SSP 南海石油

South Sea Petroleum Holdings Limited

Stock Code : 76

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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 2017 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 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		Six months ended	
		30 June 2017	30 June 2016
		Unaudited	Unaudited
	Notes	***US$'000***	*US$'000*
TURNOVER	*3*	**29,930**	34,752
Cost of sales		**(22,517)**	(25,999)
		7,413	8,753
Other income		**644**	174
General and administrative expenses		**(7,331)**	(14,556)
Drilling and operating expenses		**(1,228)**	(782)
LOSS FROM OPERATING ACTIVITIES	*4*	**(502)**	(6,411)
Finance costs		**(39)**	(12)
LOSS BEFORE TAX		**(541)**	(6,423)
Income tax	*5*	**–**	(209)
LOSS FOR THE PERIOD		**(541)**	(6,632)
Attributable to:			
Equity shareholders of the Company		**(551)**	(6,420)
Non-controlling interests		**10**	(212)
		(541)	(6,632)
LOSS PER SHARE *(US Cents)*	*6*		
– Basic		**(0.02)**	(0.33)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Six months ended	
	30 June 2017	30 June 2016
	Unaudited	Unaudited
	US$'000	*US$'000*
LOSS FOR THE PERIOD	**(541)**	(6,632)
OTHER COMPREHENSIVE INCOME (EXPENSES)		
– Item that may be reclassified to profit or loss		
Exchange differences	**815**	(1,809)
TOTAL COMPREHENSIVE INCOME (EXPENSES) FOR THE PERIOD	**274**	(8,441)
Attributable to:		
Equity shareholders of the Company	**224**	(8,183)
Non-controlling interests	**50**	(258)
	274	(8,441)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 June 2017 Unaudited *US$'000***	31 December 2016 Audited *US$'000*
NON-CURRENT ASSETS			
Fixed assets	*7*	**20,953**	21,491
Prepaid lease payments		**4,635**	4,563
Intangible assets		**3,991**	3,065
Available-for-sale investments		**293**	6,293
Interest in an associate		**–**	–
Deferred tax assets		**1,370**	1,238
		31,242	36,650
CURRENT ASSETS			
Cash and bank balances		**9,986**	14,117
Financial assets at fair value held for trading	*8*	**4,982**	4,944
Trade and notes receivables	*9*	**13,728**	13,799
Inventories		**338,450**	340,091
Prepayments, deposits and other receivables	*10*	**51,770**	72,221
		418,916	445,172
CURRENT LIABILITIES			
Trade payables	*11*	**58,867**	99,064
Other payables and accrued expenses	*12*	**15,749**	17,578
Finance leases-current portion		**202**	192
Taxation		**15,500**	15,676
		90,318	132,510
NET CURRENT ASSETS		**328,598**	312,662
TOTAL ASSETS LESS CURRENT LIABILITIES		**359,840**	349,312

	Notes	30 June 2017 Unaudited US$'000	31 December 2016 Audited US$'000
NON-CURRENT LIABILITIES			
Finance leases		**135**	223
Provisions		**3,105**	3,105
		3,240	3,328
NET ASSETS		**356,600**	345,984
CAPITAL AND RESERVES			
Share capital	*15*	**573,063**	562,721
Revaluation reserve		**4,131**	3,909
Translation reserve		**1,324**	771
Accumulated losses		**(223,735)**	(223,184)
Total equity attributable to equity shareholders of the Company		**354,783**	344,217
Non-controlling interests		**1,817**	1,767
		356,600	345,984

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

	Six months ended	
	30 June 2017	30 June 2016
	Unaudited	Unaudited
	US$'000	*US$'000*
NET CASH USED IN OPERATING ACTIVITIES	**(19,131)**	(14,560)
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**4,820**	(1,242)
CASH FLOW FROM FINANCING ACTIVITIES	**10,264**	13,476
DECREASE IN CASH AND CASH EQUIVALENTS	**(4,047)**	(2,326)
Cash and cash equivalents at 1 January	**14,117**	20,097
Effect of exchange rate	**(84)**	(165)
CASH AND CASH EQUIVALENTS AT 30 JUNE	**9,986**	17,606
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**9,986**	19,948
Bank overdraft	**–**	(2,342)
	9,986	17,606

