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Interim Report

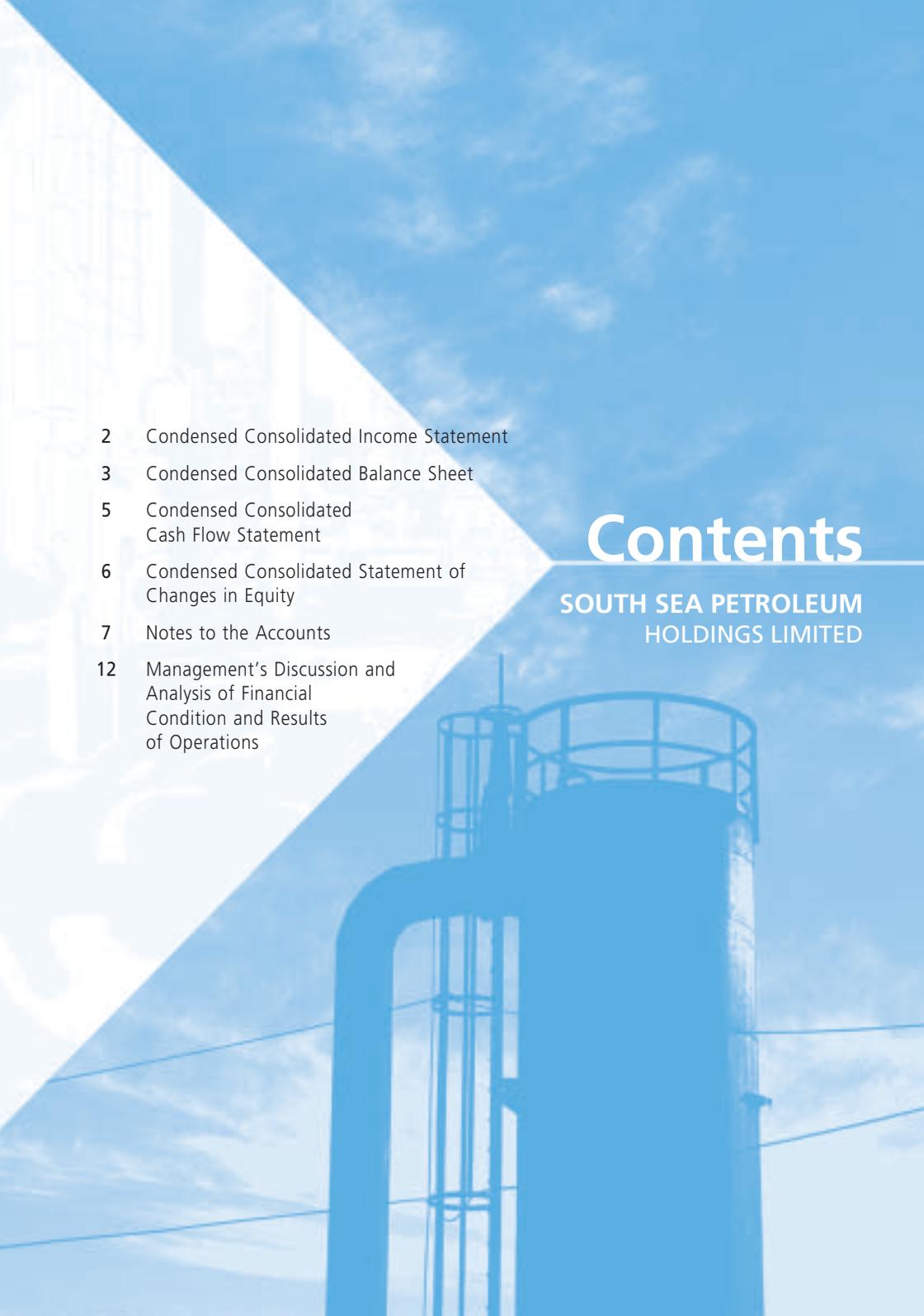
**SSP**  南海石油

**SOUTH SEA PETROLEUM**

HOLDINGS LIMITED

stock code : 76



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**SOUTH SEA PETROLEUM  
HOLDINGS LIMITED**

