
IMPORTANT

If you are in any doubt about this circular or as to the action to be taken, you should consult a stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in South Sea Holding Company Limited, you should at once hand this circular with the enclosed form of proxy to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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South Sea Holding Company Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 680)

Directors:

YU Pun Hoi (*Chairman*)
ZHANG Hong Ren
ZHAO Liang
YU Lin Hoi[#]
LAM Bing Kwan[#]
CHAN Lap Stanley*
Francisco P. ACOSTA*

[#] *Non-executive Directors*

* *Independent Non-executive Directors*

Principal place of business:

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Hong Kong

Registered office:

Canon's Court
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Bermuda

10 May 2004

To the shareholders

Dear Sir or Madam,

EXPLANATORY STATEMENT FOR REPURCHASE MANDATE AND AMENDMENTS TO THE COMPANY'S BYE-LAWS

This serves as an explanatory statement required to be sent to the shareholders of **South Sea Holding Company Limited** (the "Company") under Rule 10.06(1)(b) of The Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") in connection with the proposed ordinary resolution to be considered at the forthcoming annual general meeting to be held on 11 June 2004 (the "AGM") for approving the grant of a general mandate to the directors of the Company (the "Directors") to repurchase shares of the Company. Details of the resolutions are set out in

resolution no. 5 to the notice of the AGM. This is also to provide you with the information on the proposed amendments to the Company's Bye-Laws ("Bye-Laws").

The purpose of this circular is to provide you with all the information reasonably necessary to enable the shareholders to make an informed decision on whether to vote for or against the relevant resolutions at the AGM.

REPURCHASE MANDATE

Shareholders' Approval

The Listing Rules provide that all securities repurchases on the Stock Exchange by a company with its primary listing on the Stock Exchange must be approved in advance by an ordinary resolution, which may be by way of a general mandate, or by a specific approval in relation to a specific transaction. All the shares proposed to be repurchased by the issuer are fully paid up.

The Company has previously sent to the shareholders an Explanatory Statement complying with the provisions of rule 10.06(1)(b) of the Listing Rules.

Share Capital

As at 5 May 2004, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained in this circular (the "Latest Practicable Date"), there were in issue an aggregate of 29,931,804,183 shares. Subject to the passing of the resolution to be proposed at the AGM for the granting to the Directors of a general mandate to repurchase shares of the Company (the "Repurchase Resolution") and on the basis that no further shares will be issued and repurchased prior to the date of the AGM, exercise in full of the mandate will allow the Company to repurchase a maximum of 2,993,180,418 shares during the period ending on the earliest of the date of the next annual general meeting, the date by which the next annual general meeting of the Company is required to be held by law or its bye-laws and the date upon which such authority is revoked or varied by an ordinary resolution of the shareholders in a general meeting of the Company.

Reasons for Repurchase

As at the Latest Practicable Date, the Directors have no intention to repurchase any shares but consider that the mandate will provide the Company the flexibility to make such repurchase when appropriate and beneficial to the Company. Such repurchases may enhance the net value and/or earnings per share of the Company. As compared with the financial position of the Company as at 31 December 2003 (being the date to which its latest audited accounts were made up), the Directors consider that there would be a material adverse impact on the working capital and on the gearing position of the Company in the event that the mandate granted pursuant to the passing of the Repurchase Resolution was to be exercised in full during the proposed repurchase period. No repurchase would be made in circumstances that would have a material adverse impact on the working capital or gearing ratio of the Company.

Funding of Repurchase

In repurchasing any shares, the Company may only apply funds from its available cash flow or working capital facilities, which are legally available for such purpose in accordance with the applicable laws of Bermuda and its memorandum of association and bye-laws.

The Companies Act 1981 of Bermuda (as amended) further provides that no repurchase by a company of its own shares may be effected if, on the date on which the purchase is to be effected, there are reasonable grounds for believing that the Company is, or after the purchase would be, unable to pay its liabilities as they become due.

