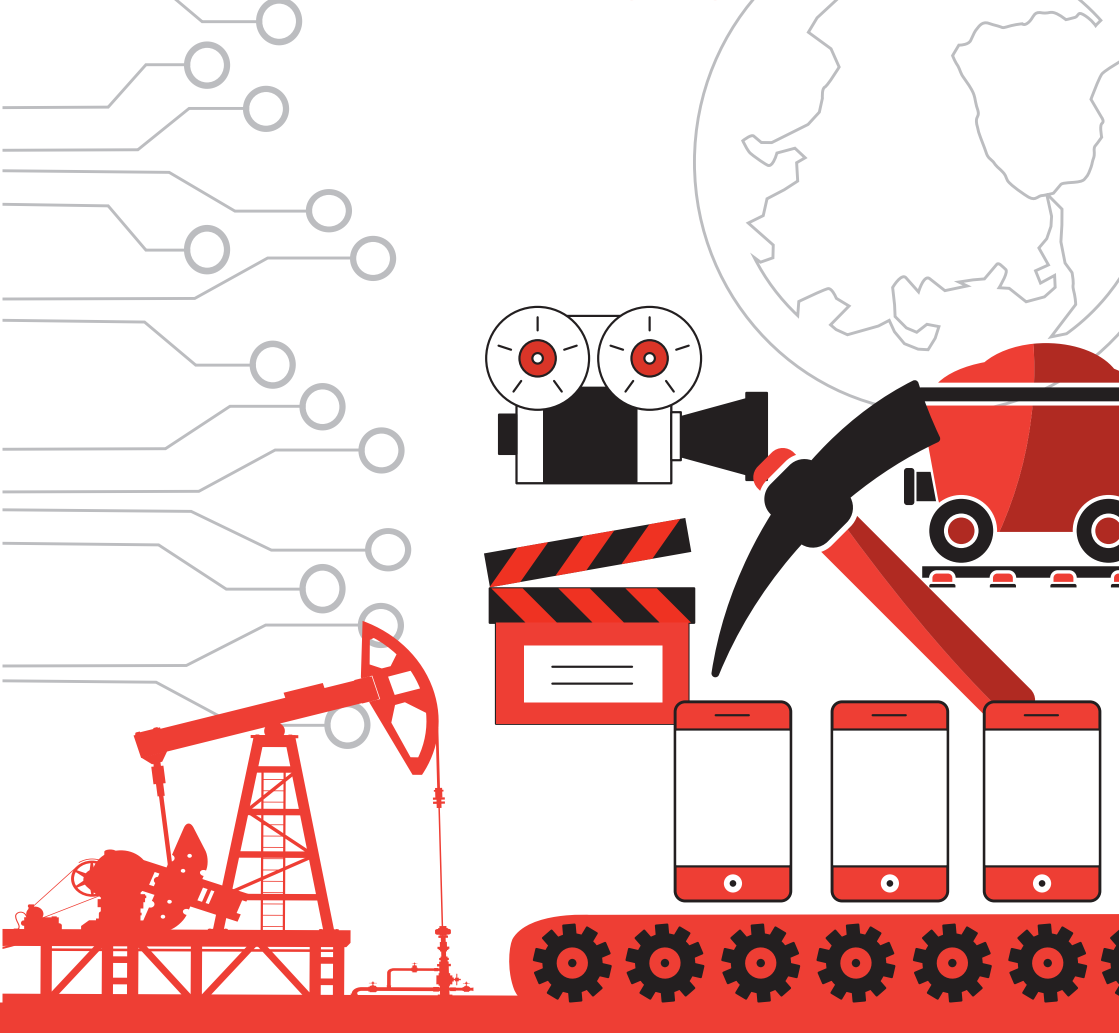
SSP 南海石油

South Sea Petroleum Holdings Limited

Stock Code : 76

INTERIM REPORT 2016



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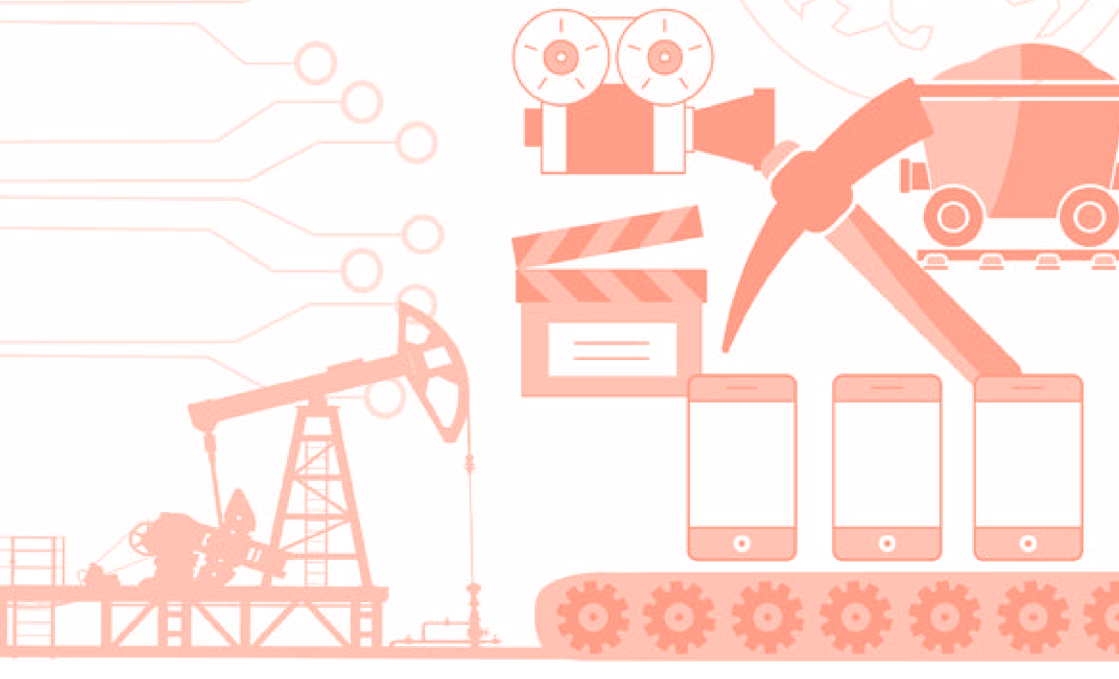

The Board of Directors (the "Board") of South Sea Petroleum Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated statement of financial position as at 30 June 2016 of the Company and its subsidiaries (the "Group"), the unaudited condensed consolidated statement of profit or loss and the unaudited condensed consolidated statement of cash flow and the unaudited consolidated statement of changes in equity for the six months ended 30 June 2016 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Six months ended	
		30 June 2016	30 June 2015
		Unaudited	Unaudited
	Notes	***US$'000***	*US$'000*
TURNOVER	*3*	**34,752**	43,225
Cost of sales		**(25,999)**	(30,200)
		8,753	13,025
Other income		**174**	117
Net (loss) gain in fair value of financial assets held for trading		**(80)**	39
General and administrative expenses		**(14,476)**	(16,605)
Drilling and operating expenses		**(782)**	(2,829)
Provision for impairment of amount due from associate		**–**	(1,205)
LOSS FROM OPERATING ACTIVITIES	*4*	**(6,411)**	(7,458)
Finance costs		**(12)**	(66)
LOSS BEFORE TAX		**(6,423)**	(7,524)
Income tax	*5*	**(209)**	–
LOSS FOR THE PERIOD		**(6,632)**	(7,524)
Attributable to:			
Equity shareholders of the Company		**(6,420)**	(7,100)
Non-controlling interests		**(212)**	(424)
		(6,632)	(7,524)
LOSS PER SHARE *(US Cents)*	*6*		
