



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

South Sea Holding Company Limited

(Incorporated in Bermuda with limited liability)

ANNOUNCEMENT OF FINAL RESULTS FOR THE YEAR ENDED 31 MARCH 2003

RESULTS

The directors of **South Sea Holding Company Limited** (the “Company”) hereby announce the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 March 2003, together with the comparative figures for the year ended 31 March 2002 as follows:

CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Turnover		100,576	215,338
Cost of sales		(76,008)	(199,951)
Gross profit		24,568	15,387
Other revenue		16,926	16,997
Gain on deemed partial disposal of a subsidiary		–	20,000
Gain on disposals of subsidiaries		9,736	–
Gain on disposal of a joint venture		3,403	–
Gain on disposal of a property development project		20,000	–
Engineering expenses		(4,197)	(10,607)
Administrative expenses		(35,407)	(37,197)
Other operating expenses		(11,478)	(24,352)
Profit/(Loss) from operations	3	23,551	(19,772)
Finance costs		(22,947)	(17,304)
Liabilities waived by unsecured creditors		–	89,779
Share of losses of an associate		(374)	(403)
Profit before taxation		230	52,300
Taxation	4	(40)	(148)
Profit after taxation		190	52,152
Minority interests		–	–

Profit attributable to shareholders		190	52,152
		HK cent	HK cent
Basic earnings per share	5	0.0006	0.23

Notes:

(1) Basis of preparation

As at 31 March 2003, the Group had net current liabilities of HK\$587,357,000. Notwithstanding this, the financial statements have been prepared on a going concern basis on the assumption that the Group will continue to operate as a going concern. In the opinion of the directors, the Group will have sufficient working capital to continue its operations in the coming year, after taking into consideration the following:

The Group is currently negotiating with its bankers and a creditor to extend and re-schedule the repayment terms of certain bank loans and borrowing which either have been overdue for payment at the balance sheet date or would be due for repayment in the coming year. The Group is also in the course of discussion with some of its bankers to apply for additional credit facilities. The directors anticipate that the Group will be able to maintain the existing credit facilities and also obtain additional credit facilities from its bankers.

The directors believe that the Group's bankers and creditor will continue to support the Group and are of the opinion that, in the light of the measures taken to date, together with the expected results of other measures in progress, the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements. Accordingly, the financial statements have been prepared on a going concern basis.

Should the Group be unable to generate sufficient cash flows, the Group might not be able to continue in business as a going concern. Accordingly, adjustments would have to be made to restate the values of the assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively.

(2) Segment Information

2(a). Business Segments

The following tables represent revenue, results and certain assets, liabilities and capital expenditure information for the Group's business segments for the year ended 31 March 2003.

	Consumer packaged electronics 2003 HK\$'000	Telecommunication products 2003 HK\$'000	Electronic manufacturing services 2003 HK\$'000	Property development 2003 HK\$'000	Others 2003 HK\$'000	Total 2003 HK\$'000
Segment revenue						
Sales to external customers	64,032	-	36,544	-	-	100,576
Segment results	(15,618)	-	(5,248)	8,990	(482)	(12,358)
Interest income						2,770
Gain on waiver of amount due to a creditor						-
Gain on disposal of an associate						-
Gain on deemed partial disposal of a subsidiary						-
Liabilities waived by unsecured creditors						-
Finance costs						(22,947)
Gain on disposal of a property development project				20,000		20,000
Gain on disposals of subsidiaries	26,261					26,261
Gain on disposals of a joint venture	3,403					3,403
Loss on disposal of a subsidiary				(16,525)		(16,525)
Share of losses of an associate				(374)		(374)
Profit before taxation						230
Taxation						(40)
Profit after taxation						190
Minority interests						-
Profit attributable to shareholders						190

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	Consumer packaged electronics 2002 HK\$ '000	Telecom- munication products 2002 HK\$ '000	Electronic manufac- turing services 2002 HK\$ '000	Property development 2002 HK\$ '000	Others 2002 HK\$ '000	Total 2002 HK\$ '000
Segment revenue						
Sales to external customers	<u>147,104</u>	<u>3,586</u>	<u>64,648</u>	<u>–</u>	<u>–</u>	<u>215,338</u>
Segment results	<u>(40,497)</u>	<u>(7,004)</u>	<u>(2,271)</u>	<u>4,580</u>	<u>–</u>	<u>(45,192)</u>
Interest income						316
Gain on waiver of amount due to a creditor					4,989	4,989
Gain on disposal of an associate					115	115
Gain on deemed partial disposal of a subsidiary	13,663	333	6,004			20,000
Liabilities waived by unsecured creditors	81,350	8,429				89,779
Finance costs						(17,304)
Gain on disposal of a property development project						–
Gain on disposals of subsidiaries						–
Gain on disposals of a joint venture						–
Loss on disposal of a subsidiary						–
Share of losses of an associate				(403)		(403)
Profit before taxation						52,300
Taxation						(148)
Profit after taxation						52,152
Minority interests						–
Profit attributable to shareholders						<u>52,152</u>