# SOUTH SEA PETROLEUM

## HOLDINGS LIMITED

Interim Report 2006

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 2006 of the Company and its subsidiaries (the "Group"), the unaudited condensed consolidated income statement, the unaudited condensed consolidated cash flow statement and the unaudited consolidated statement of changes in equity for the six months ended 30 June 2006 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended	
		30 June 2006	30 June 2005
		Unaudited	Unaudited
	Notes	US\$'000	US\$'000
TURNOVER	2	<b>22,939</b>	16,664
Cost of sales		<b>(15,393)</b>	(11,110)
Gross profit		<b>7,546</b>	5,554
Other revenues		<b>803</b>	1,918
General and administrative expenses		<b>(11,647)</b>	(10,178)
LOSS FROM OPERATING ACTIVITIES	2 & 3	<b>(3,298)</b>	(2,706)
Finance costs		<b>(252)</b>	(232)
LOSS BEFORE TAX		<b>(3,550)</b>	(2,938)
Tax	4	<b>29</b>	(3)
LOSS AFTER TAX		<b>(3,521)</b>	(2,941)
Attributable to:			
Equity holders of the parent		<b>(3,520)</b>	(3,005)
Minority interests		<b>(1)</b>	64
		<b>(3,521)</b>	(2,941)
LOSS PER SHARE – BASIC (US Cents)	5	<b>(0.40)</b>	(0.58)

## CONDENSED CONSOLIDATED BALANCE SHEET

		30 June 2006 Unaudited US\$'000	31 December 2005 Audited US\$'000
	Notes		
<b>NON-CURRENT ASSETS</b>			
Goodwill		2,934	2,934
Fixed assets	7	13,567	12,814
Oil properties	7	7,248	219
Project advance		11,902	5,944
Other assets		288	288
		<b>35,939</b>	22,199
<b>CURRENT ASSETS</b>			
Cash and bank balances		3,985	1,996
Due from minorities		2	2
Due from a related company		21	21
Financial assets at fair value through profit or loss		118	116
Trade receivables	8	10,285	8,039
Inventories		7,624	6,406
Prepayments, deposits and other receivables		14,858	15,451
Deferred tax assets		397	335
		<b>37,290</b>	32,366
<b>CURRENT LIABILITIES</b>			
Trade payables and notes payable	9	10,013	5,860
Other payables and accrued expenses		1,483	3,673
Loan from discounted debtors		3,411	2,294
Due to a director		514	142
Due to shareholders		–	115
Due to related companies		71	76
Bank overdraft		181	125
Finance lease – current portion		301	168
Bank loans – current portion		44	62
Government grant received in advance – current portion		724	674
Taxation		–	62
Provision		1,218	1,218
		<b>17,960</b>	14,469
<b>NET CURRENT ASSETS</b>		<b>19,330</b>	17,897
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>55,269</b>	40,096

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	<b>30 June 2006 Unaudited US\$'000</b>	31 December 2005 Audited US\$'000
<i>Notes</i>		
<b>NON-CURRENT LIABILITIES</b>		
Finance lease	–	183
Bank loans	–	15
Convertible debenture	<b>986</b>	–
Government grant received in advance	<b>987</b>	1,288
	<hr/> <b>1,973</b> <hr/>	<hr/> 1,486 <hr/>
<b>NET ASSETS</b>	<hr/> <b>53,296</b> <hr/>	<hr/> 38,610 <hr/>
<b>CAPITAL AND RESERVES</b>		
Share capital	<i>10</i> <b>12,157</b>	6,505
Revaluation reserve	<b>3,411</b>	3,174
Special capital reserve	<b>12,037</b>	12,037
Share premium	<b>34,922</b>	24,764
Translation reserve	<b>5,904</b>	3,839
Profit and loss account	<b>(16,096)</b>	(12,576)
	<hr/> <b>52,335</b> <hr/>	<hr/> 37,743 <hr/>
Funds attributable to equity holders of the Company		
	<hr/> <b>961</b> <hr/>	<hr/> 867 <hr/>
<b>TOTAL EQUITY</b>	<hr/> <b>53,296</b> <hr/>	<hr/> 38,610 <hr/>

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	<b>Six months ended</b>	
	<b>30 June 2006 Unaudited US\$'000</b>	30 June 2005 Unaudited US\$'000
NET CASH (USED IN)/FROM OPERATING ACTIVITIES	<b>(4,168)</b>	416
NET CASH USED IN INVESTING ACTIVITIES	<b>(13,293)</b>	(3,586)
NET CASH FROM FINANCING ACTIVITIES	<b>17,843</b>	6,428
INCREASE IN CASH AND CASH EQUIVALENTS	<b>382</b>	3,258
Cash and cash equivalents at 1 January	<b>1,871</b>	2,056
Effect of exchange rate	<b>1,551</b>	(1,953)
CASH AND CASH EQUIVALENTS AT 30 June	<b>3,804</b>	3,361
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	<b>3,985</b>	3,535
Bank overdraft	<b>(181)</b>	(174)
	<b>3,804</b>	3,361