– Basic		**(0.33)**	(0.88)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Six months ended	
	30 June 2016	30 June 2015
	Unaudited	Unaudited
	US$'000	*US$'000*
LOSS FOR THE PERIOD	**(6,632)**	(7,524)
OTHER COMPREHENSIVE INCOME (EXPENSES)		
– Item that may be reclassified to profit or loss		
Exchange differences	**(1,809)**	253
TOTAL COMPREHENSIVE INCOME (EXPENSES) FOR THE PERIOD	**(8,441)**	(7,271)
Attributable to:		
Equity shareholders of the Company	**(8,183)**	(6,850)
Non-controlling interests	**(258)**	(421)
	(8,441)	(7,271)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 June 2016 Unaudited *US$'000***	31 December 2015 Audited *US$'000*
NON-CURRENT ASSETS			
Fixed assets	*7*	**23,386**	25,151
Prepaid lease payments		**4,826**	5,000
Goodwill		**537**	537
Available-for-sale investments		**293**	293
Interest in an associate		**–**	–
Deferred tax assets		**1,520**	1,693
		30,562	32,674
CURRENT ASSETS			
Cash and bank balances		**19,948**	20,097
Financial assets at fair value held for trading	*8*	**30,368**	30,448
Trade and notes receivables	*9*	**221,619**	244,907
Inventories		**12,442**	18,966
Prepayments, deposits and other receivables	*10*	**86,781**	53,399
		371,158	367,817
CURRENT LIABILITIES			
Trade payables	*11*	**5,996**	9,470
Other payables and accrued expenses	*12*	**10,983**	13,848
Bank overdraft		**2,342**	–
Due to non-controlling interests		**647**	662
Finance leases-current portion		**206**	229
Taxation		**15,706**	15,500
		35,880	39,709
NET CURRENT ASSETS		**335,278**	328,108
TOTAL ASSETS LESS CURRENT LIABILITIES		**365,840**	360,782

