



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 2002

INTERIM RESULTS

The board of directors (the "Directors") of South Sea Holding Company Limited ("the Company") hereby announces the unaudited consolidated interim results of the Company and its subsidiaries ("the Group") for the six months ended 30 September 2002 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT – UNAUDITED

For the six months ended 30 September 2002

		For the six months ended 30 September	
	Notes	2002 HK\$'000	2001 HK\$'000
Turnover	2	34,160	103,822
Cost of sales		(33,219)	(94,905)
Gross profit		941	8,917
Other revenue		30,573	89,216
Engineering expenses		(3,001)	(3,949)
Administrative expenses		(24,086)	(17,118)
Depreciation and amortisation	3	(7,529)	(11,078)
Other operating expenses		(12,067)	(8,988)
(Loss)/profit from operations	3	(15,169)	57,000
Finance costs		(9,664)	(5,013)
Share of results in an associated company		–	116
(Loss)/Profit before taxation		(24,833)	52,103
Taxation	4	(27)	(121)
(Loss)/Profit before minority interests		(24,860)	51,982
Minority interests		–	209

**(Loss)/Profit for the period
attributable to shareholders****(24,860)****52,191***HK cents**HK cents***(Loss)/Earnings per share**

– Basic

5

(0.08)**0.31****NOTES TO CONDENSED INTERIM ACCOUNTS****1. PRINCIPAL ACCOUNTING POLICIES**

The unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting”. The accounting policies and basis of preparation used in the preparation of the interim financial statements are the same as those used in the audited financial statements for the year ended 31 March 2002, except for those changes as a result of adoption of the following SSAPs issued by the Hong Kong Society of Accountants which are effective for accounting periods commencing on or after 1 January 2002:

SSAP 1 (revised)	Presentation of financial statements
SSAP 11 (revised)	Foreign currency translation
SSAP 15 (revised)	Cash flow statements
SSAP 34	Employee benefits

The adoption of the above SSAPs 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 2002 by business and geographical segments of operations is as follows:

	Turnover		Profit/(Loss)	
	Six months ended		from operations	
	30 September		Six months ended	
	2002	2001	2002	2001
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Business segments:				
Consumer packaged electronics	14,307	61,927	(27,472)	(16,884)
Telecommunication products	–	3,586	(4)	(16,783)
Electronic manufacturing services	19,853	38,309	(682)	3,105
Property development	–	–	(10,509)	2,668
	<u>34,160</u>	<u>103,822</u>	<u>(38,667)</u>	<u>(27,894)</u>
Other income			6	84,894
Gain on disposal of a property development project			20,000	–
Gain on disposal of a jointly controlled entity			3,492	–

South Sea Holding Company Limited

(Loss)/Profit from operations	(15,169)	57,000
Finance costs	(9,664)	(5,013)
Share of results in an associated company	—	116
(Loss)/Profit before taxation	(24,833)	52,103
Taxation	(27)	(121)
(Loss)/Profit before minority interests	(24,860)	51,982
Minority interests	—	209
(Loss)/Profit attributable to shareholders	<u>(24,860)</u>	<u>52,191</u>

	Turnover		Profit/(Loss)	
	Six months ended		from operations	
	30 September		Six months ended	
	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Geographical segments:				
Europe	2,200	28,112	(4,225)	(23,347)
United States of America/Canada	8,940	31,034	(17,166)	(8,461)
Asia	23,020	44,676	(17,276)	3,914
	<u>34,160</u>	<u>103,822</u>	<u>(38,667)</u>	<u>(27,894)</u>

3. (LOSS)/PROFIT FROM OPERATIONS

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

	For the six months ended	
	30 September	
	2002	2001
	HK\$'000	HK\$'000
Depreciation:		
Owned property, plant and equipment	6,520	8,979
Leased property, plant and equipment	—	323
Amortisation and write-off of product development costs	916	1,776
Amortisation of goodwill	93	—
(Written back)/provision of stock obsolescence	542	(10,265)
Provision for bad and doubtful debts	138	5,559
(Gain)/loss on disposal of fixed assets	(231)	314
Operating leases in respect of land and building	325	1,837
Negative goodwill released	(7,044)	(3,522)
Provision for impairment in value of land held for development	12,887	—
Provision for impairment of goodwill	3,553	—
Liabilities waived by unsecured creditors	—	(84,593)
	<u>—</u>	<u>(84,593)</u>

4. TAXATION

Taxation in the condensed consolidated profit and loss account represents:

	For the six months ended 30 September	
	2002	2001
	HK\$'000	HK\$'000
Overseas tax	<u>27</u>	<u>121</u>

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 (2001: Nil).

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

5. (LOSS)/EARNINGS PER SHARE

The calculation of basic (loss)/earnings per share is based on the net loss attributable to shareholders for the period ended of HK\$24,860,000 (2001: profit of HK\$52,191,000) and the weighted average number of 29,931,804,183 (2001: 16,714,928,290) ordinary shares in issue during the period.

