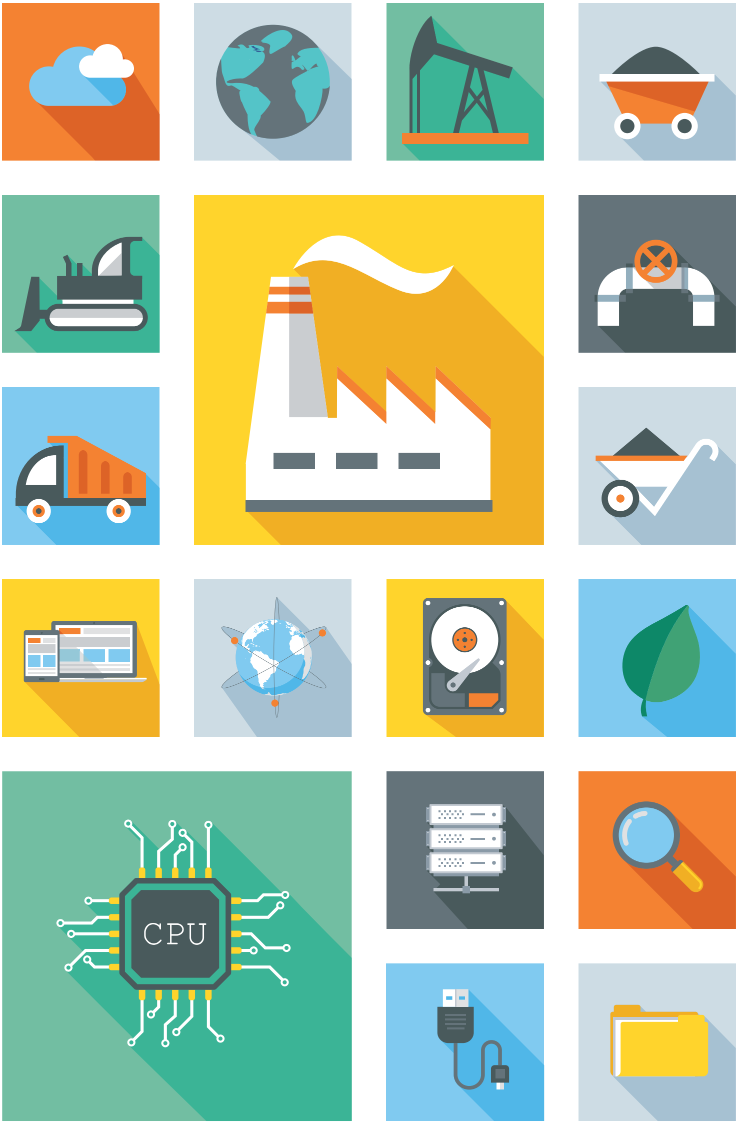
南海石油

South Sea Petroleum Holdings Limited

Stock Code : 76



Interim Report 2014

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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 2014 of the Company and its subsidiaries (the "Group"), the unaudited condensed consolidated statement of profit or loss and the unaudited condensed consolidated statement of cash flow for the six months ended 30 June 2014 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	Six months ended 30 June 2014 Unaudited US$'000	30 June 2013 Unaudited US$'000
TURNOVER	3	**42,990**	43,164
Cost of sales		**(30,544)**	(24,477)
		12,446	18,687
Other income		**799**	1,421
Net (loss) gain in fair value of financial assets held for trading		**(7,560)**	15,843
General and administrative expenses		**(14,228)**	(13,505)
Drilling and operating expenses		**(3,815)**	(8,723)
Other taxes		**–**	(325)
(LOSS) PROFIT FROM OPERATING ACTIVITIES	4	**(12,358)**	13,398
Finance costs		**(16)**	(74)
(LOSS) PROFIT BEFORE TAX		**(12,374)**	13,324
Income tax	5	**–**	(152)
(LOSS) PROFIT FOR THE PERIOD		**(12,374)**	13,172
Attributable to:			
Equity shareholders of the Company		**(12,373)**	13,009
Non-controlling interests		**(1)**	163
		(12,374)	13,172
(LOSS) EARNINGS PER SHARE *(US Cents)*	6		
– Basic		**(0.15)**	0.18