	Notes	**30 June 2016 Unaudited *US$'000***	31 December 2015 Audited *US$'000*
NON-CURRENT LIABILITIES			
Finance leases		**343**	497
Provisions		**3,105**	3,105
		3,448	3,602
NET ASSETS		**362,392**	357,180
CAPITAL AND RESERVES			
Share capital	*15*	**550,657**	537,004
Revaluation reserve		**3,886**	4,354
Translation reserve		**3,927**	5,222
Accumulated losses		**(198,073)**	(191,653)
Total equity attributable to equity shareholders of the Company		**360,397**	354,927
Non-controlling interests		**1,995**	2,253
		362,392	357,180

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

	Six months ended 30 June 2016 Unaudited *US$'000*	Six months ended 30 June 2015 Unaudited *US$'000*
NET CASH USED IN OPERATING ACTIVITIES	**(14,560)**	(13,155)
NET CASH USED IN INVESTING ACTIVITIES	**(1,242)**	(96)
CASH FLOW FROM FINANCING ACTIVITIES	**13,476**	11,533
DECREASE IN CASH AND CASH EQUIVALENTS	**(2,326)**	(1,718)
Cash and cash equivalents at 1 January	**20,097**	28,743
Effect of exchange rate	**(165)**	117
CASH AND CASH EQUIVALENTS AT 30 JUNE	**17,606**	27,142
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**19,948**	32,272
Bank overdraft	**(2,342)**	(5,130)
	17,606	27,142

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2016

(Expressed in US$'000)

	Attributable to equity holders of the Company						
	Share capital	**Translation reserve**	**Revaluation reserve**	**Accumulated losses**	**Total**	**Non-controlling interests**	**Total equity**
At 1.1.2016	**537,004**	**5,222**	**4,354**	**(191,653)**	**354,927**	**2,253**	**357,180**
Total comprehensive income for the period	**–**	**(1,295)**	**(468)**	**(6,420)**	**(8,183)**	**(258)**	**(8,441)**
Issue of shares upon conversion of convertible debentures	**13,653**	**–**	**–**	**–**	**13,653**	**–**	**13,653**
At 30.6.2016	**550,657**	**3,927**	**3,886**	**(198,073)**	**360,397**	**1,995**	**362,392**

	Attributable to equity holders of the Company						
	Share capital	Translation reserve	Revaluation reserve	Accumulated losses	Total	Non-controlling interests	Total equity
At 1.1.2015	504,850	7,710	4,068	(183,983)	332,645	2,901	335,546
Total comprehensive income for the period	–	136	114	(7,100)	(6,850)	(421)	(7,271)
Issue of shares upon conversion of convertible debentures	11,683	–	–	–	11,683	–	11,683
At 30.6.2015	516,533	7,846	4,182	(190,083)	337,478	2,480	339,958

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 2015 which is applicable for the period ended 30 June 2016.

