

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

	Notes	For the six months ended 30 September	
		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

CONDENSED CONSOLIDATED BALANCE SHEET*As at 30 September 2002*

	(Unaudited)	(Audited)
	30 September	31 March
	2002	2002
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS AND LIABILITIES		
Non-current assets		
Property, plant and equipment	88,756	94,183
Land held for development	3,273,275	3,264,754
Interest in a property development project	–	80,000
Investment in an associated company	209,597	209,597
Product development costs	8,879	8,769
Goodwill	–	3,646
Negative goodwill	(264,157)	(271,201)
	3,316,350	3,389,748
Current assets		
Inventories	20,795	26,305
Trade and bills receivables	11,131	11,933
Amounts due from a joint venture	–	89
Amounts due from a fellow subsidiary	–	54,862
Other receivables and deposits	126,407	31,246
Cash at banks and in hand	2,630	228,623
	160,963	353,058

CONDENSED CONSOLIDATED BALANCE SHEET (continued)*As at 30 September 2002*

		(Unaudited)	(Audited)
		30 September	31 March
		2002	2002
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Current liabilities			
Amounts due to ultimate holding company		16,026	32,855
Amounts due to fellow subsidiaries		–	60,240
Trade and bills payables	7	7,960	10,231
Land premium payables		160,577	160,576
Other payables		411,959	174,524
Provision for tax		151	164
Bank loans and overdrafts (secured)	8	23,364	211,621
Convertible notes		–	210,000
Finance leases		–	440
		620,037	860,651
Net current liabilities		(459,074)	(507,593)
Total assets less current liabilities		2,857,276	2,882,155
Non-current liabilities			
Bank loans (secured)	8	497,666	497,666
Finance leases		–	33
Deposit received		28,163	28,163
Deferred taxation		790	790
		526,619	526,652
Net assets		2,330,657	2,355,503
CAPITAL AND RESERVES			
Share capital	9	299,318	2,993,180
Reserves		2,031,339	(637,677)
Shareholders' funds		2,330,657	2,355,503

CONDENSED CONSOLIDATED CASH FLOW STATEMENT – UNAUDITED*For the six months ended 30 September 2002*

	For the six months ended	
	30 September	
	2002	2001
	HK\$'000	HK\$'000
Net cash inflow/(outflow) from operating activities	15,346	(10,343)
Net cash (outflow)/inflow from investing activities	(30,403)	6,418
Net cash (outflow)/inflow from financing	(210,664)	4,164
(Decrease)/Increase in cash and cash equivalents	(225,721)	239
Cash and cash equivalents at 1 April	228,351	(78,649)
Cash and cash equivalents at 30 September	<u>2,630</u>	<u>(78,410)</u>
Analysis of balances of cash and cash equivalents		
Bank balances and cash	2,630	4,244
Bank overdrafts	–	(82,654)
	<u>2,630</u>	<u>(78,410)</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED*For the six months ended 30 September 2002*

	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Capital reserve <i>HK\$'000</i>	Property revaluation reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 April 2002	2,993,180	96,069	12,465	19,467	(222)	(765,456)	2,355,503
Movement arising from reduction of nominal value of shares	(2,693,862)	-	1,921,847	-	-	772,015	-
Exchange difference	-	-	-	-	14	-	14
Loss for the period attributable to shareholders	-	-	-	-	-	(24,860)	(24,860)
At 30 September 2002	299,318	96,069	1,934,312	19,467	(208)	(18,301)	2,330,657
At 1 April 2001	663,052	96,069	12,465	20,778	52	(818,919)	(26,503)
Issue of new shares	2,223,430	(68)	-	-	-	-	2,223,362
Exchange difference	-	-	-	-	(200)	-	(200)
Profit for the period attributable to shareholders	-	-	-	-	-	52,191	52,191
At 30 September 2001	2,886,482	96,001	12,465	20,778	(148)	(766,728)	2,248,850

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

30 September 2002

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.

2. SEGMENT INFORMATION (continued)

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
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
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	–
(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>

2. SEGMENT INFORMATION (continued)

	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>
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
	<i>HK\$'000</i>	<i>HK\$'000</i>
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	–
Provision/(Written back) 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 in goodwill	3,553	–
Liabilities waived by unsecured creditors	–	(84,593)
	<u> </u>	<u> </u>

4. TAXATION

Taxation in the condensed consolidated profit and loss account represents:

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

4. TAXATION (continued)

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. TRADE AND BILLS RECEIVABLES

A defined credit policy is maintained within the Group. The age analysis of trade debtors as at 30 September 2002 was as follows:

	30 September	31 March
	2002	2002
	HK\$'000	HK\$'000
Trade receivable, analysed according to aging:		
0-90 days	6,672	15,323
91-180 days	3,125	4,406
181-270 days	5,225	36
271-360 days	629	867
Over 360 days	8,361	6,172
Less: Provisions	(12,881)	(14,871)
	<u>11,131</u>	<u>11,933</u>

7. TRADE AND BILLS PAYABLES

The age analysis of trade creditors as at 30 September 2002 was as follows:

	30 September 2002	31 March 2002
	HK\$'000	HK\$'000
Trade payables, analysed according to aging:		
0-90 days	3,151	990
91-180 days	493	4,560
181-270 days	172	2,457
271-360 days	1,396	180
Over 360 days	2,748	2,044
	7,960	10,231

8. BANK LOANS AND OVERDRAFTS (SECURED)

	30 September 2002	31 March 2002
	HK\$'000	HK\$'000
Bank overdrafts	–	272
Bank loans	521,030	709,015
	521,030	709,287
Less: Current portion due within one year included under current liabilities	(23,364)	(211,621)
Non current portion included under non-current liabilities	497,666	497,666

10. COMMITMENTS

Capital commitments for property, plant and equipment.

	30 September 2002 HK\$'000	31 March 2002 HK\$'000
Contracted, but not provided for	<u>161</u>	<u>25,231</u>

11. CONTINGENT LIABILITIES

	30 September 2002 HK\$'000	31 March 2002 HK\$'000
Guarantees given in connection with credit facilities granted to a third party	<u>37,037</u>	<u>–</u>

12. RELATED PARTY TRANSACTIONS

There is no material and significant related party transaction for period.

13. 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.

14. PENDING LITIGATIONS

There have been no material changes and developments in respect of pending litigation cases of the Group since the disclosures in the Group's annual audited financial statements for the year ended 31 March 2002.

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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBT SECURITIES

In compliance with the amendments to the Listing Rules and the announcement of the Stock Exchange in 2001, the share option scheme adopted at the special general meeting held on 8 January 2001 (the "Old Scheme") was terminated upon the adoption of a new share option scheme at the special general meeting of the Company held on 29 August 2002 (the "New Scheme") to allow wider classes of person or entity to be the participants and to contain more terms as are in compliance with the requirement of the Chapter 17 of the Listing Rules now in force. Prior to such termination, no share options have been granted under the Old Scheme. Also, no further option would be granted under the Old Scheme. Under the New Scheme, share options may be granted to Directors, employees of the Group and those who have contributed or will contribute to the Group to subscribe for shares in the Company at

any time within ten years after its adoption at the discretion of the Board. Details of the New Scheme were disclosed in the Company's circular dated 31 July 2002. As at 30 September 2002, the Company has not granted any share options under the New Scheme.

Apart from the foregoing, at no time during the period under review was the Company or any of its subsidiaries a party to any arrangement to enable the Directors or chief executives of the Company or their respective spouse or children under the age of 18 to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 30 September 2002, the interests of the Directors and their associates in the equity or debt securities of the Company or any of its associated corporation (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) as required to be recorded in the register maintained pursuant to Section 29 of the SDI Ordinance were as follows:

Director	No. of shares of HK\$0.01 each Corporate Interests
Mr. Yu Pun Hoi ("Mr. Yu")*	20,266,720,000

- * Mr. Yu is beneficially interested in these shares through his 48.21 per cent. interests in Victorious Limited, Robina Profits Limited and Ko Tact Limited which are wholly-owned by Sino-i.com Limited. Sino-i.com Limited is 48.21 per cent. beneficially owned by Mr. Yu and his associates.

Save as disclosed above, as at 30 September 2002, none of the Directors or their associates had or were deemed to have any interest in any equity or debt securities of the Company or any of its associated corporation as defined in the SDI Ordinance.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2002, the register maintained by the Company under Section 16(1) of the SDI Ordinance shows that the Company has been notified of the following interests, being 10% or more of the Company's issued share capital:

Name	<i>Note</i>	No. of shares
Sino-i.com Limited	1	20,266,720,000
Victorious Limited	1	11,976,270,000
Ko Tact Limited	1	7,890,450,000
Robina Profits Limited	1	400,000,000

Note:

1. Victorious Limited, Robina Profits Limited and Ko Tact Limited are wholly-owned subsidiaries of Sino-i.com Limited and Sino-i.com Limited is 48.21 per cent. beneficially owned by Mr. Yu and his associates.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 September 2002, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any shares of the Company.

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.

CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 September 2002, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except that non-executive Directors are not appointed for a specific term as recommended in paragraph 7 of Appendix 14. All Directors, including the non-executive Directors, are subject to the retirement and rotation requirements in accordance with the Company's Bye-Laws.

By order of the Board

Zhang Hong Ren

Director

Hong Kong, 16 December 2002