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

(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 1.1.2017	**562,721**	**771**	**3,909**	**(223,184)**	**344,217**	**1,767**	**345,984**
Total comprehensive income for the period	**–**	**553**	**222**	**(551)**	**224**	**50**	**274**
Issue of shares upon conversion of convertible debentures	**10,342**	**–**	**–**	**–**	**10,342**	**–**	**10,342**
At 30.6.2017	**573,063**	**1,324**	**4,131**	**(223,735)**	**354,783**	**1,817**	**356,600**

	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	–	–	–	3,653	–	13,653
At 30.6.2016	550,657	3,927	3,886	(198,073)	360,397	1,995	362,392

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 preparation of the unaudited interim financial information in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The accounting policies of these Interim Accounts are consistent with those used in the annual financial statements for the year ended 31 December 2016 which is applicable for the period ended 30 June 2017.

2. Adoption of new or amended HKFRSs

The HKICPA has issued certain amendments to Hong Kong Financial Reporting Standards ("HKFRSs") which are first effective for the current accounting period of the Group. The amendments do not have significant impact on the Group's results and financial position for the current or prior periods have been prepared or presented.

3. Turnover and segment information

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

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 2017
(Expressed in US$'000)

	Oil	Sale of minerals	Contract electronic manufacturing	Trading securities	Develop and sale of mobile phones	Lease of production assets	Other	Total
Revenue from external customers	**1,563**	**6,148**	**21,319**	**–**	**–**	**787**	**113**	**29,930**
Segment results	**(537)**	**638**	**1,386**	**43**	**(622)**	**(168)**	**–**	**740**
Unallocated income and expenses								**(1,242)**
Loss from operation								**(502)**
Finance costs	**–**	**(26)**	**(12)**	**–**	**–**	**–**	**–**	**(39)**
Taxation	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Loss for the period								**(541)**

For the six months ended 30 June 2016

	Oil	Sale of minerals	Contract electronic manufacturing	Trading securities	Develop and 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)

4. Loss from operating activities

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

	Six months ended	
	30 June, 2017	30 June, 2016
	Unaudited	Unaudited
	US$'000	*US$'000*
Depreciation on fixed assets	**1,334**	1,564
Unrealised (gain) loss in fair value of financial assets held for trading	**(38)**	80
Loss on disposal of fixed assets	**406**	–
Provision for impairment of inventories	**217**	–
Provision for impairment of due from associate	**598**	–

5. Income tax

No provision for profits tax has been made as, in the opinion of the Company's directors, the Group did not have any estimated assessable profits or has tax losses brought forward.

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$551,000 (2016: US$6,420,000), and weighted average of 3,647,930,735 (2016: 1,945,947,759) ordinary shares in issue during the period.

7. Fixed assets

During the six months ended 30 June 2017 the Group acquired approximately US$3,918,000 (2016: US$1,151,000) of fixed assets and disposed fixed assets with net book value of approximately USD3,600,000.

8. Financial assets at fair value held for trading

	30 June 2017	31 December 2016
	Unaudited	Audited
	US$'000	*US$'000*
Hong Kong listed shares	**482**	444
Shares traded on the OTCQB Marketplace in the United States	**4,500**	4,500
	4,982	4,944

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 2017	31 December 2016
	Unaudited	Audited
	US$'000	*US$'000*
0-30 days	**6,463**	5,156
31-60 days	**3,509**	4,727
61-90 days	**2,207**	2,126
Over 90 days	**1,549**	1,790
	13,728	13,799

10. Other receivables, deposits and prepayments

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

	30 June 2017	31 December 2016
	Unaudited	Audited
	US$'000	*US$'000*
Notes receivables	**5,176**	–
Purchase deposits	**8,180**	34,216
Film project expenses	**29,394**	28,961
Other deposits and prepayments	**5,278**	3,436
Other receivables	**2,813**	4,701
Due from non-controlling interest	**929**	907
	51,770	72,221