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 2016.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27 (2011)	Equity Method in Separate Financial Statements
Annual Improvements to HKFRSs 2012–2014 Cycle	Amendments to a number of HKFRSs

The adoption of the new and revised HKFRSs has 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 revenue from the sale of crude oil, assembly of electronic components for the contract electronics manufacturer, rental of production assets, sales of mobile phones 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 2016
(Expressed in US$'000)

	Oil	Sale of minerals	Contract electronic manufacturing	Trading securities	Sale of mobile phones	Lease of production Assets	Total
Revenue from external customers	**1,307**	**6,042**	**25,745**	**–**	**–**	**1,658**	**34,752**
Segment results	**(2,533)**	**(595)**	**1,166**	**(75)**	**(3,795)**	**825**	**(5,007)**
Unallocated income and expenses							**(1,404)**
Loss from operation							**(6,411)**
Finance costs	**–**	**–**	**(12)**	**–**	**–**	**–**	**(12)**
Taxation	**–**	**(209)**	**–**	**–**	**–**	**–**	**(209)**
Loss for the period							**(6,632)**

For the six months ended 30 June 2015

	Oil	Sale of minerals	Contract electronic manufacturing	Trading securities	Sale of mobile phones	Lease of production Assets	Total
Revenue from external customers	2,546	3,191	33,184	–	3,600	704	43,225
Segment results	(2,279)	(1,518)	2,802	(20)	(3,904)	280	(4,639)
Unallocated income and expenses							(2,819)
Loss from operation							(7,458)
Finance costs	–	(48)	(18)	–	–	–	(66)
Taxation	–	–	–	–	–	–	–
Loss for the period							(7,524)

4. Loss from operating activities

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

	Six months ended 30 June 2016 Unaudited *US$'000*	30 June 2015 Unaudited *US$'000*
Depreciation on fixed assets	**1,564**	1,809
Unrealised loss (gain) in fair value of financial assets held for trading	**80**	(39)
Provision for impairment of amount due from associate	**–**	1,205
Provision for impairment of inventories	**–**	404

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 represents PRC subsidiary charged at the appropriate current rates of 25% on the estimated assessable profits.

6. Loss per share

The calculation of basic loss per share is based on the net loss attributable to equity shareholders for the period of US$6,420,000 (2015: US$7,100,000), and weighted average of 1,945,947,759 (2015: 810,528,871) ordinary shares in issue during the period.

7. Fixed assets

During the six months ended 30 June 2016 the Group acquired approximately US$1,151,000 (2015: US$114,000) of fixed assets.

8. Financial assets at fair value held for trading

	30 June 2016 Unaudited *US$'000*	31 December 2015 Audited *US$'000*
Hong Kong listed shares	**368**	448
Shares traded on the OTCQB Marketplace in the United States	**30,000**	30,000
	30,368	30,448

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 2016 Unaudited *US$'000*	31 December 2015 Audited *US$'000*
0-30 days	**6,603**	6,125
31-60 days	**4,689**	7,943
61-90 days	**3,384**	4,828
Over 90 days	**206,943**	232,266
	221,619	251,162
Less: Impairment	**–**	6,255
	221,619	244,907

Included in trade receivables an amount of US$2,251,000 (2015: US$724,000) which was due from non-controlling interests.

10. Other receivables, deposits and prepayment

The analysis of the other receivables, deposits and prepayments is as follows:

	30 June 2016 Unaudited *US$'000*	31 December 2015 Audited *US$'000*
Purchase deposits	**52,554**	30,205
Film production expenses	**29,059**	18,378
Other deposits and prepayments	**3,710**	3,581
Other receivables	**979**	1,235
Deferred expenses	**479**	–
	86,781	53,399

11. Trade payables

The ageing analysis of the trade payables is as follows:

	30 June 2016 Unaudited *US$'000*	31 December 2015 Audited *US$'000*
0-30 days	**2,811**	2,708
31-60 days	**1,875**	3,232
61-90 days	**568**	1,684
Over 90 days	**742**	1,846
	5,996	9,470

12. Other payables and accruals

The analysis of the other payables and accruals is as follows:

	30 June 2016 Unaudited *US$'000*	31 December 2015 Audited *US$'000*
Other payables	**870**	216
Accrual and deferred income	**5,766**	9,326
Other tax payable	**4,347**	4,306
	10,983	13,848

13. Dividend

The Directors have decided not to declare any interim dividend for the six months ended 30 June 2016 (2015: Nil).

