

# SSP 南海石油

South Sea Petroleum Holdings Limited

Stock Code : 76



INTERIM REPORT 2013



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The Board of Directors (the "Board") of South Sea Petroleum Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated statement of financial position as at 30 June 2013 of the Company and its subsidiaries (the "Group"), the unaudited condensed consolidated income statement, the unaudited condensed consolidated statement of cash flow and the unaudited consolidated statement of changes in equity for the six months ended 30 June 2013 as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

		<b>Six months ended</b>	
		<b>30 June 2013</b>	30 June 2012
		<b>Unaudited</b>	Unaudited
	<i>Notes</i>	<b>US\$'000</b>	<i>US\$'000</i>
<b>TURNOVER</b>	3	<b>43,164</b>	40,349
Cost of sales		<b>(24,477)</b>	(26,812)
		<b>18,687</b>	13,537
Other income		<b>1,421</b>	3,288
Net gain in fair value of financial assets held for trading		<b>15,843</b>	31,532
General and administrative expenses		<b>(13,505)</b>	(11,720)
Drilling and operating expenses		<b>(8,723)</b>	(5,877)
Other taxes		<b>(325)</b>	(208)
<b>PROFIT FROM OPERATING ACTIVITIES</b>	4	<b>13,398</b>	30,552
Finance costs		<b>(74)</b>	(428)
<b>PROFIT BEFORE TAX</b>		<b>13,324</b>	30,124
Income tax	5	<b>(152)</b>	(804)
<b>PROFIT FOR THE PERIOD</b>		<b>13,172</b>	29,320
Attributable to:			
Equity shareholders of the Company		<b>13,009</b>	28,917
Non-controlling interests		<b>163</b>	403
		<b>13,172</b>	29,320
<b>EARNINGS PER SHARE (US Cents)</b>	6		
– Basic		<b>0.18</b>	2.05
– Diluted		<b>–</b>	2.01



## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended	
	30 June 2013	30 June 2012
	Unaudited	Unaudited
	US\$'000	US\$'000
<b>PROFIT FOR THE PERIOD</b>	<b>13,172</b>	29,320
<b>OTHER COMPREHENSIVE INCOME</b>		
– Item that may be reclassified to profit or loss		
Exchange differences	<u>(82)</u>	<u>(1,336)</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b><u>13,090</u></b>	<b><u>27,984</u></b>
Attributable to:		
Equity shareholders of the Company	<b>12,943</b>	27,793
Non-controlling interests	<u>147</u>	<u>191</u>
	<b><u>13,090</u></b>	<b><u>27,984</u></b>



## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		<b>30 June 2013 Unaudited US\$'000</b>	31 December 2012 Audited US\$'000
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Fixed assets	7	<b>31,398</b>	32,926
Prepaid lease payments		<b>6,003</b>	5,590
Goodwill		<b>537</b>	537
Available-for-sale investments		<b>326</b>	321
Deferred tax assets		<b>1,272</b>	1,359
		<b>39,536</b>	40,733
<b>CURRENT ASSETS</b>			
Cash and bank balances		<b>24,260</b>	26,161
Financial assets at fair value held for trading	8	<b>46,364</b>	30,521
Trade and notes receivables	9	<b>17,823</b>	18,781
Inventories		<b>211,676</b>	19,405
Prepayments, deposits and other receivables		<b>12,999</b>	159,581
		<b>313,122</b>	254,449
<b>CURRENT LIABILITIES</b>			
Trade payables	10	<b>5,458</b>	12,434
Other payables and accrued expenses		<b>14,902</b>	15,632
Bank loan on discounted debtors		–	304
Bank overdraft		<b>2,562</b>	–
Due to non-controlling interests		<b>1,566</b>	1,205
Dividend payable		–	2,450
Finance leases-current portion		<b>104</b>	184
Taxation		<b>5</b>	1,738
		<b>24,597</b>	33,947
<b>NET CURRENT ASSETS</b>		<b>288,525</b>	220,502
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>328,061</b>	261,235



