



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)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2003

INTERIM RESULTS

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

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT – UNAUDITED

For the six months ended 30 September 2003

	Notes	For the six months ended 30 September	
		2003 HK\$'000	2002 HK\$'000
Turnover	2	7,723	34,160
Cost of sales		<u>(9,979)</u>	<u>(33,219)</u>
Gross (loss)/profit		(2,256)	941
Other revenue		13,121	30,573
Engineering expenses		(181)	(3,001)
Administrative expenses		(1,391)	(24,086)

South Sea Holding Company Limited
17-12-2003

South Sea Holding Company Limited

Depreciation and amortisation	3	(2,772)	(7,529)
Other operating expenses		(347)	(12,067)
Profit/(Loss) from operations	3	6,174	(15,169)
Finance costs		(14,623)	(9,664)
Share of results in an associated company		(376)	–
Loss before taxation		(8,825)	(24,833)
Taxation	4	–	(27)
Loss before minority interests		(8,825)	(24,860)
Minority interests		–	–
Loss for the period attributable to shareholders		(8,825)	(24,860)
		<i>HK cents</i>	<i>HK cents</i>
Loss per share			
– Basic	5	(0.03)	(0.08)

Notes

1. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements are prepared in compliance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 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 March 2003, except for the adoption of SSAP 12 (Revised) “Income Taxes”.

SSAP 12 (Revised) principally prescribes the accounting treatment and disclosures for deferred tax. In prior years, deferred tax is provided using the income statement liability method on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt. SSAP 12 (Revised) requires the adoption of the balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable

South Sea Holding Company Limited

profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively.

The adoption of the above SSAP has no material effect on the condensed financial statements of the Group for the current and prior period.

2. SEGMENT INFORMATION

The Group is principally engaged in the design, manufacturing and marketing of consumer electronic products; provision of electronic manufacturing services; and property investment and development.

An analysis of the Group's turnover and contribution to profit/(loss) from operations for the period ended 30 September 2003 by business and geographical segments of operations is as follows:

	Turnover		Profit/(Loss)	
	Six months ended		from operations	
	30 September		30 September	
	2003	2002	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Business segments:				
Consumer packaged electronics	1,379	14,307	(1,368)	(27,472)
Telecommunication products	-	-	(3)	(4)
Electronic manufacturing services	6,344	19,853	(1,596)	(682)
Property development	-	-	4,564	(10,509)
	<u>7,723</u>	<u>34,160</u>	1,597	(38,667)
Other income			4,577	6
Gain on disposal of a property development project			-	20,000
Gain on disposal of a jointly-controlled entity			-	3,492
Profit/(Loss) from operations			6,174	(15,169)
Finance costs			(14,623)	(9,664)
Share of results in an associated company			(376)	-
Loss before taxation			(8,825)	(24,833)
Taxation			-	(27)
Loss before minority interests			(8,825)	(24,860)
Minority interests			-	-
Loss attributable to shareholders			<u>(8,825)</u>	<u>(24,860)</u>

South Sea Holding Company Limited

	Turnover		Profit/(Loss)	
	Six months ended		from operations	
	30 September		Six months ended	
	2003	2002	2003	2002
<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	
Geographical segments:				
Europe	601	2,200	(596)	(4,225)
United States of America/Canada	–	8,940	–	(17,166)
Asia	7,122	23,020	2,193	(17,276)
	<u>7,723</u>	<u>34,160</u>	<u>1,597</u>	<u>(38,667)</u>

3. PROFIT/(LOSS) FROM OPERATIONS

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

	For the six months ended	
	30 September	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Depreciation for property, plant and equipment	2,772	6,520
Amortisation and write-off of product development costs	–	916
Amortisation of goodwill	–	93
Provision of stock obsolescence	18	542
Provision for bad and doubtful debts	–	138
Gain on disposal of fixed assets	(2,609)	(231)
Operating leases in respect of land and building	–	325
Negative goodwill released	(7,044)	(7,044)
Provision for impairment in value of land held for development	–	12,887
Provision for impairment in goodwill	–	3,553
	<u>–</u>	<u>3,553</u>

4. TAXATION

Taxation in the condensed consolidated profit and loss account represents:

	For the six months ended	
	30 September	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Overseas tax	–	27
	<u>–</u>	<u>27</u>

South Sea Holding Company Limited

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (2002: Nil).

Overseas tax has been provided on the assessable profits of the overseas subsidiaries in accordance with tax laws of the countries in which these subsidiaries operate.