14. Convertible debentures

During the period, the Company issued the convertible debentures for approximately US$14,372,000. Finder's fee of US$719,000 was paid or payable to the debenture holders. Conversion right was exercised to convert US$14,372,000 of the convertible debentures for 896,800,000 shares of the Company.

15. Share capital

	30 June 2016 Unaudited US$'000	31 December 2015 Audited US$'000
Issued and fully paid:		
2,370,229,078 ordinary shares (31.12.2015: 1,473,429,078 ordinary shares)	**550,657**	537,004

During the period, 896,800,000 ordinary shares were issued by exercising the convertible debentures for an aggregate consideration of approximately US$14,372,000.

16. Commitment

Operating lease commitments outstanding at 30 June 2016 not provided for in the financial statements were as follows:

	30 June 2016 Unaudited US$'000	31 December 2015 Audited US$'000
(i) Total future minimum lease payments receivable on land and building and other assets under non-cancellable operating leases		
– Within one year	**3,561**	3,685
– In the second to fifth years inclusive	**9,198**	11,360
	12,759	15,045
(ii) Total future minimum lease payment payable under non-cancellable operating leases		
(a) On land and buildings expiring:		
– Within one year	**183**	142
– In the second to fifth years inclusive	**108**	110
	291	252
(b) On other fixed assets expiring:		
– Within one year	**12**	–

17. 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$'000*	**30 June 2016 Total** *US$'000*
Financial assets at fair value held for trading	**30,368**	**–**	**–**	**30,368**

	Level 1 *US$'000*	Level 2 *US$'000*	Level 3 *US$'000*	31 December 2015 Total *US$'000*
Financial assets at fair value held for trading	30,448	–	–	30,448

18. Related party transactions

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

	Six months ended	
	30 June 2016	30 June 2015
	Unaudited	Unaudited
	US$'000	*US$'000*
Rental income received and receivable from non-controlling interests	**1,658**	484
Sales to non-controlling interests	**221**	52

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

	Six months ended	
	30 June 2016	30 June 2015
	Unaudited	Unaudited
	US$'000	*US$'000*
Salaries, allowances and benefits in kind	**577**	606

19. Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

20. Approval of the Interim Accounts

The Board of Directors of the Company approved the Interim Accounts on 31 August 2016.

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 2016, the turnover of the Group was $34.752 million, a decrease of $8.473 million, or 19.60%, as compared to $43.225 million for the same period of the prior year. The net loss attributable to shareholders was $6.420 million, or 0.33 cents per share, as compared to net loss of $7.100 million, or 0.88 cents per share, for the same period of 2015. On the statement of financial position, at 30 June 2016 the total assets of the Group were $401.720 million, as compared to $400.491 million at 31 December 2015, and the net assets of the Group were $362.392 million at 30 June 2016, or $15.29 cents per share, as compared to $357.180 million, or $24.24 cents per share, at 31 December 2015.

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. The oilfield had about 50 employees and its amount of oil production per day was relatively stable. However, the Company's original sales revenue decreased approximately 65% resulting from the drop in oil price of approximately 60% as compared to previous years due to the significant drop in oil price in international markets in recent years. The Company's oil products are all underwritten by the Indonesia government rather than sold by the Company itself. The Company is not optimistic about the prospects of the oil industry because of the low oil price as well as the contract entered into with the government which will expire in 2 years and there is no guarantee to renew, so the Company has to find another new oil field project or other projects.

Through its wholly owned subsidiaries, South Sea Graphite (Luobei) Co., Ltd. (SSG), Liaoning Sinorth Resources Co., Ltd., and majority owned subsidiary, Luo Bei Xin Long Yuen Graphite Productions Co., Ltd (XLY), the Company is engaged in the business of production and sale of graphite products worldwide. The Company has been involved in graphite industry for nearly 10 years and employs about 30 management and casual laborers that varies with seasons. The production line of its subsidiary, SSG in Heilongjiang, is mainly used to produce refined powder with carbon content ranging from 93% to 97% and the higher-end product, spherical graphite. The Company is also engaged in the trading of graphite ore so as to make a profit from the price difference. The customers of graphite span from steel companies, lithium-ion battery companies and refractory brick companies in China to the several largest and top-ranked refractories companies in the world.