# SOUTH SEA PETROLEUM

## HOLDINGS LIMITED

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### CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2006

(Expressed in US\$'000)

	Attributable to equity holders of the Company							Minority interest	Total equity
	Share capital	Share premium	Special capital reserve	Translation reserve	Revaluation reserve	Accumulated losses	Total		
At 1.1.2006	6,505	24,764	12,037	3,839	3,174	(12,576)	37,743	867	38,610
Arising on exercise of convertible debenture to subscribe for new shares in the Company	2,400	5,279	-	-	-	-	7,679	-	7,679
Issue of shares	3,252	4,879	-	-	-	-	8,131	-	8,131
Exchange difference	-	-	-	2,065	237	-	2,302	95	2,397
Loss for the period	-	-	-	-	-	(3,520)	(3,520)	(1)	(3,521)
At 30.6.2006	<u>12,157</u>	<u>34,922</u>	<u>12,037</u>	<u>5,904</u>	<u>3,411</u>	<u>(16,096)</u>	<u>52,335</u>	<u>961</u>	<u>53,296</u>
	Attributable to equity holders of the Company							Minority interest	Total equity
	Share capital	Share premium	Special capital reserve	Translation reserve	Revaluation reserve	Accumulated losses	Total		
At 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)
At 30.6.2005	<u>5,623</u>	<u>20,544</u>	<u>12,037</u>	<u>4,787</u>	<u>3,214</u>	<u>(10,894)</u>	<u>35,311</u>	<u>1,008</u>	<u>36,319</u>

## 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 2005.

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 2006 are not necessarily indicative of the results for any future period.

HKICPA has issued a number of new standards, amendments to standards and interpretations that are effective for accounting periods beginning on or after 1 January 2006. The Group has carried out an assessment of these standards, amendments and interpretations and considered that they have no significant impact on these interim financial statements.

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### 2. Turnover and segment information

Turnover represents oil revenue from the sale of crude oil and assembly of electronic components for the contract electronics manufacturer.

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

*(Expressed in US\$'000)*

	Oil		Contract electronic manufacturing		Unallocated		Total	
	Six months ended							
	30 June 2006	30 June 2005	30 June 2006	30 June 2005	30 June 2006	30 June 2005	30 June 2006	30 June 2005
Revenue from external customers	<b>2,874</b>	2,132	<b>19,074</b>	14,467	<b>991</b>	65	<b>22,939</b>	16,664
Government grant	-	-	<b>332</b>	345	-	-	<b>332</b>	345
Gain on disposal of a subsidiary	-	-	-	-	-	79	-	79
Other revenues from external customers	<b>3</b>	-	<b>334</b>	1,445	<b>135</b>	49	<b>472</b>	1,494
<b>Total</b>	<b>2,877</b>	2,132	<b>19,740</b>	16,257	<b>1,126</b>	193	<b>23,743</b>	18,582
Segment results	<b>(1,800)</b>	(3,451)	<b>176</b>	1,837	-	-	<b>(1,624)</b>	(1,614)
Unallocated income and expenses							<b>(1,674)</b>	(1,092)
Loss from operating activities							<b>(3,298)</b>	(2,706)
Finance costs							<b>(252)</b>	(232)
Tax							<b>29</b>	(3)
<b>Loss after tax</b>							<b>(3,521)</b>	(2,941)

### 3. Loss from operating activities

Loss from operating activities is arrived at after charging:

	<b>Six months ended</b> <b>30 June 2006</b> <b>Unaudited</b> <i>US\$'000</i>	30 June 2005 Unaudited <i>US\$'000</i>
Depreciation on fixed assets	375	415
Depreciation, depletion and amortization	-	12

### 4. Tax

	<b>Six months ended</b> <b>30 June 2006</b> <b>Unaudited</b> <i>US\$'000</i>	30 June 2005 Unaudited <i>US\$'000</i>
Overseas tax charge	(29)	3

Tax in current period represents deferred tax assets provided in an England subsidiary while the provision for tax in last period represented taxation charged provided in a PRC subsidiary.

