



Interim Report 2004

South Sea Petroleum Holdings Limited

The Board of Directors (“the Board”) of South Sea Petroleum Holdings Limited (“the Company”) (formerly Sen Hong Resources Holdings Limited) is pleased to announce the unaudited condensed consolidated balance sheet as at 30 June 2004 of the Company and its subsidiaries (“the Group”), the unaudited condensed consolidated profit and loss account, the unaudited condensed consolidated cash flow statement and the unaudited consolidated statement of changes in equity for the six months ended 30 June 2004 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Six months ended	
		30 June 2004 unaudited US\$'000	30 June 2003 unaudited US\$'000
	Notes		
TURNOVER	2	21,741	14,661
Cost of sales		(13,450)	(5,854)
Gross profit		8,291	8,807
Other revenues		4,645	1,427
General and administrative expenses		(10,239)	(10,971)
PROFIT (LOSS) FROM OPERATING ACTIVITIES	2 & 3	2,697	(737)
Finance costs		(176)	(31)
PROFIT (LOSS) BEFORE TAX		2,521	(768)
Tax	4	(455)	(422)
PROFIT (LOSS) BEFORE MINORITY INTERESTS		2,066	(1,190)
Minority interests		78	70
NET PROFIT (LOSS) ATTRIBUTABLE TO SHAREHOLDERS		2,144	(1,120)
EARNINGS (LOSS) PER SHARE – BASIC (US Cents)	5	0.51	(0.36)

CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2004 Unaudited US\$'000	31 December 2003 Audited US\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Oil properties		–	1,417
Goodwill		(7,001)	(6,920)
Fixed assets	7	11,390	11,578
Unlisted investment		987	987
Trade mark		8	6
		5,384	7,068
CURRENT ASSETS			
Cash and bank balances		2,957	1,249
Cash in transit		290	–
Due from minorities		3	3
Due from a related company		2,723	2,140
Due from shareholders		3,283	–
Short term investments		2	1,892
Trade receivables	8	15,556	14,067
Inventories		6,118	5,553
Prepayments, deposits and other receivables		9,185	1,976
Tax recoverable		130	66
		40,247	26,946
CURRENT LIABILITIES			
Trade payables and notes payable	9	11,311	8,115
Other payables and accrued expenses		1,016	6,187
Due to a director		–	38
Bank overdraft		178	82
Finance lease – current portion		85	80
Bank loans – current portion		61	65
Short term bank loan		2,458	–
Due to shareholders		–	113
Taxation		748	–
		15,857	14,680
NET CURRENT ASSETS		24,390	12,266

	<i>Note</i>	30 June 2004 Unaudited US\$'000	31 December 2003 Audited US\$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		29,774	19,334
NON-CURRENT LIABILITIES			
Deferred revenue		–	1,177
Finance lease		159	203
Bank loans		118	145
Other creditors		2,689	2,625
Deferred tax		331	445
Convertible debentures		–	71
		3,297	4,666
MINORITY INTERESTS		1,020	1,032
		25,457	13,636
CAPITAL AND RESERVES			
Share capital	<i>10</i>	4,783	4,044
Reserves		20,674	9,592
Shareholders' funds		25,457	13,636

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended	
	30 June 2004 unaudited US\$'000	30 June 2003 unaudited US\$'000
NET CASH (USED IN)/ FROM OPERATING ACTIVITIES	(11,713)	3,996
NET CASH FROM/ (USED IN) INVESTING ACTIVITIES	1,664	(4,125)
CASH FLOW FROM FINANCING ACTIVITIES	11,604	1,208
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,555	1,079
Cash and cash equivalents at 1 January	1,167	1,319
Effect of exchange rate	347	-
CASH AND CASH EQUIVALENTS AT 30 June	3,069	2,398
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	2,957	2,398
Cash in transit	290	-
Bank overdraft	(178)	-
	3,069	2,398

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2004

(Expressed in US\$'000)

