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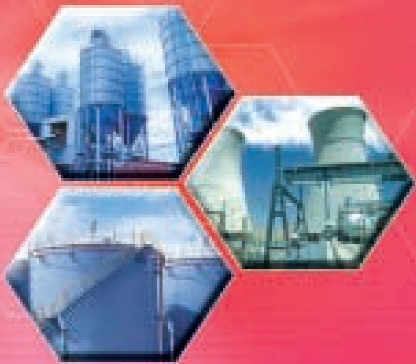
Interim Report



SSP 南海石油

South Sea Petroleum Holdings Limited

南海石油

South Sea Petroleum Holdings Limited

Interim Report 2005

Contents

The Board of Directors ("the Board") of South Sea Petroleum Holdings Limited ("the Company") is pleased to announce the unaudited condensed consolidated balance sheet as at 30 June 2005 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 2005 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Six months ended	
		30 June 2005	30 June 2004
		unaudited	unaudited
	Notes	***US$'000***	*US$'000*
TURNOVER	*2*	**16,664**	21,741
Cost of sales		**(11,110)**	(13,450)
Gross profit		**5,554**	8,291
Other revenues		**1,918**	4,645
General and administrative expenses		**(10,178)**	(10,239)
(LOSS) PROFIT FROM OPERATING ACTIVITIES	*2 & 3*	**(2,706)**	2,697
Finance costs		**(232)**	(176)
(LOSS) PROFIT BEFORE TAX		**(2,938)**	2,521
Tax	*4*	**(3)**	(455)
(LOSS) PROFIT AFTER TAX		**(2,941)**	2,066
Attributable to:			
Equity holders of the parent		**(3,005)**	2,144
Minority interests		**64**	(78)
		(2,941)	2,066
(LOSS) EARNINGS PER SHARE – BASIC *(US Cents)*	*5*	**(0.58)**	0.51

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	**30 June 2005 Unaudited *US$'000***	31 December 2004 Audited *US$'000*
NON-CURRENT ASSETS			
Goodwill		**464**	(6,549)
Fixed assets	*7*	**12,783**	13,449
Other assets		**300**	–
Available-for-sale investments		**1,287**	1,287
		14,834	8,187
CURRENT ASSETS			
Cash and bank balances		**3,535**	2,243
Due from minorities		**2**	2
Due from a related company		**16**	16
Due from shareholders		**–**	–
Financial assets at fair value through profit or loss		**2**	1
Trade receivables	*8*	**8,186**	17,176
Inventories		**7,171**	6,186
Prepayments, deposits and other receivables		**17,012**	15,809
Tax recoverable		**–**	214
		35,924	41,647
CURRENT LIABILITIES			
Trade payables and notes payable	*9*	**8,284**	14,109
Other payables and accrued expenses		**569**	505
Loan from discounted debtors		**2,289**	2,771
Receipt in advance for debenture		**–**	1,871
Due to a director		**138**	–
Due to shareholders		**90**	–
Bank overdraft		**174**	187
Finance lease – current portion		**218**	144
Bank loans – current portion		**81**	69
Government grant received in advance – current portion		**667**	713
		12,510	20,369
NET CURRENT ASSETS		**23,414**	21,278
TOTAL ASSETS LESS CURRENT LIABILITIES		**38,248**	29,465

	Notes	30 June 2005 Unaudited *US$'000*	31 December 2004 Audited *US$'000*
NON-CURRENT LIABILITIES			
Finance lease		**262**	142
Bank loans		**32**	86
Government grant received in advance		**1,635**	2,816
Deferred tax		**–**	460
		1,929	3,504
NET ASSETS		**36,319**	25,961
CAPITAL AND RESERVES			
Share capital	*10*	**5,623**	4,783
Revaluation reserve		**3,214**	3,441
Special capital reserve		**12,037**	12,037
Share premium		**20,544**	13,236
Translation reserve		**4,787**	6,314
Profit and loss account		**(10,894)**	(14,438)
Funds attributable to equity holders of the Company		**35,311**	25,373
Minority interests		**1,008**	588
TOTAL EQUITY		**36,319**	25,961