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 per share

The calculation of basic loss per share is based on the net loss attributable to shareholders for the period of US\$3,520,000 (2005: US\$3,005,000), and the weighted average of 882,441,319 (2005: 516,252,478) 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 2006 (2005: Nil).

### 7. Fixed assets and oil properties

During the six months ended 30 June 2006 the Group acquired approximately US\$306,000 of fixed assets and US\$7,029,000 of oil properties.

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### 8. Trade receivables

	<b>30 June 2006 Unaudited US\$'000</b>	31 December 2005 Audited US\$'000
Receivable from Pertamina	<b>2,279</b>	2,331
Receivable from others	<b>8,006</b>	5,708
	<b>10,285</b>	8,039

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:

	<b>30 June 2006 Unaudited US\$'000</b>	31 December 2005 Audited US\$'000
0-30 days	<b>4,551</b>	5,833
31-60 days	<b>4,316</b>	924
61-90 days	<b>1,299</b>	20
Over 90 days	<b>119</b>	1,262
	<b>10,285</b>	8,039

### 9. Trade payables and notes payable

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

	<b>30 June 2006 Unaudited US\$'000</b>	31 December 2005 Audited US\$'000
0-30 days	<b>7,858</b>	3,570
31-60 days	<b>141</b>	1,728
61-90 days	<b>337</b>	382
Over 90 days	<b>1,677</b>	180
	<b>10,013</b>	5,860

**10. Share capital**

	<b>30 June 2006 Unaudited US\$'000</b>	31 December 2005 Audited US\$'000
Authorised: 14,000,000,000 ordinary shares of US\$0.01 each	<b>140,000</b>	140,000
Issued and fully paid: 1,215,688,588 ordinary shares of US\$0.01 each (2005: 650,459,059 shares of US\$0.01 each)	<b>12,157</b>	6,505

For the six months ended 30 June 2005, 565,229,529 ordinary shares were issued. 325,229,529 shares were issued on 15 March 2006 through an open offer at a price of HK\$0.2 per share for a total consideration of US\$8,131,000. 240,000,000 shares were issued by exercising the convertible debentures for an aggregate consideration of US\$7,679,000.

**11. Subsequent event**

On 5 September 2006, the Company disposed 48% of the interest in a subsidiary, South Sea Petroleum (Philippines) Corporation, for a consideration of US\$36,000,000. All of the consideration will be used in the exploration work of the Oilfields in Philippines.

**12. Capital commitments**

Capital commitments contracted but not provided for are as follows:

	<b>30 June 2006 Unaudited US\$'000</b>	31 December 2005 Audited US\$'000
Acting as contractor for exploration of petroleum with expected minimum expenditure	<b>30,971</b>	38,000

**13. Approval of the Interim Accounts**

The Board of Directors of the Company approved the Interim Accounts on 25 September 2006.

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

### Overview

The Group has two principal lines of business. The first line of business is to develop, explore and produce crude oil in Indonesia and the Philippines, and the second line of business is to provide electronic manufacturing services in the United Kingdom.

The Group owns two oilfields: Bula Block Oilfield in Indonesia, and Agusan-Davao Basin Oilfield in Davao, the Philippines. Bula Block Oilfield is operated by the Company's wholly owned subsidiary, Kalrez Petroleum (Seram) Limited, under Bula Petroleum Production Sharing Contract ("Bula PSC") that was entered into with BPMIGAS, Department of Petroleum of Indonesia, on 22 May 2000. The Bula PSC will be expired in 2019. For the six months ended 30 June, 2006, the average daily production of crude oil in Bula Block Oilfield was approximately 380 barrels.

Agusan-Davao Basin Oilfield of the Group is operated by South Sea Petroleum (Philippines) Corp., a 100% owned subsidiary of the Company. Under the Service Contract with the Department of Energy, the Republic of Philippines, the Company is granted a permission to exploit crude oil and natural gas in an area with approximately 7,478 square kilometers at Agusan-Davao Basin of the Philippines. The initial exploitation term is seven years. After that, there are 25 years of production term. The Company is currently conducting seismic survey and other preparation work on the oilfield.