	Share capital	Share premium	Special capital reserve	Translation reserve	Revaluation reserve	Accumulated losses	Total
1.1.2004	4,044	6,581	12,037	4,673	1,883	(15,582)	13,636
Arising on exercise of convertible debenture to subscribe for new shares in the Company	739	8,549	-	-	-	-	9,288
Exchange difference	-	-	-	364	25	-	389
Profit for the period	-	-	-	-	-	2,144	2,144
30.6.2004	4,783	15,130	12,037	5,037	1,908	(13,438)	25,457
1.1.2003	2,552	1,878	12,037	897	1,745	(9,644)	9,465
Arising on exercise of convertible debenture to subscribe for new shares in the Company	1,062	1,605	-	-	-	-	2,667
Exchange difference	-	-	-	301	3	-	304
Loss for the period	-	-	-	-	-	(1,120)	(1,120)
30.6.2003	3,614	3,483	12,037	1,198	1,748	(10,764)	11,316

NOTES TO THE ACCOUNTS

1. Significant accounting policies

The accompanying unaudited consolidated interim financial statements of the Group (“Interim Accounts”) have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice No. 25, “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants, and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies and bases of preparation of these Interim Accounts are consistent with those used in the annual financial statements for the year ended 31 December 2003. Figures for the year ended 31 December 2003 are extracted from the Group’s annual financial statements for the year. The Interim Accounts should be read in conjunction with the Group’s 2003 annual financial statements.

In the opinion of management, the unaudited financial statements contain all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the Group’s financial position, results of operations and cash flows. Operating results for the six months ended 30 June 2004 are not necessarily indicative of the results for any future period.

2. Turnover and segment information

Turnover represents oil revenue from the sale of cost recovery oil, profit oil and uplift oil, and assembly of electronic components for the contract electronics manufacturer. The group has just started to manufacture a newly invented product known as the “Flameless and no-Tar Cigarette Substitute” and distribute magazine. These segments are in development stage and considered to be insignificant to divide into new segments.

An analysis of the Group’s turnover and results for the period by business segments is as follows:

(Expressed in US\$'000)

	Oil and gas		Contract electronic manufacturing		Unallocated		Total	
	Six months ended							
	30 June 2004	30 June 2003	30 June 2004	30 June 2003	30 June 2004	30 June 2003	30 June 2004	30 June 2003
Revenues from external customers	7,110	7,490	14,614	7,171	17	-	21,741	14,661
Government grant	-	-	335	318	-	-	335	318
Negative goodwill amortised	-	-	452	435	-	-	452	435
Other revenues from external customers	3	-	264	-	3,591	674	3,858	674
Total	7,113	7,490	15,665	7,924	3,608	674	26,386	16,088
Segment results	4,139	951	(397)	(996)	-	-	3,742	(45)
Unallocated income and expenses							(1,045)	(692)
Profit (loss) from operating activities							2,697	(737)
Finance costs							(176)	(31)
Taxation							(455)	(422)
Minority interests							78	70
Profit (loss) attributable to shareholders							2,144	(1,120)

3. Profit (loss) from operating activities

Profit (loss) from operating activities is arrived at after charging/ (crediting):

	Six months ended	
	30 June 2004 Unaudited US\$'000	30 June 2003 Unaudited US\$'000
Amortisation of positive goodwill	532	305
Amortisation of negative goodwill	(451)	(435)
Depreciation on fixed assets	451	519
Depreciation, depletion and amortisation	1,534	1,676

4. Tax

	Six months ended	
	30 June 2004 Unaudited US\$'000	30 June 2003 Unaudited US\$'000
Overseas tax charge	455	422

The provision for tax represents overseas withholding tax, overseas income tax and deferred tax made in respect of Seaunion Energy (Limau) Limited.

No provision for Hong Kong profits tax has been made as, in the opinion of the Company's directors, the Group did not have any assessable profits in Hong Kong for the period.

5. Basic earnings (loss) per share

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the period of US\$2,144,000, or 0.51 US cents per share (equivalent to HK\$0.039 per share) (2003: loss of US\$1,120,000), and the weighted average of 424,582,295 (2003: 311,831,914) ordinary shares in issue during the period.

6. Dividend

The Directors have decided not to declare any interim dividend for the six months ended 30 June 2004 (2003: Nil).

7. Fixed assets

During the six months ended 30 June 2004, the Group acquired approximately US\$224,000 of fixed assets.