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Six months ended	
	30 June 2005	30 June 2004
	Unaudited	Unaudited
	US$'000	*US$'000*
NET CASH FROM/(USED IN) OPERATING ACTIVITIES	**416**	(11,713)
NET CASH (USED IN)/FROM INVESTING ACTIVITIES	**(3,586)**	1,664
CASH FLOW FROM FINANCING ACTIVITIES	**6,428**	11,604
INCREASE IN CASH AND CASH EQUIVALENTS	**3,258**	1,555
Cash and cash equivalents at 1 January	**2,056**	1,167
Effect of exchange rate	**(1,953)**	347
CASH AND CASH EQUIVALENTS AT 30 June	**3,361**	3,069
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**3,535**	2,957
Cash in transit	**–**	290
Bank overdraft	**(174)**	(178)
	3,361	3,069

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2005
(Expressed in US$'000)

	Attributable to equity holders of the Company								
	Share capital	Share premium	Special capital reserve	Translation reserve	Revaluation reserve	Accumulated losses	Total	Minority interest	Total equity
1.1.2005									
– as originally stated	4,783	13,236	12,037	6,314	3,441	(14,438)	25,373	588	25,961
– effect of changes in accounting policy	–	–	–	–	–	6,549	6,549	–	6,549
– as restated	4,783	13,236	12,037	6,314	3,441	(7,889)	31,922	588	32,510
Arising on exercise of convertible debenture to subscribe for new shares in the Company	840	7,308	–	–	–	–	8,148	–	8,148
Exchange difference	–	–	–	(1,527)	(227)	–	(1,754)	(98)	(1,852)
Acquisition of subsidiary	–	–	–	–	–	–	–	454	454
Loss for the period	–	–	–	–	–	(3,005)	(3,005)	64	(2,941)
30.6.2005	5,623	20,544	2,037	4,787	3,214	(10,894)	35,311	1,008	36,319

	Attributable to equity holders of the Company								
	Share capital	Share premium	Special capital reserve	Translation reserve	Revaluation reserve	Accumulated losses	Total	Minority interest	Total equity
1.1.2004	4,044	6,581	12,037	4,673	1,883	(15,582)	13,636	1,032	14,668
Arising on exercise of convertible debenture to subscribe for new shares in the Company	739	8,549	–	–	–	–	9,288	–	9,288
Exchange difference	–	–	–	364	25	–	389	66	455
Profit for the period	–	–	–	–	–	2,144	2,144	(78)	2,066
30.6.2004	4,783	15,130	12,037	5,037	1,908	(13,438)	25,457	1,020	26,477

NOTES TO THE ACCOUNTS

1. Basis of preparation and significant accounting policies

The accompanying unaudited consolidated interim financial statements of the Group ("Interim Accounts") have been prepared in accordance with Hong Kong Accounting Standard 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies of these Interim Accounts are consistent with those used in the annual financial statements for the year ended 31 December 2004 except that HKICPA has issued new and revised Hong Kong Accounting Standard ("HKAS") and Hong Kong Financial Reporting Standards ("HKFRS") which became effective for accounting periods beginning on or after 1 January 2005. Details of theses changes in accountings policies are summarised below:

HKFRS 3 "Business Combinations"

Positive goodwill — In prior years, positive goodwill was amortised on a straight-line basis over its useful life and was subject to impairment testing when there were indications of impairment. However, with effect from 1 January 2005, goodwill (amounting to US$464,000 at 30 June 2005) is no longer amortised. The carrying amount of goodwill is reviewed annually and is written down should any impairment arise. The Group has also applied the relevant transitional arrangement in HKFRS 3. No comparative figures for 2004 have been restated accordingly.

Negative goodwill — In prior years, negative goodwill of the Group was amortised over the weighted average useful life of the depreciable/amortizable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognized in profit and loss accounts those expected losses were incurred.

In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognized all negative goodwill amounting to US$6,549,000 at 1 January 2005 with a corresponding decrease in accumulated losses. As a result of this change in accounting policy, no negative goodwill is released to profit and loss accounts in the current period. Comparative figures for 2004 have not been restated.