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June 2014 Unaudited *US$'000*	30 June 2013 Unaudited *US$'000*
(LOSS) PROFIT FOR THE PERIOD	**(12,374)**	13,172
OTHER COMPREHENSIVE INCOME		
– Item that may be reclassified to profit or loss		
Exchange differences	**135**	(82)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**(12,239)**	13,090
Attributable to:		
Equity shareholders of the Company	**(12,201)**	12,943
Non-controlling interests	**(38)**	147
	(12,239)	13,090

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 June 2014 Unaudited *US$'000***	31 December 2013 Audited *US$'000*
NON-CURRENT ASSETS			
Fixed assets	*7*	**30,448**	29,600
Prepaid lease payments		**5,624**	5,624
Goodwill		**537**	537
Available-for-sale investments		**293**	293
Deferred tax assets		**1,765**	1,711
Long term portion of trade receivable		**237,830**	237,830
		276,297	275,595
CURRENT ASSETS			
Cash and bank balances		**27,263**	21,766
Financial assets at fair value held for trading	*8*	**22,982**	30,543
Trade and notes receivables	*9*	**42,319**	44,387
Inventories		**17,635**	20,019
Prepayments, deposits and other receivables		**9,052**	10,419
		119,251	127,134
CURRENT LIABILITIES			
Trade payables	*10*	**9,252**	11,064
Other payables and accrued expenses		**14,392**	16,508
Bank overdraft		**3,643**	–
Due to non-controlling interests		**1,351**	862
Finance leases-current portion		**349**	90
Taxation		**15,699**	15,710
		44,686	44,234
NET CURRENT ASSETS		**74,565**	82,900
TOTAL ASSETS LESS CURRENT LIABILITIES		**350,862**	358,495

	Notes	30 June 2014 Unaudited US$'000	31 December 2013 Audited US$'000
NON-CURRENT LIABILITIES			
Finance leases		**1,000**	64
Provisions		**3,105**	3,105
		4,105	3,169
NET ASSETS		**346,757**	355,326
CAPITAL AND RESERVES			
Share capital	13	–	8,139
Share premium		–	478,568
Special capital reserve		–	12,037
Share capital and other statutory capital reserve		**502,414**	498,744
Revaluation reserve		**3,899**	3,779
Translation reserve		**9,560**	9,508
Accumulated losses		**(173,335)**	(160,962)
Total equity attributable to equity shareholders of the Company		**342,538**	351,069
Non-controlling interests		**4,219**	4,257
		346,757	355,326

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

	Six months ended	
	30 June 2014	30 June 2013
	Unaudited	Unaudited
	US$'000	*US$'000*
NET CASH USED IN OPERATING ACTIVITIES	**(190)**	(56,611)
NET CASH USED IN INVESTING ACTIVITIES	**(2,408)**	(1,165)
CASH FLOW FROM FINANCING ACTIVITIES	**4,100**	53,152
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,502**	(4,624)
Cash and cash equivalents at 1 January	**21,766**	26,161
Effect of exchange rate	**352**	161
CASH AND CASH EQUIVALENTS AT 30 JUNE	**23,620**	21,698
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**27,263**	24,260
Bank overdraft	**(3,643)**	(2,562)
	23,620	21,698

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2014

(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	Non-Controlling interests	Total equity
At 1.1.2014	8,139	478,568	12,037	9,508	3,779	(160,962)	351,069	4,257	355,326
Total comprehensive income for the period	–	–	–	52	120	(12,373)	(12,201)	(38)	(12,239)
Transfer to no-par value regime on 3 March 2014	490,605	(478,568)	(12,037)	–	–	–	–	–	–
Issue of shares upon conversion of convertible debentures	3,670	–	–	–	–	–	3,670	–	3,670
At 30.6.2014	520,414	–	–	9,560	3,899	(173,335)	342,538	4,219	346,757

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

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 2013 which is applicable for the period ended 30 June 2014.

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 2014.

HKAS 32 (Amendment)	Financial instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
HKAS 36 (Amendment)	Impairment of assets on recoverable amount disclosures
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Novation of derivatives
Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (revised 2011)	Consolidation for investment entities
HK(IFRIC)-Int 21	Levies

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 2014
(Expressed in US$'000)

	Oil	Sale of minerals	Contract electronic manufacturing	Trading securities	Others	Total
Revenue from external customers	**5,179**	**11,692**	**26,119**	**–**	**–**	**42,990**
Segment results	**(1,183)**	**(2,049)**	**1,761**	**(8,152)**	**–**	**(9,623)**
Unallocated income and expenses						**(2,735)**
Loss from operation						**(12,358)**
Finance costs	**–**	**–**	**(16)**	**–**	**–**	**(16)**
Taxation						**–**
Loss for the period						**(12,374)**