		<b>30 June 2013 Unaudited US\$'000</b>	31 December 2012 Audited US\$'000
	<i>Notes</i>		
<b>NON-CURRENT LIABILITIES</b>			
Finance leases		<b>102</b>	151
Provisions		<b>2,805</b>	2,605
Convertible debentures	12	<u>—</u>	<u>64</u>
		<b>2,907</b>	2,820
<b>NET ASSETS</b>			
		<b>325,154</b>	258,415
<b>CAPITAL AND RESERVES</b>			
Share capital	13	<b>7,994</b>	3,711
Revaluation reserve		<b>3,976</b>	4,171
Special capital reserve		<b>12,037</b>	12,037
Share premium		<b>477,431</b>	428,065
Translation reserve		<b>8,372</b>	8,243
Accumulated losses		<b>(188,769)</b>	(201,778)
Total equity attributable to equity shareholders of the Company		<b>321,041</b>	254,449
Non-controlling interests		<b>4,113</b>	3,966
		<b>325,154</b>	258,415



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

	<b>Six months ended</b>	
	<b>30 June 2013</b>	30 June 2012
	<b>Unaudited</b>	Unaudited
	<b>US\$'000</b>	US\$'000
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(56,611)</b>	(5,059)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(1,165)</b>	(1,371)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>53,152</b>	32,523
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(4,624)</b>	26,093
Cash and cash equivalents at 1 January	<b>26,161</b>	33,122
Effect of exchange rate	<b>161</b>	(1,466)
<b>CASH AND CASH EQUIVALENTS AT 30 June</b>	<b>21,698</b>	57,749
<b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b>24,260</b>	60,552
Bank overdraft	<b>(2,562)</b>	(2,803)
	<b>21,698</b>	57,749



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

For the six months ended 30 June 2013

(Expressed in US\$'000)

	Attributable to equity holders of the Company							Non-controlling interests	Total equity
	Share capital	Share premium	Special capital reserve	Translation reserve	Revaluation reserve	Accumulated losses	Total		
At 1.1.2013	<u>3,711</u>	<u>428,065</u>	<u>12,037</u>	<u>8,243</u>	<u>4,171</u>	<u>(201,778)</u>	<u>254,449</u>	<u>3,966</u>	<u>258,415</u>
Total comprehensive income for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>129</u>	<u>(195)</u>	<u>13,009</u>	<u>12,943</u>	<u>147</u>	<u>13,090</u>
Issue of shares upon conversion of convertible debentures	<u>4,283</u>	<u>49,366</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>53,649</u>	<u>-</u>	<u>53,649</u>
At 30.6.2013	<u>7,994</u>	<u>477,431</u>	<u>12,037</u>	<u>8,372</u>	<u>3,976</u>	<u>(188,769)</u>	<u>321,041</u>	<u>4,113</u>	<u>325,154</u>

	Attributable to equity holders of the Company							Non-controlling interests	Total equity
	Share capital	Share premium	Special capital reserve	Translation reserve	Revaluation reserve	Accumulated losses	Total		
At 1.1.2012	<u>602</u>	<u>380,711</u>	<u>12,037</u>	<u>6,807</u>	<u>3,908</u>	<u>(188,859)</u>	<u>215,206</u>	<u>5,574</u>	<u>220,780</u>
Total comprehensive income for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,246)</u>	<u>122</u>	<u>28,917</u>	<u>27,793</u>	<u>191</u>	<u>27,984</u>
Acquisition of subsidiary	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,653</u>	<u>3,653</u>
Issue of shares upon conversion of convertible debentures	<u>1,714</u>	<u>31,556</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>33,270</u>	<u>-</u>	<u>33,270</u>
Dividend paid to non-controlling interest	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,258)</u>	<u>(2,258)</u>
At 30.6.2012	<u>2,316</u>	<u>412,267</u>	<u>12,037</u>	<u>5,561</u>	<u>4,030</u>	<u>(159,942)</u>	<u>276,269</u>	<u>7,160</u>	<u>283,429</u>





## NOTES TO THE FINANCIAL STATEMENTS

### 1. Basis of preparation and significant accounting policies

These 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 2012 which is applicable for the period ended 30 June 2013. Details of the accounting policy on discontinued operations are set out below.