HKAS 1 "Presentation of financial statements"

Minority interests are now treated as a part of equity rather than as a deduction from net assets and in the profit and loss account, minority interests are now disclosed as an allocation to the profit/loss for the period rather than a deduction from profit/loss. This change has been applied retrospectively and 2004 comparatives have been restated accordingly.

HKAS 21 "Effects of Changes in Foreign Exchange Rates"

In the current period, the Group has also applied HKAS 21 which requires positive goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, positive goodwill arising on acquisition of foreign operations was reported at historical rate at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, positive goodwill arising on acquisition prior to 1 January 2005 is treated as a non-monetary foreign currency item of the Group. Thus, no prior period adjustment has been made.

HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39, Financial Instruments: Recognition and Measurement

In prior years, equity investments held on a continuing basis for an identifiable long-term purpose were classified as investment securities and stated at cost less provision for impairment. With effect from 1 January 2005, and in accordance with HKSA 39, all non-trading investments amounting to US$1,287,000 are classified as available-for-sale investments and continued to be measured at cost less provision for impairment.

Short-term investment held for trading purposes in prior year are reclassified as financial assets at fair value through profit or loss.

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, assembly of electronic components for the contract electronics manufacturer and income from advertising.

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 2005	30 June 2004	**30 June 2005**	30 June 2004	**30 June 2005**	30 June 2004	**30 June 2005**	30 June 2004
Revenue from external customers	**2,132**	7,110	**14,467**	14,614	**64**	17	**16,664**	21,741
Government grant	**–**	–	**345**	335	**–**	–	**345**	335
Negative goodwill amortised				452			**–**	452
Gain on disposal of a subsidiary					**79**	–	**79**	–
Other revenues from external customers		3	**1,445**	264	**49**	3,591	**1,494**	3,858
Total	**2,132**	7,113	**16,257**	15,665	**192**	3,608	**18,582**	26,386
Segment results	**(3,541)**	4,139	**1,837**	(398)	**–**	–	**(1,614)**	3,742
Unallocated income and expenses							**(1,092)**	(1,045)
(Loss) profit from operating activities							**(2,706)**	2,697
Finance costs							**(232)**	(176)
Tax							**(3)**	(455)
(Loss) profit after tax							**(2,941)**	2,066

3. (Loss) profit from operating activities

(Loss) profit from operating activities is arrived at after charging/(crediting):

	Six months ended	
	30 June 2005	30 June 2004
	Unaudited	Unaudited
	US$'000	*US$'000*
Amortisation of positive goodwill	**–**	532
Amortisation of negative goodwill	**–**	(451)
Depreciation on fixed assets	**415**	451
Depreciation, depletion and amortization	**12**	1,534

4. Tax

	Six months ended	
	30 June 2005	30 June 2004
	Unaudited	Unaudited
	US$'000	*US$'000*
Overseas tax charge	**3**	455

Tax in current period represents taxation charged provided in PRC while the provision for tax in last period represented 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 (loss) earnings per share

The calculation of basic loss per share is based on the net loss attributable to shareholders for the period of US$3,005,000 (2004: profit of US$2,144,000), and the weighted average of 516,252,478 (2004: 424,582,295) 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 2005 (2004: Nil).

7. Fixed assets

During the six months ended 30 June 2005 the Group acquired approximately US$486,000 (2004: US$224,000) of fixed assets.