For the six months ended 30 June 2013

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

4. (Loss) Profit from operating activities

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

	Six months ended 30 June 2014 Unaudited *US$'000*	30 June 2013 Unaudited *US$'000*
Depreciation on fixed assets	**2,214**	1,986
Unrealised loss (gain) in fair value of financial assets held for trading	**7,560**	(15,843)

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. (Loss) Earnings per share

The calculation of basic (loss) earnings per share is based on the net loss attributable to equity shareholders for the period of US$12,373,000 (2013: profit of US$13,009,000), and weighted average of 8,263,370,679 (2013: 7,238,836,985) ordinary shares in issue during the period.

7. Fixed assets

During the six months ended 30 June 2014 the Group acquired approximately US$2,425,000 (2013: US$790,000) of fixed assets.

8. Financial assets at fair value held for trading

	30 June 2014 Unaudited *US$'000*	31 December 2013 Audited *US$'000*
Hong Kong listed shares	**482**	543
Shares traded on the OTC Bulletin Board in the United States	**22,500**	30,000
	22,982	30,543

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:

	30 June 2014	31 December 2013
	Unaudited	Audited
	US$'000	*US$'000*
0-30 days	**6,813**	35,217
31-60 days	**4,218**	4,241
61-90 days	**3,693**	4,211
Over 90 days	**27,595**	718
	42,319	44,387

10. Trade payables

The ageing analysis of the trade payables is as follows:

	30 June 2014	31 December 2013
	Unaudited	Audited
	US$'000	*US$'000*
0-30 days	**4,771**	4,997
31-60 days	**1,637**	3,102
61-90 days	**2,533**	1,494
Over 90 days	**311**	1,471
	9,252	11,064

11. Dividend

The Directors have decided not to declare any interim dividend for the six months ended 30 June 2014 (2013: Nil).

12. Convertible debentures

During the period, the Company issued the convertible debentures for approximately US$3,846,000. Finder's fee of US$192,000 was paid or payable to the debenture holders. Conversion right was exercised to convert US$3,846,000 of the convertible debentures for 300,000,000 shares of the company.

13. Share capital

	30 June 2014 Unaudited US$'000	31 December 2013 Audited US$'000
Authorised:		
500,000,000,000 ordinary shares of US$0.001 each	–	500,000
Issued and fully paid:		
8,439,061,280 shares with no par value (31.12.2013: 8,139,061,280 ordinary shares of US$0.001 each)	**502,414**	8,139

Under the new Hong Kong Companies Ordinance (Cap. 622), with effect from 3 March 2014, the concepts of "authorised share capital" and "par value" no longer exist. As part of the transition to the no-par value regime, the amounts standing to the credit of the share premium account and the capital redemption reserve on 3 March 2014 have become part of the company's share capital, under the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622). There is no impact on the number of shares in issue or the relative entitlement of any of the members.

During the period, 300,000,000 ordinary shares were issued by exercising the convertible debentures for an aggregate consideration of approximately US$3,846,000.

14. Commitment

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

	30 June 2014 Unaudited US$'000	31 December 2013 Audited US$'000
Capital commitments contracted but not provided in respect of:		
– Acquisition of fixed assets	**86**	866

15. 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	**Level 2**	**Level 3**	**30 June 2014 Total**
	US$'000	***US$'000***	***US$'000***	***US$'000***
Financial assets at fair value held for trading	**22,982**	**–**	**–**	**–**

	Level 1	Level 2	Level 3	31 December 2013 Total
	US$'000	*US$'000*	*US$'000*	*US$'000*
Financial assets at fair value held for trading	30,543	–	–	30,543

16. Related party transactions

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

	Six months ended	
	30 June 2014	30 June 2013
	Unaudited	Unaudited
	US$'000	*US$'000*
Sales to non-controlling interests	**3,379**	998

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

	Six months ended	
	30 June 2014	30 June 2013
	Unaudited	Unaudited
	US$'000	*US$'000*
Salaries, allowances and benefits in kind	**1,321**	986

17. Approval of the Interim Accounts

The Board of Directors of the Company approved the Interim Accounts on 29 August 2014.