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	Consumer packaged electronics 2003 HK\$'000	Telecommunication products 2003 HK\$'000	Electronic manufacturing services 2003 HK\$'000	Property development 2003 HK\$'000	Others 2003 HK\$'000	Total 2003 HK\$'000
Segment assets	37,817	379	113,374	3,301,369	2,558	3,455,497
Interest in an associate	-	-	-	209,223	-	209,223
Total assets	<u>37,817</u>	<u>379</u>	<u>113,374</u>	<u>3,510,592</u>	<u>2,558</u>	<u>3,664,720</u>
Segment liabilities	12,484	2,357	8,693	646,247	108,904	778,685
Loan liabilities	-	-	-	-	-	521,844
Total liabilities	<u>12,484</u>	<u>2,357</u>	<u>8,693</u>	<u>646,247</u>	<u>108,904</u>	<u>1,300,529</u>
Other segment information:						
Capital expenditure	1,807	-	26	63,619	-	65,452
Depreciation	6,515	-	5,009	24	1,351	12,899
Amortization of product development costs	3	-	-	-	-	3
Amortization of goodwill	-	-	-	93	-	93
Negative goodwill recognised as income	-	-	-	10,488	-	10,488
	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,488</u>	<u>-</u>	<u>10,488</u>
	Consumer packaged electronics 2002 HK\$'000	Telecommunication products 2002 HK\$'000	Electronic manufacturing services 2002 HK\$'000	Property development 2002 HK\$'000	Others 2002 HK\$'000	Total 2002 HK\$'000
Segment assets	42,667	384	90,955	3,372,157	27,046	3,533,209
Interest in an associate	-	-	-	209,597	-	209,597
Total assets	<u>42,667</u>	<u>384</u>	<u>90,955</u>	<u>3,581,754</u>	<u>27,046</u>	<u>3,742,806</u>
Segment liabilities	20,556	2,357	13,359	358,212	73,804	468,288
Loan liabilities	-	-	-	-	-	919,015
Total liabilities	<u>20,556</u>	<u>2,357</u>	<u>13,359</u>	<u>358,212</u>	<u>73,804</u>	<u>1,387,303</u>
Other segment information:						
Capital expenditure	13,269	-	928	353,304	-	367,501
Depreciation	8,112	175	6,705	6	1,623	16,621
Amortization of product development costs	5,127	-	-	-	-	5,127
Amortization of goodwill	-	-	-	78	-	78
Negative goodwill recognised as income	-	-	-	10,566	-	10,566
	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,566</u>	<u>-</u>	<u>10,566</u>

2(b). Geographical Segments

The following tables present revenue, results, certain assets and capital expenditure information for the Group's geographical segments.

	Europe		United States of America/Canada		Asia		Total	
	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000	2003 HK\$'000	2002 HK\$'000
Segment revenue								
Sales to external customers	<u>3,104</u>	<u>31,261</u>	<u>12,922</u>	<u>77,954</u>	<u>84,550</u>	<u>106,123</u>	<u>100,576</u>	<u>215,338</u>
Segment results	<u>(430)</u>	<u>(14,471)</u>	<u>(14,454)</u>	<u>(21,240)</u>	<u>2,526</u>	<u>(9,481)</u>	<u>(12,358)</u>	<u>(45,192)</u>
	UK/North America/Europe		Hong Kong		People's Republic of China ("PRC")		Total	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	<u>5,011</u>	<u>10,966</u>	<u>35,743</u>	<u>59,131</u>	<u>3,623,966</u>	<u>3,672,709</u>	<u>3,664,720</u>	<u>3,742,806</u>
Other segment information								
Capital expenditure	<u>70</u>	<u>252</u>	<u>1,737</u>	<u>13,019</u>	<u>63,645</u>	<u>354,230</u>	<u>65,452</u>	<u>367,501</u>

(3) Profit/(Loss) from operations

	2003 HK\$'000	2002 HK\$'000
Profit/(Loss) from operations is arrived after crediting/(charging) the following:		

Exchange gain	68	1,011
Provision for bad and doubtful debts	<u>(4,868)</u>	<u>(12,881)</u>

(4) Taxation

	2003 HK\$'000	2002 HK\$'000
Overseas tax	<u>40</u>	<u>148</u>

No Hong Kong profits tax has been provided in the financial statements as the Group did not derive any assessable profit for the year.

Overseas tax is provided in accordance with the legislation and tax rates prevailing in the respective overseas countries.

(5) Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders for the year of HK\$190,000 (2002: HK\$52,152,000) and on the weighted average of 29,931,804,183 (2002: 23,107,221,372) ordinary shares in issue during the year.