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

6. SUBSEQUENT EVENT

On 10 October 2002, the Group has disposed the entire interest in Chongqing Sheng Tai Properties Development Co. Ltd. for a consideration of RMB9,000,000.

INTERIM DIVIDEND

The Directors have resolved not to declare any interim dividend for the six months ended 30 September 2002 (2001: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Operation Review

During the period under review, the principal activities of the Group are 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\$34.2 million (2001: HK\$103.8 million) and a net loss of HK\$24.9 million (2001: a net profit of HK\$52.2 million) was recorded. The net assets value of the Group amounted to HK\$2,330.7 million, representing a value of HK\$0.078 per share.

Property Development and Investment in the PRC

During the period under review, no turnover contribution was recorded for the Group's property division. However, the Group has disposed its interest in a property project in Nanjing giving a gain of HK\$20 million. Other development business includes projects in Shenzhen and Guangzhou. It is expected that profit contribution will be reflected within the next twelve months.

Consumer Packaged Electronics

Turnover from this division was HK\$14.3 million (2001: HK\$61.9 million) and a segmental loss of HK\$27.5 million (2001: HK\$16.9 million) was recorded during the period. During the period under review, the retail market sentiment in US remained weak. Most of our US customers expected a shorter delivery time after placing their orders. Consequently, the lead-time for sourcing the supply of certain components is relatively long and thus giving up some orders from those customers. In order to cater such short-time orders, the management will communicate with those US customers more frequently to ensure quicker response to orders to be placed by those customers.

Electronic Manufacturing Services (“EMS”)

Turnover was HK\$19.9 million (2001: HK\$38.3 million) and a segmental loss of HK\$0.7 million (2001: a segmental profit of HK\$3.1 million) was recorded during the period. EMS business in Asia has been extremely competitive leading to slimmer profit margin. In order to cope with this highly competitive environment, we have been focusing on improving the working efficiency and effectiveness of the operations by reducing the overheads and centralizing the daily operation base in Mainland China.

Liquidity, Financial Resources and Capital

The Group continues to adopt prudent funding and treasury policies. As at 30 September 2002, net assets value of the Group was HK\$2,330.7 million, including cash and bank balances of approximately HK\$2.6 million, which is denominated mainly in Renminbi and Hong Kong dollars. As at 30 September 2002, the Group’s aggregate borrowings decreased to HK\$521 million (31 March 2002: HK\$709 million) and no convertible loan notes issued by the Company were remained outstanding (31 March 2002: HK\$210 million). The decrease in borrowings is due to the repayment of bank loan of HK\$188 million. All the Group’s borrowings during the period were bearing interest rate 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 22.4% as of 30 September 2002 from 39% as at 31 March 2002. The Group’s contingent liabilities as at 30 September 2002 were HK\$37 million due to the guarantees given in connection with credit facilities.

As at 30 September 2002, fixed assets with net book value of HK\$88 million (31 March 2002: HK\$93.5 million); shares in certain subsidiaries within the Group; and land with Lot No. K708-5 at Liu Wan, Shekou, the PRC together with all its sales proceeds were pledged as securities for banking facilities.

Effective 2 May 2002, the issued and paid up share capital of the Company was reduced from HK\$2,993,180,418.30 divided into 29,931,804,183 shares of HK\$0.10 to HK\$299,318,041.83 divided into 29,931,804,183

shares of HK\$0.01 each and the authorized share capital was reduced from HK\$5,000,000,000 to HK\$2,306,137,623.53 following the resolutions passed on 30 April 2002. The amount of HK\$2,693,862,376.47 arising from the reduction of capital has been credited to the contributed surplus account of the Company and subsequently set off against the accumulated loss of the Company as at 30 April 2002. By an ordinary resolution passed on 30 April 2002, the authorized share capital of the Company has been increased from HK\$2,306,137,623.53 to HK\$5,000,000,000 by the creation of an additional 269,386,237,647 shares of HK\$0.01 each following the aforesaid capital reduction coming into effect.

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 the PRC and did not use any financial instruments for hedging Renminbi bank borrowings during the period and such borrowings were mainly used for Renminbi capital requirements in the PRC.

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 of the Group 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 2002, the Group had approximately 1,178 employees (2001: 1,425 employees), of which 20 were based in Hong Kong, 1,146 were based in the PRC and 12 were based in overseas. The salaries and allowance of employees for the period ended 30 September 2002 was about HK\$14 million (2001: HK\$23 million).

Prospect

Series of cost control measures have been implemented so as to reduce the operating expenses and to improve the manufacturing efficiency. Despite the stagnant economic environment, the management continues to focus on the more favorable property development projects in the high growth cities in the PRC, and also seeks for potential investment opportunities so as to enlarge the revenue base and in turn, to maximize our shareholders' value.

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 2002.

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.

By order of the Board
Zhang Hong Ren
Director

Hong Kong, 16 December 2002

** For identification purpose only.*

Please also refer to the published version of this announcement in The Standard dated on 17-12-2002.