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 2014, the turnover of the Group was $42.990 million, a slight decrease of $174 million, or 0.40%, as compared to $43.164 million for the same period of prior year. The net loss attributable to shareholders was $12.373 million, or 0.15 cents per share, as compared to net profit of $13.009 million, or 0.18 cents per share, for the same period of 2013. On the statement of financial position, at 30 June 2014 the total assets of the Group were $395.548 million, as compared to $402.729 million at 31 December 2013, and the net assets of the Group were $346.757 million at 30 June 2014, as compared to $355.326 million at 31 December 2013.

Business and Financial 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. ("Axiom") 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.

In December 2013, the Company sold a total of 33.45 million metric tons of its inventory in graphite ore at a fixed price of US$7.90 per metric ton. The buyer will pay for the graphite ore in installments within a period of ten years. Starting from 2014, the annual payment will not be less than US$26,425,500 by 31 December 2014 until the entire purchase price have been paid in full. In the event buyer breaches the Agreement, the Company will have the right to repossess the graphite ore and recover from buyer the damages resulting therefrom. Before the entire purchase price is paid in full, the buyer will not be entitled to the refund of its deposit in the amount of HK$10 million Hong Kong dollars.

The Company, through its subsidiary Cityhill Limited, is currently actively developing an improved Internet access home electronic device with multiple functions, including medical diagnosis, entertainment, television viewing and internet surfing, known as "Piece of Cake Box" (the "Device"). Some potential customers have expressed their desire to purchase. The Company is speeding up its R&D and manufacturing process. Since Cityhill Limited does not have its own engineering and marketing team, the project is mostly going through outsourcing. The Company plans to have sample Devices completed by the end of the year. Under the same conditions, preference will be given to Axiom, our subsidiary in the UK, for the mass production of the Device. At the same time, the Company plans to have Union Arts Limited, another wholly owned subsidiary of the Company, to produce infomercial film(s) as a promotional tool for the marketing of the Device.

Results of Operations

For the six months ended 30 June 2014, the Group's turnover was $42.990 million, a slight decrease of $174 million, or 0.40%, as compared to $43.164 million for the same period of the prior year. Specifically, during the six month period ended 30 June 2014, the turnover of the Group's crude oil operation was $5.179 million as compared to $10.337 million for the same period of 2013, representing a decrease of 49.90%. In fact, our oil production is relatively stable. There have been fluctuations in oil sales because, after oil is produced, it needs to be stored in the tank to reach certain quantity for periodic lifting by ocean going oil tankers for sale. The timing of oil lifting or any factor that affects oil transportation may cause oil sales to fluctuate.

Compared with last year, for the six months ended 30 June 2014, the Group's graphite operation generated revenues of $11.692 million, or an increase of 39.29%, as compared to $8.394 million for the same period of last year. During the six month period ended 30 June 2014, the turnover of the Group's electronics manufacturing service operation was $26.119 million, representing an increase of $1.686 million, or 6.90%, as compared to $24.433 million for the same period of the prior year. The increase in electronics manufacturing service revenue was due to an increase in sales orders and new customers and an increase in the dollar to sterling exchange rate.

Liquidity and Financial 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 2014, the Group's cash and cash equivalents were $23.620 million as compared to $21.776 million as at 31 December 2013. For the six months ended 30 June 2014, the Group's operating activities used net cash of $190 million. By comparison, net cash used in operating activities was $56.611 million for the same period of 2013.

During the six month period ended 30 June 2014, the Group's investing activities used net cash of $2.408 million, primarily due to purchase of property and equipment. By comparison, net cash used by the Group's investing activities in 2013 was $1.165 million. For the six months ended 30 June 2014, the Group's financing activities generated net cash of $4.100 million, primarily from issuance of convertible debentures of the Company. By comparison, net cash provided in financing activities was $53.152 million for the same period of 2013.

At 30 June 2014, the Group had no contingent liabilities.

On 9 July 2013, a convertible debenture subscription agreement was entered into between the Company and a graphite supplier (the "Subscriber") that the Subscriber subscribed HK$10 million nil interest convertible debentures due 2014. The conversion price was HK$0.069 (a premium of approximately 10.05% over the average closing price as quoted on the Stock Exchange over the ten consecutive trading days immediately prior to the date of the announcement). Under the general mandate granted by the shareholders of the Company at the annual general meeting held on 16 May 2013, a maximum of 144,927,536 new shares were issued and allotted. After deducting expenses, a net proceed of HK$9.5 million was used in purchasing the Subscriber's graphite ore.