The graphite production line of the Company was recently leased out for main consideration of economic benefits due to the fact that the local graphite ore was in short supply, leading to surplus capacity in the production line, and that it will generate more fixed income.

The graphite industry shall have promising prospects and possesses great development potential if it's supplied with sufficient raw materials and provided with graphene-related technology.

The Company has been involved in electronics properties for over 10 years which has about 300 employees. Through its majority owned subsidiary, Axiom Manufacturing Services Ltd. in the United Kingdom ("Axiom"), 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 addition to its traditional business operations, since 2015, the Company, through its wholly owned subsidiary Unicorn Arts Limited ("UAL"), has started to develop cultural industry business and multi-media products, including making movies, TV shows and Internet programs. As a promotional tool for marketing of the Company's line of Piece of Cake products, UAL is producing an infomercial placement film by the name of Pegasus to promote the Company's products. It is expected that Pegasus is going to be exhibited worldwide soon. Although the Company's Piece of Cake mobile phones have already launched the second generation, in order to catch up with the development speed of mobile phone industry that updates very fast, the Company has been waiting for the completion of research and development of the third generation of the mobile phones and will vigorously launch them until they can compete with high-end mobile phones in the market, so the business is currently suspended. The electronic industry steadily develops mainly depending on customers' orders and gradually produces its own brand products when conditions permit. The Company is of the view that the Company's electronics have steady prospect but limited growth potential.

In 2015, the Company entered into several agreements with Sinocreative Limited, an independent third party. Sinocreative will be responsible for the global promotion and marketing of Pegasus. The Company and Sinocreative will work closely to produce Pegasus movie series as well as to cooperate in other cultural media business. Sinocreative undertakes to invest HK$1 billion to the projects. The cultural properties of the Company have started for a short time and currently have 6 employees. UAL, a subsidiary of the Company, has a plan to make movies, TV shows and Internet programs. Currently, the UAL's film by the name of Pegasus has been completed of its filming and post production, and now has been reported to relevant authorities of Mainland China for their approval to show in Mainland China and is planned to be exhibited worldwide including Mainland China after its premiere at the Venetian hotel on Christmas Day of this year. The Company is of the view that although the cultural properties of the Company have just started, they have promising prospects and are expected to be gradually expanded.

During the period under review, the Company has made the following main developments:

Termination of Proposed Acquisition of Madagascar Graphite Mines

In April 2016, the Company entered into a memorandum of understanding with Madagascar Graphite Limited ("MGL"), an independent third party, for the possible acquisition of MGL's large flake graphite mines. The proposed transaction constituted a very substantial acquisition for the Company under the Listing Rules. With a view that the sizable amount of the very substantial acquisition required time for the transaction, it was not likely to hold and convene the Company's shareholder's meeting as scheduled, so under the request of MGL, the Company agreed to terminate this very substantial acquisition, and both parties agreed to release each other from any and all liabilities and claims.

Formation of New Graphite Company

On 12 May 2016, Madagascar Graphite Limited ("MGL"), and Global Select Limited ("GSL"), a wholly owned subsidiary of the Company, entered into a cooperation agreement to establish a new company, Madagascar Resources Limited, for producing graphite products. The paid up capital of the new company is $40 million. Under the agreement, MGL will invest $34 million which represents 85% shareholding in the new company, and GSL will invest $6 million which represents 15% shareholding. The business of the new company shall be exploration, development, producing and marketing of graphite products in Madagascar.

Purchase and Sales of Graphite Ore

On 16 May 2016, GSL and MGL entered into an Exclusive Graphite Ore Supply Agreement, pursuant to which MGL shall exclusively supply large flake graphite ore to GSL at a preferential price for 20 years.

On 23 May 2016, GSL entered into an agreement with an independent third party buyer. Under the agreement, the buyer shall purchase 80 million tons of large flake graphite ore from GSL with an aggregate purchase price of $928 million. As at the date of this report, GSL has received HK$10 million of irrevocable earnest money from the buyer. The first batch of 43,600 tons of graphite ore has been delivered.