Through Axiom Manufacturing Services Limited, 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 2006, the Group's turnover increased by US\$6.28 million, or 37%, to US\$22.94 million from US\$16.67 million in the same period of the previous year. The increase in turnover was a result of sales increase on both business lines of the Group. Compared with the results of the Group for the same period of the prior year, the turnover of the Group's crude oil operation increased by US\$742,000, or 34.8%, the turnover of the Group's electronics service line of business increased by US\$4.61 million, or 31.8%. For the six-month period ended 30 June 2006, the Group's had net loss of US\$3.52 million, or US\$0.004 per share, as compared to net loss of US\$2.94 million, or US\$0.006 per share for the same period of 2005. On the balance sheets, as of 30 June 2006, the total assets of the Group increased 34.2% to US\$73.2 million from US\$54.6 million at 31 December 2005. The net assets of the Group increased 38.0% to US\$53.3 million at 30 June 2006 from US\$38.6 million at 31 December 2005.

Looking forward, market conditions are expected to be better in the second half of 2006. The Group intends to continue making investments in exploiting and developing crude oil and natural gas in Indonesia and the Philippines. The Group's electronics manufacturing services operations 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 2006 the Group's cash and cash equivalents were US\$3.80 million, as compared to US\$3.36 million at 30 June 2005. For the six months ended 30 June 2006, the Group's operating activities used net cash of US\$4.17 million, mostly due to increase in inventories and increase in trade receivables. For the six-month period, the Group's investing activities used US\$13.29 million of net cash, primarily attributable to additions to oil properties (US\$7.03 million) and project advance (US\$5.96 million). For the same period, the Group's financing activities provided net cash of US\$17.84 million, largely from proceeds of issuing convertible debenture (US\$8.68 million) and from issuance of equity shares (US\$8.13 million).

In March 2006, the Company contracted to issue convertible debentures for an aggregate amount of HK\$200 million nil interest and due 2009. The net proceeds are intended to be used to conduct 2D/3D seismic survey and to drill test wells at the Agusan-Davao Oilfield of the Group.

At 30 June 2006, the Group had no contingent liabilities. The Group believes that the cash generated from its operations, proceeds from sale of its ordinary shares, and borrowings from issuance of convertible debentures are adequate to meet its operating expenses and capital expenditure for the next twelve months. However, the Group's continuing operating and investing activities may require it to obtain additional sources of financing. In that case, the Group may seek financing from institutional investors, banks, or other sources of financing. There can be no assurance that any necessary additional financing will be available to the Group at that time.

### **Employees and Remuneration Policies**

At 30 June 2006, the Group had a total of approximately 272 full-time employees in Indonesia, the United Kingdom and Hong Kong. The Group believes that its relationship with its employees is satisfactory. From time to time, the Group may also use the services of independent consultants and contractors to perform various professional services.

The remuneration of each employee of the Group is determined on the basis of his or her performance and responsibility.

### **Foreign Exchange Exposure**

The Group's two principal operating subsidiaries earn revenues and incur costs in US dollars and British pounds, respectively. The Directors consider that the Group's foreign exchange exposure risk is minimal, and no financial instruments have been used for the purpose of hedge.

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

At the date of this Report, the directors of the Company held following long positions in the ordinary share of the Company:

Name	Number of Ordinary Shares held		Approximate % of shareholding
	Personal Interests	Corporate Interests	
Zhou Ling	–	32,000,000	2.24

Save as disclosed above, as at the date of this Report, 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.

## DIRECTORS' INTERESTS IN COMPETING BUSINESS

As of the date of this Report, none of the directors of the Company, including their respective associates, are considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules.

## SUBSTANTIAL SHAREHOLDERS

As of the date of this Report, 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, short position, or lending power 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 2006.

## CORPORATE GOVERNANCE

The Company has complied with the all the code provisions as set forth in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities (“Listing Rules”) on The Stock Exchange of Hong Kong Limited throughout the accounting period covered by the interim report.

The Company has adopted the Model Code for Securities Transactions by Directors by Listed Issuers (the “Model Code”) set 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 2006.

## 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 2006.

## PUBLICATION OF RESULTS

This announcement of results containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published in due course on website of the Stock Exchange of Hong Kong Limited (<http://www.hkex.com.hk>). The Company’s Interim Report 2006 will also be dispatched to all shareholders of the Company before 30 September 2006.

## BOARD OF DIRECTORS

As at the date of this report, the board of directors comprised of Mr. Zhou Ling, Ms. Lee Sin Pyung and Ms. Sit Mei being executive directors, Mr. Lu Ren Jie, Mr. Chai Woon Chew and Mr. Ho Choi Chiu being independent non-executive directors.

On behalf of the Board

**Zhou Ling**  
*Chairman*

Hong Kong, 25 September 2006