5. LOSS PER SHARE

The calculation of basic loss per share is based on the net loss attributable to shareholders for the period of HK\$8,825,000 (2002: HK\$24,860,000) and the weighted average number of 29,931,804,183 (2002 : 29,931,804,183) ordinary shares in issue during the period.

The Group has no potential ordinary shares outstanding at 30 September 2003 and at 30 September 2002, and diluted earnings per share is not presented.

INTERIM DIVIDEND

The directors of the Company have resolved not to declare an interim dividend for the six months ended 30 September 2003 (2002: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATION REVIEW

During the period under review, the Group was principally engaged in property investment and development; design, manufacturing and marketing of consumer electronic products; and provision of electronic manufacturing services. Turnover for the period under review was HK\$7.7 million (2002: HK\$34.2 million) and a net loss of HK\$8.8 million (2002: HK\$24.9 million) was recorded. The net assets value of the Group amounted to HK\$2,354.9 million, representing a value of HK\$0.079 per share.

Property Development and Investment in China

During the period, this business division recorded no sales turnover and a segmental profit of approximately HK\$4.6 million. The profit was mainly attributable to negative goodwill released for the period under review. The major 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 company, selected by means of 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 commence by the second quarter of 2004, and this project will generate strong cashflow for the Group in the next few financial 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 2004.

Consumer Packaged Electronics

During the period, turnover from this division was HK\$1.4 million (2002: HK\$14.3 million) and a segmental loss of HK\$1.4 million (2002: HK\$27.5 million) was recorded. The improved result was attributed to the effective cost-cutting measures implemented during the period. The overall manufacturing business remains extremely competitive and profit margin continues to squeeze. The management will monitor the situation closely to ensure minimal impact from this competitive environment.

Electronic Manufacturing Services (“EMS”)

Turnover from this division was HK\$6.3 million (2002: HK\$19.9 million) and a segmental loss of HK\$1.6 million (2002: HK\$0.7 million) was recorded during the period. The decline in turnover was attributable to lack of new customers and decreasing orders from existing customers. In addition, the EMS business in Asia has always been extremely competitive and as a result, further deterioration in the profit margin. As such, the management will continue taking various measures to reduce the negative financial impact from this business division.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL

The Group continues to adopt prudent funding and treasury policies. As at 30 September 2003, net assets value of the Group was approximately HK\$2,354.9 million, including cash and bank balances of approximately HK\$1.1 million which was denominated mainly in Renminbi and Hong Kong dollars. As at 30 September 2003, the Group’s aggregate borrowings

were HK\$522 million (31 March 2003: HK\$522 million) of which HK\$212 million were bearing interest at fixed rates while HK\$310 million were at floating rates. 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 gearing ratio of the Group, measured on the basis of total borrowings as a percentage of total shareholders' equity, was 31% as of 30 September 2003 (as of 31 March 2003: 31%). The Group's contingent liabilities at 30 September 2003 were HK\$34 million due to the guarantees given in connection with credit facilities granted to a third party.

As at 30 September 2003, fixed assets with the net book value of HK\$53 million (31 March 2003: HK\$55 million); floating charge over other assets of certain subsidiaries within the Group; charge over shares in certain subsidiaries within the Group; and the 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 requirement expenditures and operating expenses 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. In general, salary review is conducted annually. As at 30 September 2003, the Group

had approximately 270 employees (2002: 1,178 employees). The salaries and allowance of employees for the period ended 30 September 2003 was approximately HK\$6 million (2002: HK\$14 million).

PROSPECT

Property development projects in Shenzhen and Guangzhou shall remain the focus of the Group in the next few financial years which are expected to generate strong cash flow and profit. The management will continue focusing on the property development and investment opportunities in high economic growth cities in China so to further strengthen our revenue base and in turn, to maximize our shareholders' value.

Regarding the manufacturing business, it is the management's commitment to focus on exploring new customers and at the same time to further improve its operating efficiency so as to turnaround the operation as soon as possible.

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 a review of the unaudited interim results for the six months ended 30 September 2003.

CHANGE OF PRINCIPAL PLACE OF BUSINESS

With effect from 18 November 2003, the principal place of business of the Company was changed to 39th Floor, New World Tower I, 16-18 Queen's Road Central, Hong Kong.

OTHER INFORMATION

A detailed results announcement containing all the information required to be disclosed under paragraphs 46(1) to 46(6) inclusive of Appendix 16 to the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited as soon as practicable.

South Sea Holding Company Limited

By order of the Board
Zhang Hong Ren
Director

Hong Kong, 16 December 2003

** For identification purpose only.*

Please also refer to the published version of this announcement in The Standard dated on 17-12-2003.