### 2. Adoption of new or amended HKFRSs

In the current period, the Group has applied for the first time the following new and revised HKFRSs issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual financial period beginning on 1 January 2013.

- Amendments to HKAS 1, Presentation of financial statements – Presentation of items of other comprehensive income
- HKFRS 10, Consolidated financial statements
- HKFRS 12, Disclosure of interests in other entities
- HKFRS 13, Fair value measurement
- Annual Improvements to HKFRSs 2009-2011 Cycle
- Amendments to HKFRS 7 – Disclosures – Offsetting financial assets and financial liabilities

The adoption of the new and revised HKFRSs has had no significant financial effect on these unaudited interim condensed consolidated financial statements and there have been no significant changes to the accounting policies applied in these unaudited interim condensed consolidated financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.



### 3. Turnover and segment information

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

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

#### For the six months ended 30 June 2013

(Expressed in US\$'000)

	Oil	Sale of minerals	Contract electronic manufacturing	Trading securities	Others	Total
Revenue from external customers	<u>10,337</u>	<u>8,394</u>	<u>24,433</u>	–	–	<u>43,164</u>
Segment results	(1,774)	238	1,766	15,320	–	15,550
Unallocated income and expenses						<u>(2,152)</u>
Profit from operation						13,398
Finance costs	–	(61)	(13)	–	–	(74)
Taxation	–	(152)	–	–	–	<u>(152)</u>
Profit for the period						<u>13,172</u>

#### For the six months ended 30 June 2012

	Oil	Sale of minerals	Contract electronic manufacturing	Trading securities	Others	Total
Revenue from external customers	<u>6,613</u>	<u>12,239</u>	<u>21,494</u>	–	3	<u>40,349</u>
Segment results	(2,353)	1,002	3,126	31,207	–	32,982
Unallocated income and expenses						<u>(2,581)</u>
Profit from operation						30,401
Finance costs	–	–	(277)	–	–	(277)
Taxation	–	(804)	–	–	–	<u>(804)</u>
Profit for the period						<u>29,320</u>



#### 4. Profit from operating activities

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

	<b>Six months ended</b>	
	<b>30 June</b>	30 June
	<b>2013</b>	2012
	<b>Unaudited</b>	Unaudited
	<b>US\$'000</b>	US\$'000
Depreciation on fixed assets	<b>1,986</b>	1,666
Net gain in fair value of financial assets held for trading		
– realized	–	1,044
– unrealised	<b>(15,843)</b>	<b>(32,576)</b>

#### 5. Income tax

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 estimated assessable profits.

Taxation for overseas and PRC subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

#### 6. Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to equity shareholders for the period of US\$13,009,000 (2012: US\$28,917,000), and weighted average of 7,238,836,985 (2012: 1,410,414,240) ordinary shares in issue during the period.

The diluted earnings per share for the period ended 30 June 2012 is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential ordinary shares arising from the convertible debentures to 1,436,357,421; and the adjusted profit attributable to shareholders of the Company of US\$28,906,000, being the profit attributable to the shareholders of the Company of US\$28,917,000 adjusted to eliminate the interest expense of US\$11,000.

#### 7. Fixed assets

During the six months ended 30 June 2013 the Group acquired approximately US\$790,000 (2012: US\$2,015,000) of fixed assets.



## 8. Financial assets at fair value held for trading

	<b>30 June 2013 Unaudited US\$'000</b>	31 December 2012 Audited US\$'000
Hong Kong listed shares	<b>1,364</b>	521
Shares traded on the OTC Bulletin Board in the United States	<b>45,000</b>	30,000
	<b>46,364</b>	30,521

The Group is exposed to equity price risk through its investment in those equity securities.

## 9. Trade and notes receivables

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

	<b>30 June 2013 Unaudited US\$'000</b>	31 December 2012 Audited US\$'000
0-30 days	<b>7,594</b>	7,423
31-60 days	<b>7,043</b>	3,180
61-90 days	<b>1,833</b>	3,331
Over 90 days	<b>1,353</b>	4,847
	<b>17,823</b>	18,781



## 10. Trade payables

The ageing analysis of the trade payables is as follows:

	<b>30 June 2013 Unaudited US\$'000</b>	31 December 2012 Audited US\$'000
0-30 days	<b>2,305</b>	2,942
31-60 days	<b>1,826</b>	4,839
61-90 days	<b>865</b>	2,509
Over 90 days	<b>462</b>	2,144
	<b><u>5,458</u></b>	<u>12,434</u>

## 11. Dividend

The Directors have decided not to declare any interim dividend for the six months ended 30 June 2013 (2012: Nil).