8. Trade receivables

	30 June 2005 Unaudited US$'000	31 December 2004 Audited US$'000
Receivable from Pertamina	**1,657**	11,616
Receivable from others	**6,529**	6,560
	8,186	17,176

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 2005 Unaudited US$'000	31 December 2004 Audited US$'000
0-30 days	**6,366**	7,564
31-60 days	**52**	4,656
61-90 days	**–**	3,082
Over 90 days	**1,768**	1,874
	8,186	17,176

9. Trade payables and notes payable

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

	30 June 2005 Unaudited US$'000	31 December 2004 Audited US$'000
0-30 days	**4,186**	9,813
31-60 days	**63**	2,720
61-90 days	**1**	891
Over 90 days	**4,034**	685
	8,284	14,109

10. Share capital

	30 June 2005 Unaudited *US$'000*	31 December 2004 Audited *US$'000*
Authorised:		
14,000,000,000 ordinary shares of US$ 0.01 each	**140,000**	140,000
Issued and fully paid:		
562,285,811 ordinary shares of US$ 0.01 each (2004: 478,285,811 ordinary shares of US$ 0.01 each)	**5,623**	4,783

For the six months ended 30 June 2005, 84,000,000 ordinary shares were issued, of which all of them were issued by exercising the convertible debentures for an aggregate consideration of US$8,148,000.

11. Acquisition of a subsidiary

On 26 January 2005, the company acquired 70% of the issued capital of Beijing Fortune World Advertising Ltd. (Beijing Fortune) at a cash consideration of RMB350,000. During the period, Beijing Fortune increased its share capital to RMB17,275,510, of which RMB11,875,510 was contributed by the Group. The Group is still entitled to 70% of the voting right of Beijing Fortune. Beijing Fortune is engaged in the business of advertising in magazine. Revenue and net loss contributed by Beijing Fortune from 26 January 2005 to 30 June 2005 are US$55,000 and US$63,000 respectively. If Beijing Fortune had been acquired at the beginning of the period, the revenue and net loss contributed by it would have been US$74,000 and US$53,000 respectively.

The details of the unaudited net liabilities acquired and goodwill are as follows:

	US$'000
Fixed assets	44
Other assets	312
Cash and bank balances	24
Accounts receivable	116
Deposits, prepay and other receivable	750
Due to a director	(2,206)
	(960)
Minority interests	454
Net liabilities acquired	(506)
Purchase consideration	42
Goodwill on acquisition	464

12. Approval of the Interim Accounts

The Board of Directors of the Company approved the Interim Accounts on 21 September 2005.

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

Overview

The Company has two principal lines of business. The first line of business is, through its wholly owned subsidiaries, to develop and explore crude oil and natural gas in Indonesia and Philippines, and the second line of business is, through its subsidiary Axiom Manufacturing Services Ltd. ("Axiom"), to provide electronic manufacturing services in the United Kingdom.

For the last 15 years, the Company's crude oil business has been primarily operated under an Enhanced Oil Recovery Contract (the "EOR Contract") with PERTAMINA, the Indonesia state-owned petroleum giant. The EOR Contract has expired on 31 December 2004. The Company intends to negotiate to enter into a new contract with PERTAMINA. No assurance can be given that the new contract will be granted and when it will be granted. In April 2005, the Company, through its wholly owned subsidiary, entered into a share purchase agreement to acquired 65% of equity interest in PT. Cahaya Batu Raja Blok, an Indonesian corporation, for US$5.8 million. PT Cahaya Batu Raja Blok holds a 100% contractor interest in the Bula Block Product Contract on the island of Seram in Eastern Indonesia. Under the Contract, which has been approved by Department of Petroleum of Indonesia and BP MIGAS (the state agency charged with managing the oil and gas interests of Indonesia), PT. Cahaya Batu Raja Blok is going to explore and develop petroleum and natural gas in Air Komering Block, an area consists of approximately 4,110 square kilometers for 30 years ending in 2034.

In December 2004, the Company entered into a Service Contact, through the Department of Energy, with the Government of the Republic of Philippines. Pursuant to the Contract, the Company is granted a permission to exploit crude oil and natural gas in an area with 748,000 hectares, approximately 7,478 square kilometers, at Agusan – Davas Basin in Davas province, south of the Philippines. The initial exploitation term is seven years. After that, there are 25 years of production term. Under the Contract, the Company may sell the crude oil and natural gas it produces at market price on free market. A wholly owned subsidiary of the Company, SSP (Philippines) Corp., was recently established in Philippines to conduct the exploitation and production operations and to provide certain necessary services. The Company may also seek one or more qualified corporations to form a joint venture to conduct the exploitation and production operations.