11. Trade payables

The ageing analysis of the trade payables is as follows:

	30 June 2017 Unaudited US$'000	31 December 2016 Audited US$'000
0-30 days	**4,154**	1,804
31-60 days	**3,131**	3,081
61-90 days	**1,499**	93,101
Over 90 days	**50,083**	1,078
	58,867	99,064

12. Other payables and accrued expenses

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

	30 June 2017 Unaudited US$'000	31 December 2016 Audited US$'000
Other payables	**986**	562
Due to non-controlling interest	**511**	526
Accrual and deferred income	**3,502**	5,491
Deposits received	**6,275**	6,304
Other tax payable	**4,475**	4,695
	15,749	17,578

13. Dividend

The Directors have decided not to declare any interim dividend for the six months ended 30 June 2017 (2016: Nil).

14. Convertible debentures

During the period, the Company issued the convertible debentures for approximately US$10,887,000. Finder's fee of US$544,000 was paid or payable to the debenture holders. Conversion right was exercised to convert US$10,887,000 of the convertible debentures for 679,360,000 shares of the Company.

15. Share capital

	30 June 2017 Unaudited *US$'000*	31 December 2016 Audited *US$'000*
Issued and fully paid:		
3,841,989,078 ordinary shares (31.12.2016: 3,162,629,078 ordinary shares)	**573,063**	562,721

During the period, 679,360,000 ordinary shares were issued by exercising the convertible debentures for an aggregate consideration of approximately US$10,887,000.

16. Commitment

Operating lease commitments outstanding at 30 June 2017 not provided for in the financial statements were as follows:

	30 June 2017 Unaudited *US$'000*	31 December 2016 Audited *US$'000*
(a) Total future minimum lease payments receivable under non-cancellable operating leases		
(i) On land and buildings, plant and machinery expiring		
Within one year	**1,251**	2,298
In the second to fifth years inclusive	**3,964**	8,261
	5,215	10,559
(b) Total future minimum lease payment payable under non-cancellable operating leases		
(i) On land and buildings expiring:		
Within one year	**59**	154
In the second to fifth years inclusive	**–**	36
	59	190
(ii) On other fixed assets expiring:		
Within one year	**–**	2
	–	2

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	**Level 2**	**Level 3**	**30 June 2017 Total**
	US$'000	***US$'000***	***US$'000***	***US$'000***
Financial assets at fair value held for trading	**4,982**	**–**	**–**	**4,982**

	Level 1	Level 2	Level 3	31 December 2016 Total
	US$'000	*US$'000*	*US$'000*	*US$'000*
Financial assets at fair value held for trading	4,944	–	–	4,944

18. Related party transactions

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

	Six months ended	
	30 June 2017	30 June 2016
	Unaudited	Unaudited
	US$'000	*US$'000*
Rental income received and receivable from non-controlling interests	**787**	1,658
Sales to non-controlling interests	**–**	221

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

	Six months ended	
	30 June 2017	30 June 2016
	Unaudited	Unaudited
	US$'000	*US$'000*
Salaries, allowances and benefits in kind	**715**	577

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 2017.

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 2017, the turnover of the Group was $29.930 million, a decrease of $4.822 million, or 13.88%, as compared to $34.752 million for the same period of prior year. The net loss attributable to shareholders was $0.551 million, or 0.02 cents per share, as compared to net loss of $6.420 million, or 0.33 cents per share, for the same period of 2016. On the statement of financial position, at 30 June 2017 the total assets of the Group were $450.158 million, as compared to $481.822 million at 31 December 2016, and the net assets of the Group were $356.600 million at 30 June 2016, as compared to $345.984 million at 31 December 2016.

Business Review

The Group's businesses consist of (i) development and production of crude oil in Indonesia, (ii) production and trading of minerals, primarily graphite, worldwide, (iii) provision of electronic manufacturing services in the United Kingdom, and (iv) development of multi-media production and movie making.