8. Trade receivables

	30 June 2004 Unaudited <i>US\$'000</i>	31 December 2003 Audited <i>US\$'000</i>
Receivable from Pertamina	8,911	8,209
Receivable from others	6,645	5,858
	15,556	14,067

The receivable from Pertamina, the state-owned oil company of Indonesia, represents a trade receivable balance arising in the normal course of business recovered out of Pertamina's share of incremental crude oil production.

The ageing analysis of the trade receivables is as follows:

	30 June 2004 Unaudited <i>US\$'000</i>	31 December 2003 Audited <i>US\$'000</i>
0-30 days	7,273	10,099
31-60 days	4,909	3,680
61-90 days	3,238	198
Over 90 days	136	90
	15,556	14,067

9. Trade payables and notes payable

The ageing analysis of the trade payables and notes payable is as follows:

	30 June 2004 Unaudited <i>US\$'000</i>	31 December 2003 Audited <i>US\$'000</i>
0-30 days	7,671	4,748
31-60 days	2,394	1,736
61-90 days	887	1,182
Over 90 days	358	449
	11,311	8,115

10. Share capital

	30 June 2004 Unaudited <i>US\$'000</i>	31 December 2003 Audited <i>US\$'000</i>
<i>Authorised:</i>		
14,000,000,000 ordinary shares of US\$ 0.01 each	140,000	140,000
<i>Issued and fully paid:</i>		
478,285,811 ordinary shares of US\$ 0.01 each (2003: 404,445,811 ordinary shares of US\$ 0.01 each)	4,783	4,044

For the six months ended 30 June 2004, 73,840,000 ordinary shares were issued, of which all of them were issued by exercising the convertible debentures for an aggregate consideration of US\$ 9,288,000.

11. Change of Company name

In order to better reflect the business nature of the Company, pursuant to a special resolution passed on 28 May 2004, the name of the Company was changed from Sen Hong Resources Holdings Limited (辛康海聯控股有限公司) to South Sea Petroleum Holdings Limited (南海石油控股有限公司) effective on 9 June 2004.

12. Approval of the Interim Accounts

The Board of Directors of the Company approved the Interim Accounts on 28 September 2004.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We have two principal lines of business. The first is, through its wholly-owned subsidiary Seaunion Energy (Limau) Ltd. ("Seaunion"), to develop, explore and produce crude oil in South Sumatra, Indonesia, and the second one is, through its subsidiary Axiom Manufacturing Services Ltd. ("Axiom"), to provide electronic manufacturing services in UK. Currently substantially all of the Group's revenues are derived from the operations of Seaunion and Axiom.

The crude oil business of the Company had been operated under a 15-year Enhanced Oil Recovery Contract (the "EOR Contract") with Pertamina, the Indonesia stated-owned petroleum giant. On 8 May 2004, the Company entered into a Head of Agreement with Pertamina. Under the agreement, a joint venture company (the "JVC") will be created in order to continue the cooperation between the two parties on Limau Oilfield after the expiration of the EOR Contract in July 2004. Each of the Company and Pertamina will own 50% of the equity interests of the JVC, and the JVC will enter into a Production Operation Agreement with Pertamina and act as a contractor to conduct oilfield development and produce crude oil and natural gas on Limau Oilfield. The initial term of the JVC will be 15 years and can be extended by mutual agreement.

To fill the gap between the expiration date of the EOR Contract and the establishment of the JVC, the Company and Pertamina has entered into an Interim Production Operation Agreement (the "IPOA") as a transitional arrangement. The crude oil business of the Company is currently operated under the IPOA.

Through Axiom, the Company provides electronic manufacturing services to original equipment manufacturers in the telecommunication equipment, computers and related products for business enterprises, video/audio/entertainment products, industrial control equipment, testing and instrumentation products and medical devices markets. The Company provides

its customers with a total solution that includes a full range of services that allow the Company to take its customers' products from initial design through production, test, distribution and after-market support. In many cases, the Company builds and services products that carry the brand names of its customers.

Substantially all of the Company's manufacturing services are provided on a turnkey basis, whereby the Company purchases components specified by customers from suppliers, assembles the components on printed circuit boards, perform post-production testing and provides its customers with production process and testing documentation. The Company offers its customers flexible, "just-in-time" delivery programs allowing product shipments to be closely coordinated with its customers' inventory requirements. The Company also provides manufacturing services on a consignment basis, whereby the Company utilizes components supplied by the customer to provide assembly and post-production testing services.

