren
Director

Hong Kong, 20 September 2004

As at the date of this announcement, the Board comprises 3 executive directors, namely, Mr. YU Pun Hoi, Mr. ZHANG Hong Ren and Mr. ZHAO Liang; 2 non-executive directors, namely, Mr. YU Lin Hoi and Mr. LAM Bing Kwan; and 2 independent non-executive directors, namely, Mr. CHAN Lap Stanley and Mr. Francisco P. ACOSTA.

** For identification purpose only*

Please also refer to the published version of this announcement in China Daily dated 21 September 2004.