RTM Financial Corp. after making subscription of US$75,644,217 convertible debentures, has sent a notice to the Company informing their decision to terminate their investment in the Company due to the long low trading prices of the Shares which made conversion infeasible.

On 14 August 2014, the Company entered into a subscription agreement with an investor, who subscribed HK$1.660 million nil interest convertible debentures due 2018. The conversion price is fixed at HK$0.83 per Consolidated Share (after the 10:1 share consolidation, please see "Proposed Share Consolidation" below). However, if the average closing price of the Company's shares as quoted on the Stock Exchange over the five consecutive trading days from the day on which the Share Consolidation becomes effective (the "Adjusted Conversion Price") is 10% higher or lower than HK$0.83 (10% inclusive), the Adjusted Conversion Price prevails. Otherwise HK$0.83 will be used as the conversion price.

The reasons to issue this convertible debenture is that, Axiom Manufacturing Services Limited, a wholly owned subsidiary of the Company, will be starting the mass production of "Piece of Cake Box". After deducting related fees and expenses, the net proceeds amount to approximately HK$1,577 million, of which 80% will be used as working capital for the manufacturing and selling of the "Piece of Cake Box", and the rest will be reserved for the Company as working capital.

The Group believes that its cash balance and cash generated from operations, and the cash from issuance of the Company's 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 Company may need to raise funds through private placements, either in equity offerings, or interest bearing borrowings. There can be no assurance that any necessary additional financing will be available to the Company at that time. If we are unable to raise funds, our ability to grow will be materially hindered.

Off Balance Sheet Arrangements

At 30 June 2014, the Group had no off balance sheet arrangements.

Proposed Share Consolidation

Pursuant to Rule 13.64 of the Listing Rules, where the market price of the securities of the listed issuer approached the extremities of HK$0.01 or HK$9,995, the Stock Exchange reserves the right to require the issuer either to change the trading method or to proceed with a consolidation or splitting of its securities. Since the trading prices of the Shares were recorded below HK$0.10 for more than a year, and low trading prices of the Shares are also unfavorable for any funding raising activity of the Company, on 14 August 2014, the Company proposed to implement a Share Consolidation on a basis that every 10 existing Shares to be consolidated into one consolidated share (the "Consolidated Share"). The share consolidation is conditional the following: (i) the passing of the ordinary resolution by the Company's shareholders to approve the Share Consolidation at its Extraordinary General Meeting; and (ii) the Listing Committee of the Stock Exchange granting approval for the listing of, and permission to deal with, the Consolidated Shares to be in issue. It is expected that the Share Consolidation would bring about a corresponding upward adjustment in the trading price of the Consolidated Shares.

Employees and Remuneration Policies

At 30 June 2014, the Group had approximately 785 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.

Concentration Risks

There are certain concentration risks in the Company's crude oil operations and the graphite ores businesses. According to the agreement entered into between the Company and the Indonesian Government, SKKMIGAS, a governmental organization, was appointed by the Indonesian Government as the sole buyer of our oil, i.e., there is only one customer for our oil product. The recovering and the credit terms of trade receivable were determined by the Indonesian Government.

For our graphite business, we usually had 30 – 40 buyers for our graphite products, the reliance on buyers was not high and the transactions were mostly settled by cash. But during the year of 2013, we sold all the existing mineral ores to one buyer. As a result, our reliance on that buyer was high. For the graphite sector, the concentration risk on graphite product customers was not high.

The Company would further develop new customers to reduce the concentration risk. But the concentration risk of selling of the graphite ore was rather high. The exploration and the allocation of sales was under governmental policy and administrative management, there was no instant solution to reduce the risk. However, the Company took an active role to communicate with the government, to participate in local policy-making, and to develop opportunity to cooperate with other miners and to strengthen customers-development. These were the measures taken by the Company to mitigate the risk as much as possible.

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 2014, 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 flows.

Interim Dividends

The Directors have decided not to declare any interim dividend for the six months ended 30 June 2014 (2013: 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.

ADDITIONAL INFORMATION

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 27 May 2014 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 2014.

Purchase, Sale or Redemption of the Company's Listed Securities

During the six months ended 30 June 2014, 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 2014, 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 2014, 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 2014, 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" above, had registered an interest, short position, or lending poor 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

Mr. Guan Xinmin, the Chairman and the Executive Director of the Company, passed away on 17 May 2014 in Beijing due to illness.

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 2014.

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

Feng Zhong Yun
Managing Director

Hong Kong, 29 August 2014