Results of Operations

For the six months ended 30 June 2004, the Group's total revenue increased 64%, or US\$10.3 million, to US\$26.39 million from US\$16.09 million for the same period of the previous year. The net income attributable to shareholders was US\$2.14 million, or 0.51 US cents per share, as compared to net loss of US\$1.12 million, or 0.36 US cents per share for the same period of 2003. On the balance sheet, the total assets of the Group increased 34% to US\$45.63 million from US\$34.01 million at 31 December 2003, and the net assets of the Group increased 86% to US\$25.46 million from US\$13.64 at the end of 2003.

For the six months ended 30 June 2004, the turnover of the Group was US\$26.38 million, of which US\$7.11 million, or 26%, was derived from the Company's crude oil production, and US\$15.66 million, or 59%, was from the Company's electronics manufacturing operations.

For the six months ended 30 June 2004, the Group's turnover from oil production slightly decreased by US\$0.38 million, or 5%, from US\$7.49 million for the same period of the previous year to US\$7.11 million. The decrease in turnover is temporary in nature during the transition period from the EOR Contract which expired in July 2004. For the same period the Group's turnover from Contract Electronic Manufacturing ("CEM") services was US\$15.66 million as compared to US\$7.92 million in the same period of the previous year. The increase in CEM operation was primarily due to higher demand for the Company's CEM services. During the period, the Group sold seven US shell companies for consideration of HK\$4,000,000 each.

Liquidity and Capital Resources

At 30 June 2004, the Group's cash and cash equivalents were US\$3.07 million, as compared to US\$2.40 million at 30 June 2003. The current ratio of the Group remained healthy at 1.95 as compared to 1.86 of the last year.

For the six months ended 30 June 2004, the Company had issued a total of 73,840,000 shares of the Company's ordinary stock, of which all shares were issued by exercise of conversion rights of existing debenture for an aggregate consideration of US\$9,288,000. The net proceeds are used as the Group's general working capital. As of the date of this report, there are 478,285,811 ordinary shares of the Company issued and outstanding.

At 30 June 2004, the Group had no off-balance sheet arrangements. The Group believes that its cash generated from its operations are adequate for meeting its operating needs. However, future cash flow is subject to a number of variables, including the Group's level of crude oil production, demand for our electronics manufacturing services, and general global economic conditions. Many of the Group's competitors have significantly greater capital resources than that which is available to the Group. The Group may need, in the next twelve months, to raise additional capital, in debt or equity, in order to keep up with technological improvements and to successfully grow and compete.

EMPLOYEES AND REMUNERATION POLICIES

The number of employees of the Group as at 30 June 2004 was approximately 402. Employees are remunerated according to the nature of job and market conditions.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 30 June 2004, the interests and short positions of the directors in the share capital of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code"), were as follows:

Long positions in ordinary shares of the Company

Name	Number of Ordinary Shares held		Approximate % of shareholding
	Personal Interests	Corporate Interests	
Zhou Ling	-	92,724,000	19.39
Lee Sin Pyung	-	8,000,000	1.67
Sit Mei	2,000	-	-

Save as disclosed above, as at 30 June 2004, none of the directors and chief executive of the Company and their respective associates had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations that were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

DIVIDEND

The Directors have decided not to declare any interim dividend for the six months ended 30 June 2004 (2003: Nil).

SUBSTANTIAL SHAREHOLDERS

At 30 June 2004, no person, other than Mr. Zhou Ling's interests which are disclosed in the section "Directors' interests and short positions in shares and underlying shares and debentures" above, had registered an interest or short position in the shares or underlying shares or debentures of the Company that was required to be kept by the Company pursuant to Section 336 of the SFO.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the period under review, the Company, or any of its subsidiaries, has not purchased, sold, or redeemed any of the Company's securities.

CODE OF BEST PRACTICE

During the period under review, the Company was 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.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Company and discussed auditing, internal controls and financial reporting matters, including a review of the unaudited Interim Accounts for the six months ended 30 June 2004.

By Order of the Board

Lee Sin Pyung

Managing Director

Hong Kong, 28 September 2004