Through its wholly owned subsidiary, Kalrez Petroleum (Seram) Limited, the Company operates oilfields in Indonesia under a 20-year Bula Petroleum Production Sharing Contract ("Bula PSC"), which the Group entered into with BPMIGAS, Department of Petroleum of Indonesia, in May 2000. The Bula PSC will expire in 2019, and there is little chance for the contract renewal. The crude oil produced are all underwritten by the Indonesia government rather than sold by the Company itself. The outlook of the Company's crude oil operations is gloomy because of low oil price and the soon-to-be expired production contract with the Indonesian government. As a result, in recent years, the Company has been actively seeking for new revenue sources.

The Company has been involved in graphite industry for over 10 years through its subsidiaries, the Company is engaged in the business of production and trading of graphite products worldwide. The customers of graphite span from steel companies, lithium-ion battery companies and refractory material companies in China to the several largest and top-ranked refractory companies in the world.

The Company has been involved in electronics manufacturing and designing services for more than 15 years. Through its wholly-owned subsidiary, Axiom Manufacturing Services Ltd. in the United Kingdom ("Axiom"), the Company provides outsourced electronics manufacturing services to customers in the following industrial market sectors:

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

Generally, Axiom provides outsourced electronics manufacturing and product designing services that carry the brand names of its customers. Substantially all of Axiom's manufacturing services are provided on a turnkey basis. Most of Axiom's customers are located in the United Kingdom and North America.

The Company is of view that currently the prospect of the Company's crude oil and electronic manufacturing businesses are of limited potential. The revenue generated from crude oil business is diminishing due to low oil price, and will cease altogether upon expiration of the Production Sharing Contract in 2019. Although efforts have been made, the potential for the electronic manufacturing services is also limited in the wake of Brexit, coupled with a decrease in the exchange rate for British pounds and potential increase in labor costs. For that reason, the Company has been considering and actively seeking for new business revenue resources.

The Company has been engaged in graphite business for many years. Since Andre Geim and Konstantin Novoselov won the Nobel Prize in 2010 for their discovery of the exceptional properties of graphene, the demand for graphite as a strategic material has surged. 14 materials are considered key materials, including graphite and rare earth elements.

Graphite is widely used in aerospace, steel, automobile, electric vehicle, battery and lubricant industries. As a nonrenewable mineral resource, graphite deposits are limited and diminishing. As a result, the Company plans to focus on graphite business as the driving force for profit growth because, on the one hand, the graphite business is of high growth potential, and, on the other hand, the Company has gained experience and cultivated customer relationships over the years. To that end, last year the Company seized an opportunity of purchasing a large amount of semi-processed mixed grade graphite as inventories. The purchased semi-processed mixed grade graphite can either be re-sold or further processed for significant profit growth. Since graphite will be the Company's profitable line of business, the Company decided to use its cash on hand from collection of its trade and notes receivables and allocate the funds to the key projects for development and profit growth. The Company believes that the purchase of the semi-processed mixed grade graphite will appreciate in value, which is in the interests of the Company and its shareholders.

In addition to its traditional business operations, since 2015, the Company, through its wholly owned subsidiary Unicorn Arts Limited ("UAL"), has started to develop a cultural industry business and multi-media products, including making movies, TV shows and Internet programs. UAL started production of a film by the name of Pegasus.

The Company and its cooperation partner, Sinocreative Limited, which has undertaken to invest HK$1 billion in the Company for cultural projects, will work closely together on post production, distribution and promotion of the film, which is scheduled to be released and exhibited worldwide, including Mainland China, in early 2018, and produce a Pegasus movie series, as well as to cooperate in other cultural media businesses.

Disposal of Certain Fixed Assets of Subsidiaries

In June 2017, the Company contracted to dispose certain fixed assets for RMB50 million in cash. The sold fixed assets comprised all the fixed assets of the Company's two subsidiaries, i.e., wholly owned South Sea Graphite (Luobei) Co., Ltd. ("SSG") and 51% owned Luo Bei Xin Long Yuan Graphite Productions Co., Ltd. ("XLY") The total book value of the fixed assets shared by the Group shown in the unaudited accounts as at 31 May 2017 was approximately US$6,746,809 (approximately equivalent to RMB45,974,051). As a result of the disposal, the Company would realize a pre-taxation gain of approximately RMB4,025,949.