On 23 May 2016, GSL and MGL entered into a Graphite Ore Purchase Agreement, and on 3 August 2016, two parties signed a Memorandum of Understanding which further confirmed and clarified the terms and conditions, for purchase of 80 million tons of graphite ore. Due to the large amount of capital required for the production of the graphite ore, MGL requested GSL to make a purchase order deposit of ninety percent (90%) of the purchase price in installments within three (3) years. The deposit shall be used to offset against 90% of the graphite purchase price to be settled by GSL, until it is paid up. The parties agreed that no additional deposit shall be required by MGL under any circumstances until the total quantity of graphite ore purchased shall have exceeded one billion (1,000,000,000) metric tons. However, the Company has informed MGL that both parties need to further negotiate and modify the agreements regarding the purchase order deposit. All agreements must meet the requirements of the Listing Rules of the Stock Exchange of Hong Kong.

On 19 September 2016, the Company received a notice from MGL. MGL claimed that due to repeated changes of the terms and delays in the performance of the contracts between MGL and Global Select Limited, MGL's business plan has been materially affected. MGL cannot afford to wait any longer. As a result, MGL informed the Company that MGL decided to cease the performance of the contracts and hope that an amicable agreement will be reached as soon as possible to discontinue the contracts. The board of directors of the Company will publish related announcement in due course.

Results of Operations

For the six months ended 30 June 2016, the Group's turnover was $34.752 million, a decrease of $8.473 million, or 19.60%, as compared to $43.225 million for the same period of the prior year. Specifically, during the six-month period ended 30 June 2016, the turnover of the Group's crude oil operation was $1.307 million as compared to $2.546 million for the same period of 2015, representing a decrease of 48.67%. The decrease in oil revenue was primarily due to (1) significant drop in oil prices on the international markets, and (2) a portion of the crude oil produced has not been shipped out. In fact, the Group's amount of oil production was relatively stable.

Compared with last year, for the six months ended 30 June 2016, the Group's graphite operation and facilities generated revenues of $6.042 million, or an increase of 89.35%, as compared to $3.191 million for the same period of last year. The increase in the Group's sale of graphite was primarily due to increase of purchase orders. All graphite ore inventory on hand was sold out. Since June 2015, SSG and XLY have leased out all of their production assets and, in return, will receive an aggregate of RMB23.40 million of rental income each year.

During the six month period ended 30 June 2016, the turnover of the Group's electronics manufacturing service operation was $25.745 million, representing a decrease of $7.439 million, or 22.42%, as compared to $33.184 million for the same period of the prior year. The decrease in electronics manufacturing service revenue was primarily due to depreciation of British Pound to US dollars, and, to a lesser extent, due to a small decrease in sales orders from existing customers.

Liquidity and Financial Resources

The Group's operations are primarily funded by cash flows from its operations and from issuance of the Company's convertible debentures. At 30 June 2016, the Group's cash and cash equivalents were $17.606 million as compared to $20.097 million as at 31 December 2015. For the six months ended 30 June 2016, the Group's operating activities used net cash of $14.560 million. By comparison, net cash used in operating activities was $13.155 million for the same period of 2015.

During the six month period ended 30 June 2016, the Group's investing activities used net cash of $1.242 million, primarily due to purchase of property and equipment. By comparison, net cash used by the Group's investing activities in 2015 was $96 million. For the six months ended 30 June 2016, the Group's financing activities generated net cash of $13.476 million, primarily from issuance of convertible debentures of the Company. By comparison, net cash provided in financing activities was $11.533 million for the same period of 2015.

As at 30 June 2016, the Group's gearing ratio, calculated as the aggregate of bank overdraft and finance lease divided by the amount of total equity, was 0.80% (2015: 0.20%).

At 30 June 2016, the Group had no contingent liabilities.

Convertible Debentures

On 3 November 2015, the Company entered into a subscription agreement with an investor for HK$45,980,000 nil interest convertible 1-year debentures due 3 November 2016. The conversion price was HK$0.22. The net proceed of approximately HK$43,600,000 was used, through UAL, a wholly owned subsidiary of the Company, to develop the cultural industry business and multi-media products, including making movies, TV shows and Internet programmes. As at 31 December 2015, the debenture was fully issued and converted into the ordinary shares of the Company.