## 12. Convertible debentures

During the period, the Company issued the convertible debentures for approximately US\$54,845,000. Finder's fee of US\$2,742,000 was paid or payable to the debenture holders. Conversion right was exercised to convert US\$54,910,000 of the convertible debentures for 4,282,957,220 shares of US\$0.001 each.

## 13. Share capital

	<b>30 June 2013 Unaudited US\$'000</b>	31 December 2012 Audited US\$'000
Authorised:		
500,000,000,000 ordinary shares of US\$0.001 each	<b><u>500,000</u></b>	<u>500,000</u>
Issued and fully paid:		
7,994,133,750 shares of US\$0.001 each (31.12.2012: 3,711,176,530 ordinary shares of US\$0.001 each)	<b><u>7,994</u></b>	<u>3,711</u>

During the period, 4,282,957,220 ordinary shares of US\$0.001 each were issued by exercising the convertible debentures for an aggregate consideration of approximately US\$53,649,000.



#### 14. Related party transactions

- (1) During the period, the Group entered into the following transactions with related party:

	<b>Six months ended</b>	
	<b>30 June 2013</b>	30 June 2012
	<b>Unaudited</b>	Unaudited
	<b>US\$'000</b>	US\$'000
Sales to non-controlling interest	<b>998</b>	2,599
Purchase from non-controlling interest	<u>—</u>	<u>257</u>

- (2) During the period, the remuneration of directors and other member of key management was as follows:

	<b>Six months ended</b>	
	<b>30 June 2013</b>	30 June 2012
	<b>Unaudited</b>	Unaudited
	<b>US\$'000</b>	US\$'000
Salaries, allowances and benefits in kind	<u><b>986</b></u>	<u>1,496</u>

#### 15. Commitment

Operating lease commitments outstanding at 30 June 2013 not provided for in the financial statements were as follows:

	<b>30 June</b>	31 December
	<b>2013</b>	2012
	<b>Unaudited</b>	Audited
	<b>US\$'000</b>	US\$'000
Total future minimum lease payments on land and buildings and oil properties expiring		
– Within one year	<b>118</b>	176
– In the second to fifth years inclusive	<u><b>12</b></u>	<u>59</u>
	<u><b>130</b></u>	<u>235</u>
Total future minimum lease payments on other assets expiring		
– Within one year	<b>116</b>	120
– In the second to fifth years inclusive	<u><b>103</b></u>	<u>127</u>
	<u><b>219</b></u>	<u>247</u>



## 16. Fair value measurement of financial instrument

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into level 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair values measurement are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair values measurement are those derived from inputs other than quoted prices include within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair values measurement are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	30 June 2013 Total US\$'000
Financial assets at fair value held for trading	46,364	–	–	<b>46,364</b>
	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	31 December 2012 Total US\$'000
Financial assets at fair value held for trading	30,521	–	–	30,521

## 17. Approval of the Interim Accounts

The Board of Directors of the Company approved the Interim Accounts on 28 August 2013.



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

*(In this review, all the "\$" refers to the legal currency of the United States of America, unless otherwise specified)*

For the six months ended 30 June 2013, the turnover of the Group was \$43.164 million, representing an increase of \$2.815 million, or 6.98%, as compared to \$40.349 million for the same period of prior year. The net profit attributable to shareholders was \$13.009 million, or 0.18 cents per share, as compared to net profit of \$29.320 million, or 2.01 cents per diluted share, for the same period of 2012. On the statement of financial position, at 30 June 2013 the total assets of the Group were \$352.658 million, as compared to \$295.182 million at 31 December 2012, and the net assets of the Group were \$325.154 million at 30 June 2013, as compared to \$258.415 million at 31 December 2012.