As the impact of exercise of the convertible notes is anti-dilutive, the dilutive earnings per share for both the years ended 31 March 2003 and 31 March 2002 is not presented.

ADOPTION OF NEW/REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

In the current year, the Group has adopted, for the first time, the following revised or new SSAPs:

SSAP 1 (Revised)	Presentation of financial statements
SSAP 11 (Revised)	Foreign currency translation
SSAP 15 (Revised)	Cash flow statements

SUMMARY OF AUDITORS' REPORT

The auditors of the Company have modified their report on the Group's accounts for the year ended 31 March 2003 and their report has included the following paragraph regarding the adoption of the going concern basis for the preparation of the accounts:

"Fundamental uncertainty relating to the going concern basis of the financial statements

In forming our opinion, we have considered the adequacy of the disclosures made in the financial statements concerning the adoption of the going concern basis for the preparation of the financial statements. As set out in note 2 to the financial statements, the financial statements have been prepared on a going concern basis, the validity of which is dependent on the continuing financial support from the Group's bankers and a creditor. The financial statements do not include any adjustments that would result from a failure of the Group to operate as a going concern. Had the going concern basis not been used, adjustments would have to be made to the financial statements to reduce the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. We consider that appropriate disclosures relating to this fundamental uncertainty have been made and our opinion is not qualified in this respect."

FINAL DIVIDEND

The directors of the Company have resolved not to recommend the declaration of any final dividend for the year ended 31 March 2003 (2002: Nil).

CLOSURE OF REGISTER

The register of members in Hong Kong will be closed from 2 September 2003 to 8 September 2003, both days inclusive, during which period no transfer of shares will be effected for the purpose of determining the identity of members who are entitled to attend and vote at the forthcoming annual general meeting. In order to register the transfers, all transfers accompanied by the relevant share certificates must be lodged with the share registrars of the Company in Hong Kong, Abacus Share Registrars Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00p.m. on 1 September 2003.

MANAGEMENT DISCUSSION AND ANALYSIS

Operation Review

During the year, the Group principally engaged in property investment and development; design, manufacturing and marketing of consumer electronic products; and provision of electronic manufacturing services. Turnover for the year was approximately HK\$100.6 million (2002: HK\$215.3 million) and a net profit of HK\$0.19 million (2002: HK\$52.2 million) was recorded. The net assets value of the Group amounted to HK\$2,364.2 million, representing a value of HK\$0.079 per share.

Although the difficult environment in electronic learning toys and electronic manufacturing services industries was subsisted, the Group's posted satisfactory result. The Group was operating under extreme financial difficulties in the past few years. Given the effort and several restructuring activities carried out, we are pleased to see a turnaround situation. Despite the decline in the Group's turnover and excluding the impact of liabilities waived by unsecured creditors through the exercise of scheme of arrangement in the last financial year, the Group posted a slim profit compared to a net loss of HK\$37.6 million recorded in the last year. Gross profit margin also expanded to 24.4% from last year's 7.1%.

Consumer Packaged Electronics

During the year, turnover from this division was approximately HK\$64.0 million (2002: HK\$147.1 million) and a reduced segmental loss of approximately HK\$15.6 million (2002: HK\$40.5 million).

The result was attributed by the effective cost-cutting measures implemented during the year. The retail market sentiment in US remained sluggish. Most of our US customers expected to have the delivery shortly after placing their orders. However, the relative long lead-time for sourcing the supply of certain components forced us to give up some of such orders. The management therefore keeps on negotiating with those customers in order to cater any orders to be placed.

Electronic Manufacturing Services (“EMS”)

Turnover from this division was approximately HK\$36.5 million (2002: HK\$64.7 million) and a segmental loss of approximately HK\$5.2 million (2002: HK\$2.3 million) was recorded during the year. EMS business in Asia has been extremely competitive leading to slimmer profit margin. As such, the management continues to focus on reducing the overheads and centralizing the operation base in China.

Property Development and Investment in China

During the year, the Group recorded no sales turnover and a segmental profit of approximately HK\$9 million (2002: HK\$4.6 million) for this business division. In addition, the Group disposed its interest in a property development project in Nanjing producing a gain of HK\$20 million. The major property development projects are in Shenzhen, and Guangzhou of which the Company owns 49% equity interest and the remaining 51% equity interest is owned by its holding company.

The government authority has approved the detailed urban planning design of the Shenzhen project, and development of such project will be in five phases. A renowned French design firm, selected via a public tender, has completed the first phase construction design involving gross floor area of approximately 170,000 sq. m.. Government approval of the construction project conceptual design is in progress. Comprehensive construction work is expected to start by the end of 2003, and this project will generate strong cashflow for the Group in the next financial year.