The reasons for the disposal were that, since the Company established subsidiaries which principally engaged in graphite business, a review of such business shown that the supply of graphite ore for the business lines of the assets was in severe deficiency, production was seriously affected and the abandoned production lines depreciated year by year. As such, the Company should set up production lines in Madagascar wherein the graphite ore supply is much better both in quantity and quality than in Luobei, China. The disposal allows the Company focus on the more productive operation and make good use of its resources.

The proceeds of 50 million RMB for the transaction of the disposal of the fixed assets of South Sea Graphite (Luobei) Co. Ltd. was received as of the date of this report. The transfer of assets of South Sea Graphite (Luobei) Co. Ltd. has been completed, while the transfer of assets of Luo Bei Xin Long Yuan will be completed in the form of transfer of equity interest that is requested by the Buyer resulting in an additional gain of 390,000 RMB to the Company. The paper work and specific procedures are in the process in accordance with Chinese laws and taxation regulations to be completed soon.

Graphite Business Line Reorganized

The Company entered into the graphite business in 2008, since then its graphite business has been carried out by several subsidiaries. In order to simplify its operations and improve management effectiveness, instead of setting up a new company, the Company's graphite business line was recently reorganized, in which all graphite related assets and personnel are restructured under a wholly owned subsidiary of the Company.

Results of Operations

For the six months ended 30 June 2017, the Group's turnover was $29.930 million, a decrease of $4.822 million, or 13.88%, as compared to $34.752 million for the same period of the prior year. Specifically, for the six months ended 30 June 2017, the turnover of the Group's crude oil operation was $1.563 million as compared to $1.307 million for the same period of 2016, representing an increase of 19%. The increase in oil revenue was primarily due to more produced crude oil was shipped out. Compared with last year, the amount of oil production was decreased approximately 8% during the first half of this year due to the aging oil field.

Compared to last year, for the six months ended 30 June 2017, the Group's graphite operation and facilities generated revenues of $6.148 million, or an increase of 1.75%, as compared to $6.042 million for the same period of last year. Since June 2014, XLY has leased out all of its production assets followed by SSG in 2015 and, in return, the Group will receive an aggregate of RMB23.40 million of rental income each year. The lease of the group's graphite production line was mainly in 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 stable and guaranteed net income for the Group. In June 2017, as discussed above, all fixed assets and facilities were contracted to dispose.

For the six months ended 30 June 2017, the turnover of the Group's electronics manufacturing service operation was $21.319 million, representing a decrease of $4.426 million, or 17.1%, as compared to $25.745 million for the same period of the prior year. The decrease in electronics manufacturing service revenue was primarily due to a decrease in sales and exchange rates between British Pound to US dollar.

For the six months ended 30 June 2017, the Company's cultural industrial operations generated no revenues. All film project costs were recorded in current assets in the Group's consolidated financial statements. Those film project costs will be recognized with the theatrical distribution of motion pictures upon exhibition.

As mentioned above, during the reporting period, the Company contracted to dispose certain fixed assets for RMB50 million in cash, by which the Company would realize a pre-taxation gain of approximately RMB4,025,949.

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 2017, the Group's cash and cash equivalents were $9.986 million as compared to $14.117 million as at 31 December 2016. For the six months ended 30 June 2017, the Group's operating activities used net cash of $19.131 million. By comparison, net cash used in operating activities was $14.560 million for the same period of 2016.

During the six months ended 30 June 2017, the Group's investing activities generated net cash of $4,820 million, primarily for the sale of property and equipment and available-for-sale investment. By comparison, net cash used by the Group's investing activities in 2016 was $1.242 million. For the six months ended 30 June 2017, the Group's financing activities generated net cash of $10.264 million, primarily from issuance of convertible debentures of the Company. By comparison, net cash provided in financing activities was $13.476 million for the same period of 2016.