On 30 December 2015, the Company entered into a subscription agreement with an investor for an aggregate of HK$1.0 billion nil interest convertible debenture due 31 December 2021. The conversion price is HK$0.125. The net proceed of approximately HK$950 million is intended to be used, through UAL, in the development of cultural and multi-media business.

During the six months ended 30 June 2016, the Company issued the debenture for approximately US$14,372,000 (HK$112.1 million), which was entirely converted to 896,800,000 ordinary shares of the Company (2015: US$12,298,000 and 169,480,560 shares, respectively).

At 30 June 2016, the Group had no contingent liabilities. The Group believes that its cash balance and the cash generated from operations and from financing activities 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.

Trade Receivables Over 90 Days

In December 2013, the Company sold 33.45 million tons of graphite ore in stock with an aggregate price of $264.255 million on payment condition that a minimum of $26.42 million was to be collected each year in a maximum term of 10 year for full collection. By the end of June 2016, the balances of receivables of the Company amounted to $206.9 million. During the period, the Company amended the terms of repayment to settle the full amount within one year, secured over the unsold graphite ore acquired by the purchaser and non-interest bearing. A discount of $6.255 million was granted to the purchaser and recognised as impairment of trade receivable. The customers of this batch of ore are nearly 20 enterprises located in Hegang, Heilongjiang (the graphite products enterprises specializing in the production of graphite products with carbon content of 93%, 94%, 95% and 96% as well as the production of lithium batteries), and such ore is the only source of raw materials of such enterprises. Since it is expected that the demand for graphite ore from these enterprises will go up in the future, the Company believes that there will be no significant risk in full collection of the receivables. However, the Company continued its plan to speed up the collection of the receivables.

Significant Investment Held

In 2011, the Company, through one of its wholly-owned subsidiaries, acquired 15 million shares of a public company, whose shares are traded on the OTCQB of the OTC Markets (formerly OTC Bulletin Board) in the USA, as an investment. There was no related party transaction involved.

As a Level 1 investment, the Company uses its quoted closing price (unadjusted) to measure its fair value. At 30 June 2016, its closing price was US$2.00 per share, valued at US$30.0 million, same as that at 31 December 2015. Currently the Company intends to continue to hold this investment.

Off Balance Sheet Arrangements

At 30 June 2016, the Group had no off balance sheet arrangements.

Employees and Remuneration Policies

At 30 June 2016, the Group had approximately 406 employees in Indonesia, the United Kingdom, China and Hong Kong. The Group believes that its relationship with its employees is satisfactory.

The remuneration policy of the Group employees is set by the Remuneration Committee on the basis of the employees' merit, qualifications and competence. The emoluments of the Directors of the Company are decided by the Remuneration Committee. From time to time, the Group may also use services of independent consultants and contractors to render various professional services. No share option scheme is in operation.

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 2016, 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 2016 (2015: 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 30 June 2016, Mr. Han Zhi Jun and Ms. Zhang Xue were re-elected as executive directors; and Mr. Lu Ren Jie was re-elected as an independent non-executive director, respectively.

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, being non-executive directors, were not able to attend the annual general meeting of the Company held on 30 June 2016 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 its own code of conduct regarding securities transactions by the Directors of the Company. All Directors have confirmed that, following specific enquiry by the Company, they fully complied with Mode Code throughout the six-month period ended 30 June 2016.

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

During the six months ended 30 June 2016, 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 2016, none of the Directors and executive officers of the Company and their respective associates had any interests or short positions 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 (the "SFO"), to be entered in the register referred to therein or which were required, pursuant to the Model Code contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

Directors' Interests in Contracts

During the six months ended 30 June 2016, 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 2016, 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 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.

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 2016.

Board of Directors

As at the date of this report, the board of directors of the Company comprises of Mr. Feng Zhong Yun and Ms. Zhang Xue being executive directors; Mr. Han Zhi Jun, Mr. Lu Ren Jie, Mr. Chai Woon Chew and Mr. Ng Lai Po being independent non-executive directors.

Publication of Results

The Interim 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), and will be dispatched to shareholders who selected to receive the printed version of the Company's corporate communication on or before 30 September 2016.

On behalf of the Board

Feng Zhong Yun
Managing Director

Hong Kong, 31 August 2016