Considering the increasing demand in crude oil and the climbing oil price, the Company plans to increase its investment in the energy-related industries and will actively seek new investment opportunities in the oil and natural gas industry in Asia.

Through Axiom, the Company provides electronic manufacturing services to original equipment manufacturers of telecommunication equipment, computers and related products for business enterprises, video/audio/entertainment products, industrial control equipment, testing and instrumentation products and medical devices. The Company provides its customers with a total solution that includes a full range of services that allow the Company's 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 customers to provide assembly and post-production testing services.

Results of Operations

For the six months ended 30 June 2005, the Group's turnover was US$16.67 million as compared to US$21.74 million in the same period of the previous year. The decrease in turnover was primarily due to the expiration of the EOR Contract on 31 December, 2004. For the six-month period ended 30 June 2005, the Group's had net loss of US$2.94 million, or US$0.058 per share, as compared to net profit of US$2.07 million, or US$0.051 per share for the same period of 2004. On the balance sheet, the total assets of the Group increased 2% to US$50.76 million from US$49.83 million at 30 June 2004. The net assets of the Group increased 39.8% to US$36.32 million at 30 June 2005 from US$25.96 million at 30 June 2004.

Looking forward, market conditions are expected to be better in the second half of 2005. As we mentioned earlier, the Company has entered into two contracts to exploit and develop crude oil and natural gas, one in Southern Sumatra, Indonesia and one in Davas, Philippines. The Company's electronics manufacturing services subsidiary in UK will continue to bid for high value, low volume work winning as much new business from existing customers as possible while adding new customers to the portfolio, and will continue to focus on differentiating itself by providing a low cost, high quality efficient production facility to companies wishing to outsource their manufacturing.

Liquidity and Capital Resources

At 30 June 2005 the Group's cash and cash equivalents were US$3.36 million, as compared to US$3.07 million at 30 June 2004. For the six months ended 30 June 2005, the operating and financing activities of the Group provided net cash of US$416,000 and US$6.43 million, respectively. During the same period, the Group's investing activities used US$3.59 million of net cash.

In June 2005, the Company contracted to issue convertible debentures for an aggregate amount of HK$40 million with an annual interest of 1%. The net proceeds is intended to be used to pay for the acquisition of 65% of the equity interest in PT Cahaya Batu Raja Blok the Company contracted in April 2005. At the date of this Report, the number of the Company's ordinary shares issued and outstanding is 624,367,996.

At 30 June 2005, the Group had no contingent liabilities. The Group believes that its cash generated from its operations are adequate to meet its operating needs. However, future cash flows are subject to a number of variables, including the Company's level of oil production and oil prices, 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 us. The Company may need to raise additional capital, in debt or equity, in order to successfully grow and compete.

Employees and Remuneration Policies

The number of employees of the Group as of 30 June 30, 2005 was approximately 378. Employees are remunerated according to the nature of job and competitive conditions in job market.

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

At 30 June 2005, the directors of the Company held following long positions in the ordinary share of the Company:

Name	Number of Ordinary Shares held: Personal Interests	Corporate Interests	Approximate % of shareholding
Zhou Ling	–	57,934,000	10.30
Lee Sin Pyung	–	3,300,000	0.35

Save as disclosed above, as at 30 June 2005, none of the directors and executive officers 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 Securities and Futures Ordinance ("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.

SUBSTANTIAL SHAREHOLDERS

At 30 June 2005, no person, other than Mr. Zhou Ling's interests which are disclosed in the section "Directors' Interests and Short Positions in Shares, 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.

DIVIDENDS

The Directors have decided not to declare any interim dividend for the six months ended 30 June 2005 (2004: Nil).

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules, except a deviation from code provision A.4.1 that non-executive directors should be appointed for a specific term, subject to re-election. Since all directors of the Company are subject to the retirement provisions under the Articles of Association of the Company, as such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors by Listed Issuers (the "Model Code") se out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all directors of the Company have confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2005.

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 2005.

On behalf of the Board
Zhou Ling
Chairman

Hong Kong, 21 September 2005