### BUSINESS REVIEW

The Group is primarily engaged in the business of developing and producing crude oil in Indonesia, minerals in China, and provision of electronic manufacturing services in the United Kingdom.

Through its wholly owned subsidiary, Kalrez Petroleum (Seram) Limited, the Company operates oilfields in Indonesia under the Bula Petroleum Production Sharing Contract ("Bula PSC"), which the Group entered into with BPMIGAS, Department of Petroleum of Indonesia, on 22 May 2000. The Bula PSC will expire in 2019.

Through its wholly owned subsidiaries, South Sea Graphite (Luobei) Co., Ltd., Liaoning Sinorth Resources Co., Ltd., and majority owned subsidiary, Luo Bei Xin Long Yuen Graphite Productions Co., Ltd, the Company is engaged in the business of production and sale of graphite products worldwide, mostly in China.

Through its majority owned subsidiary, Axiom Manufacturing Services Ltd. in the United Kingdom, the Company provides electronics manufacturing services to companies in the following industrial market sectors:

- Medical
- Defense
- Transport
- Aerospace
- Security
- Marine
- Oil and Gas, and
- Other industrial market





Generally, Axiom builds products that carry the brand names of its customers and substantially all of Axiom's manufacturing services are provided on a turnkey basis. Most of Axiom's customers are located within the United Kingdom and North America.

Long-term supply of graphite ore at a reasonable price is critical to the development of the Company's graphite business. Up to now the Company, through its subsidiary, has built a significant reserve of graphite ore as its financial resources may possibly permit. The Company wishes that it would be able to not only build an adequate graphite ore reserve for its own subsidiaries, but also sell graphite ore to other companies for a profit. To that end, in August 2013, the Company's subsidiary sold a major portion of its graphite ore reserve for no less than 20% profit to a company that was willing to enter into a long-term purchasing contract (10 years), and pay 10 million HKD as performance bond. Upon execution of said contract, the Company has not only satisfied its long-term demand for graphite ore, but also locked in the profit through graphite ore sales to other companies over the next 10 years.

## Results of Operations

For the six months ended 30 June 2013, the Group's turnover was \$43.164 million, an increase of \$2.815 million, or 6.98%, as compared to \$40.349 million for the same period of the prior year. Specifically, during the six month period ended 30 June 2013, the turnover of the Group's crude oil operation was \$10.337 million as compared to \$6.613 million for the same period of 2012, representing an increase of 56.31%. The increase in oil revenue was primarily due to more crude oil were delivered. Compared with last year, China's economic growth has slowed down, as a result, for the six months ended 30 June 2013, the Group's graphite operation generated revenues of \$8.394 million, or a decrease of 31.42%, as compared to \$12.239 million for the same period of last year. During the six month period ended 30 June 2013, the turnover of the Group's electronics manufacturing service operation was \$24.433 million, representing an increase of \$2.939 million, or 13.67%, as compared to \$21.494 million for the same period of the prior year. The turnover increase in the Group's electronics manufacturing service operation was largely due to an increase in sales orders.

## Liquidity and Capital Resources

The Group's operations are primarily funded by cash flows from its operations and from issuance of the Company's ordinary shares and convertible debentures.

At 30 June 2013, the Group's cash and cash equivalents were \$24.260 million as compared to \$26.161 million as at 31 December 2012. For the six months ended 30 June 2013, the Group's operating activities used net cash of \$56.611 million. By comparison, net cash used in operating activities was \$5.059 million for the same period of 2012.



During the six month period ended 30 June 2013, the Group's investing activities used net cash of \$1.165 million, primarily due to purchase of property and equipment and prepaid lease premium. By comparison, net cash used by the Group's investing activities in 2012 was \$1.371 million. For the six months ended 30 June 2013, the Group's financing activities generated net cash of \$53.152 million, primarily from issuance of convertible debentures of the Company. By comparison, net cash provided in financing activities was \$32.523 million for the same period of 2012.

At 30 June 2013, the Group had no contingent liabilities. The Group believes that its cash balance and the cash generated from operations 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.

## OFF BALANCE SHEET ARRANGEMENTS

At 30 June 2013, the Group had no off balance sheet arrangements.