Directors, their Associates and Connected Persons

To the best of the knowledge of the Directors having made all reasonable enquiries, none of the Directors nor any associates of the Directors has a present intention, in the event that the Repurchase Resolution is passed by shareholders, to sell shares to the Company.

As at the Latest Practicable Date, no connected person of the Company (as defined in the Listing Rules) has notified the Company that he/she has an intention to sell shares to the Company nor has any connected person of the Company undertaken not to sell any of the shares held by him/her to the Company, in the event that the Repurchase Resolution is passed.

Undertaking of the Directors

The Directors have undertaken to the Stock Exchange to exercise the powers of the Company to make repurchases pursuant to the Repurchase Resolution in accordance with the Listing Rules, the applicable laws of Bermuda and its memorandum of association and by-laws.

Effect of Takeovers Code

If on the exercise of the power to repurchase shares pursuant to the mandate granted by the passing of the Repurchase Resolution, a shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of Rule 32 of the Hong Kong Code on Takeovers and Mergers (the "Code"). As a result, a shareholder or group of shareholders acting in concert could obtain or consolidate control of the Company and, depending on the level of increase of the shareholder's interest, may become obliged to make a mandatory offer in accordance with Rule 26 of the Code.

As at the Latest Practicable Date, the substantial shareholder of the Company, Sino-i Technology Limited, through its wholly owned subsidiaries, namely Victorious Limited, Robina Profits Limited and Ko Tact Limited, is interested in approximately 67.71% of the issued share capital of the Company. In the event that the Directors exercise in full the power to repurchase shares which is proposed to be granted pursuant to the Repurchase Resolution, the indirect shareholding of Sino-i Technology Limited would be increased to approximately 75.23% of the then issued share capital of the Company. The Directors believe that such an increase would not give rise to an obligation to make a mandatory offer under Rule 26 of the Code. The Directors have no present intention to make any repurchase in the circumstances that shares in the hand of the public would fall below the relevant prescribed minimum percentage (i.e. 25%).

Share Prices

The highest and lowest traded prices for shares on the Stock Exchange during each of the twelve months preceding the Latest Practicable Date were as follows:

	PER SHARE	
	Highest HK\$	Lowest HK\$
2003		
May	0.010	0.010
June	0.010	0.010
July	0.010	0.010
August	0.021	0.010
September	0.019	0.014
October	0.017	0.010
November	0.017	0.012
December	0.026	0.013

	PER SHARE	
	Highest <i>HK\$</i>	Lowest <i>HK\$</i>
2004		
January	0.035	0.018
February	0.034	0.022
March	0.026	0.017
April	0.021	0.016

Share Repurchase made by the Company

The Company has not repurchased any shares on the Stock Exchange in the six months preceding the Latest Practicable Date.

AMENDMENTS TO THE COMPANY'S BYE-LAWS

In view of the changes to the Listing Rules which took effect on 31 March 2004, the Directors propose to make certain amendments to the Bye-Laws in compliance with the amended provision of Appendix 3 to the revised Listing Rules and at the same time bring the Bye-Laws up to the date with the Listing Rules. The major amendments to the Bye-Laws relate the following:

- (i) Where any shareholder is, under the Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any vote cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted;
- (ii) Directors shall abstain from voting at the board meeting on any matter in which he or any of his associates has a material interest and are not to be counted towards the quorum of the relevant board meeting; and
- (iii) The period for lodgment by shareholder of the notice to nominate a director shall commence no earlier than the day after the dispatch of the notice of the meeting appointed for such election and end no later than seven days before the date of such meeting.

The full text of the special resolution proposing the amendments to the Bye-Laws (Resolution 7) is set out in the notice of AGM.

RECOMMENDATION

The Directors consider that the grant of a general mandate to repurchase shares and the proposed amendments to the Bye-Laws are in the best interests of the Company and the shareholders as a whole. Accordingly, the Directors recommend all shareholders to vote in favour of the Repurchase Resolution and the special resolution relating to the amendments to the Bye-Laws.

Yours faithfully,
By order of the Board of
South Sea Holding Company Limited
Zhang Hong Ren
Director