As at 30 June 2017, the Group's gearing ratio, calculated as the aggregate of bank overdraft and finance lease divided by the amount of total equity, was 0.09% (2016: 0.80%).

At 30 June 2017, the Group had no contingent liabilities.

Convertible Debentures

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

During the six months ended 30 June 2017, the Company issued debentures for approximately US$10,887,000 (HK$84.920 million), which were fully converted to 679,360,000 ordinary shares of the Company (2016: US$14,372,000 and 896,800,000 shares, respectively).

As at 30 June 2017, 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.

Inventories

At 30 June 2017, the Company's inventories were $338.450 million, which mainly consist of semi-processed mixed grade graphite. As discussed above in the sections of "Business Review", the Company plans to focus on graphite business as the driving force for its future profit growth. The Company's semi- processed mixed grade graphite inventory was one of steps to make its business growing stronger.

Intangible Assets

At 30 June 2017, the Company had $3,991,000 of intangible assets, which consist of the fair value of customer contract acquired through acquisition of subsidiary amounting to $596,000, $708,000 of goodwill, and film right of $2,687,000.

Indebtedness

As at 30 June 2017:

- The Company did not have any bank borrowings or committed bank facilities;
- The Company did not have any borrowing from any related parties; and
- The Company did not have any bank overdrafts.

Since 30 June 2017, being the latest date of our reported financial statements, there has been no material adverse change to our indebtedness.

Off Balance Sheet Arrangements

As at 30 June 2017, the Group had no off balance sheet arrangements.

Principal Risks and Uncertainties

One of the Group's businesses is development and production of crude oil in Indonesia under a 20-year production contract with Indonesian government. In addition to the low price of crude oil on the world market, the production contract will expire in 2019. There is no guarantee that the contract will be renewed. Accordingly, the Company has been actively take steps to seek for new business revenue resources.

Employees and Remuneration Policies

As at 30 June 2017, 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. No share option scheme is in operation.

Foreign Exchange Exposure

The Company's principal operating subsidiaries earn revenues and incur costs in US dollars, Chinese Renminbi and British pounds, respectively. For the six months period ended 30 June 2017, the Group did not engage in any hedging activities. The Company will continue to monitor the risk of foreign exchange fluctuation on the Company's results of operations, financial conditions and cash flows.

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 months period ended 30 June 2017, 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 2017 (2016: 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.

Events after the reporting period

There is no subsequent event after the reporting period which has material impact to the consolidated financial statements of the Group.

Subsequent to the end of the reporting period, 75,040,000 ordinary shares were issued by exercising the convertible debenture for an aggregate consideration of HK$9,380,000.

ADDITIONAL INFORMATION

Compliance with the Code of Corporate Governance Practices

The Company has complied with all code provisions of 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 period covered by the interim report, except for the deviations as stated below:

Code provision A.2.1: The roles of chairman and chief executive should be separate

Code provision A.2.1 provides that the roles of chairman and chief executive should be separate and should not be performed by the same person. The Company deviates from this provision because Mr. Feng Zhong Yun performs both the roles of chairman and chief executive since Mr. Guan Xinmin, the former Chairman of the Company, was passed away in May 2014. The Board believes that the current arrangement would provide the Company with strong and consistent leadership and facilitates the implementation and execution of the Company's business strategies. The Board shall nevertheless review the structure from time to time in light of the prevailing circumstances.

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

Under the code provision A.4.1 of the CG 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 CG 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 2 June 2017, Mr. Feng Zhong Yun was re-elected as executive director; and Mr. Ng Lai Po and Mr. Chai Woon Chew were re-elected as an independent non-executive directors, respectively.

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

Mr. Lu Ren Jie and Mr. Chai Woon Chew, being non-executive directors, were not able to attend the annual general meeting of the Company held on 2 June 2017 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 months period ended 30 June 2017.

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

During the six months ended 30 June 2017, 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 2017, none of the Directors and chief 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 2017, 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 2017, 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 2017.

Board of Directors

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

Publication of Results

This Interim Report will also be published 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, 31 August 2017