## EMPLOYEES AND REMUNERATION POLICIES

At 30 June 2013, the Group had approximately 895 employees in Indonesia, the United Kingdom, China and Hong Kong. The Group believes that its relationship with its employees is satisfactory.

From time to time, the Group may also use services of independent consultants and contractors to render various professional services. The remuneration of each employee of the Group is determined on the basis of his or her performance and responsibility.

## MATERIAL UNCERTAINTIES

There are no material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

## FOREIGN EXCHANGE EXPOSURE

The Group's principal operating subsidiaries earn revenues and incur costs in US dollars, Chinese Renminbi and British pounds, respectively. During the six month period ended 30 June 2013, the Group has not engaged in any hedging activities. The Group will continue to monitor the risk of foreign exchange fluctuation on the Group's results of operations, financial conditions and cash flow.



## DIVIDENDS

The Directors have decided not to declare any interim dividend for the six months ended 30 June 2013 (2012: Nil).

## LEGAL PROCEEDINGS

The Group is not aware of any pending or threatened legal proceeding that, if determined in a manner adverse to us, could have a material adverse effect on the business and operations of the Group.

## COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES

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, except for two deviations as below:

### **Code Provision A.4.1: Non-executive directors should be appointed for a specific term**

Under the code provision A.4.1 of the Code, non-executive Directors (including independent non-executive directors) shall be appointed for a specific term and subject to re-election. None of the Company’s existing independent non-executive Directors was appointed for a specific term. This constitutes a deviation from code provision A.4.1 of the Code. However, the Company’s Articles of Association stipulate that all independent non-executive directors shall retire and be re-elected at least once every three years, which is an adequate measure to ensure that the Company’s corporate governance complies with the same level to that required under the Code on Governance Practices and Corporate Governance Code.

On 22 August 2013, Mr. Han Zhi Jun was appointed as independent non-executive director. Mr. Han shall retire and be re-elected at the next general meeting.

### **Code Provision A.6.7: Independent non-executive directors and non-executive directors should attend general meeting**

Mr. Lu Ren Jie, Mr. Chai Woon Chew and Mr. Ng Lai Po, all being non-executive directors, were not able to attend the annual general meeting of the Company held on 16 May 2013 due to other business engagements.



## COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct for dealing in securities of the Company by its Directors. Upon enquiry by the Company, all directors of the Company have confirmed that all directors have complied with the required standards set out in the Model Code throughout the six month period ended 30 June 2013.

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

During the six months year ended 30 June 2013, neither the Company, nor any of its subsidiaries, has purchased, sold, or redeemed any of the Company's securities.

## DIRECTOR'S AND CHIEF EXECUTIVES' INTERESTS IN SHARES

At 30 June 2013, none of the Directors or chief executives of the Company or any of their associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations as recorded in the registers maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) (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 Issuers.

All Directors have confirmed that they complied with the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules throughout the review period.

## DIRECTORS' INTERESTS IN CONTRACTS

During the six months ended 30 June 2013, none of the Company's Directors had a material interest, either direct or indirect, in any contract of significance to the business of the Company to which the Company or any of its subsidiaries was a party.

At no time during the period under the review was the Company or any of the Company's subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares, or debentures of, the Company or any other body corporate.



## SUBSTANTIAL SHAREHOLDERS AND OTHER PERSON'S INTEREST IN SHARES

At 30 June 2013, no person, other than a director or chief executive's interests which are disclosed in the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had registered an interest, short position, or lending pool 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.

## CHANGES IN DIRECTORS' INFORMATION UNDER RULE 13.51B(1) OF THE LISTING RULES

During the period under the review, there were no other change in the Directors' information which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

## REVIEW BY THE 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 financial statements for the six months ended 30 June 2013.

## PUBLICATION OF RESULTS

This report will be published in due course on website of The Stock Exchange of Hong Kong Limited (<http://www.hkex.com.hk>) and website of the Company (<http://www.southseapetro.com.hk>).

On behalf of the Board

**Guan Xinmin**

*Chairman*

Hong Kong, 28 August 2013