The Guangzhou project involves a total gross floor area of 1.08 million sq. m., and construction work for the first phase is expected to start in early 2004.

Liquidity, Financial Resources and Capital

The Group continues to adopt prudent funding and treasury policies. As at 31 March 2003, net assets value of the Group was approximately HK\$2,364 million, including cash and bank balances of approximately HK\$8.8 million which was denominated mainly in Reminbi and Hong Kong dollars. As at 31 March 2003, the Group's aggregate borrowings other than convertible notes issued decreased to HK\$522 million (2002: HK\$709 million); and no convertible loan notes issued by the Company were remained outstanding (2002: HK\$210 million). The Group has reached an agreement with a creditor (the noteholder of a matured convertible loan note in the principal sum of HK\$210 million) that HK\$210 million together with all accrued interest thereon will be repaid on 31 December 2003. The decrease in borrowings is due to repayment of RMB200 million to bank during the year. For the Group's borrowings at 31 March 2003, approximately HK\$422 million were bearing interest at fixed rates while approximately HK\$310 million were at floating rates. The gearing ratio of the Group, measured on the basis of total borrowings as a percentage of total shareholders' equity, decreased to 31% as of 31 March 2003 from 39% as at 31 March 2002. The Group's contingent liabilities at 31 March 2003 were HK\$37 million due to the guarantees given in connection with credit facilities granted to a third party.

As at 31 March 2003, fixed assets with the net book value of HK\$55 million (2002: HK\$93.5 million); floating charge over other assets of certain subsidiaries within the Group; charge over shares in certain subsidiaries within the Group; and land with lot no. K708-0005 at Liu Wan, Shekou, China together with all its sales proceeds were pledged as securities for credit facilities.

Effective 2 May 2002, the nominal value of share in the share capital of the Company was reduced from HK\$0.10 each to HK\$0.01 each. The authorized capital of the Company is HK\$5,000,000,000 divided into 500,000,000,000 shares of HK\$0.01 each, of which 29,931,804,183 shares have been issued and are credited as fully paid up.

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 Reminbi, the Group's exposure to exchange rate fluctuations is relatively insignificant. In general, the Group mainly utilizes its Reminbi income receipt for capital requirements expenditures in China and has not used any financial instruments for hedging RMB bank borrowings during the year and such borrowings were mainly used for Reminbi capital requirements in China.

Employee

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. In general, salary review is conducted annually. At 31 March 2003, the Group had approximately 387 employees (2002: 1,162 employees). The salaries and allowance of employees for the year ended 31 March 2003 was approximately HK\$21.7 million (2002: HK\$42.4 million).

Prospect

The Group will continue to focus on its property development projects in Shenzhen and Guangzhou, which are expected to generate strong cash flow and profitable in the next few financial years. In addition, the management will keep on focusing on the property development projects in high economic growth cities in China, and also on seeking for potential investment opportunities so as to further strengthen our revenue base and in turn, to maximize our shareholders' value.

Regarding the manufacturing business, the management will continue to implement stringent cost control to further reduce the operating expenses and to improve manufacturing efficiency. The corporate restructuring process is expected to complete in the next financial year to ensure a larger customer base and be better positioned for future success.

PUBLICATION OF FURTHER INFORMATION

A detailed result announcement containing all the information required by paragraphs 45(1) to 45(3) inclusive of Appendix 16 to the Listing Rules will be published on the Stock Exchange's website in due course.

By order of the Board
Zhang Hong Ren
Director

Hong Kong, 30 July 2003

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of South Sea Holding Company Limited (the "Company") will be held at Chater Room II, Function Room Level (B1), The Ritz-Carlton, 3 Connaught Road Central, Hong Kong on 8 September 2003 at 10:00a.m. for the following purposes:-

1. To receive and adopt the audited financial statements and the Reports of the Directors and Auditors for the year ended 31 March 2003;
2. To re-elect the retiring Directors and to authorize the Board of Directors to fix the remuneration of the Directors; and
3. To re-appoint the retiring Auditors and to authorize the Board of Directors to fix their remuneration.

By order of the Board
Watt Ka Po James
Company Secretary

Hong Kong, 30 July 2003

Notes:

1. A member who is the holder of two or more shares and who is entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and, on a poll, vote in his stead. A proxy need not be a member of the Company.
2. To be valid, the form of proxy, together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the share registrars of the Company in Hong Kong, Abacus Share Registrars Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.
3. The register of members will be closed from 2 September 2003 to 8 September 2003, both days inclusive, during which period no transfer of shares will be effected for the purpose of determining the identity of members who are entitled to attend and vote at the meeting. In order to register the transfers, all transfers accompanied by the relevant share certificates must be lodged with the share registrars of the Company in Hong Kong, Abacus Share Registrars Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00p.m. on 1 September 2003.

Please also refer to the published version of this announcement in The Standard dated on 31-7-2003.