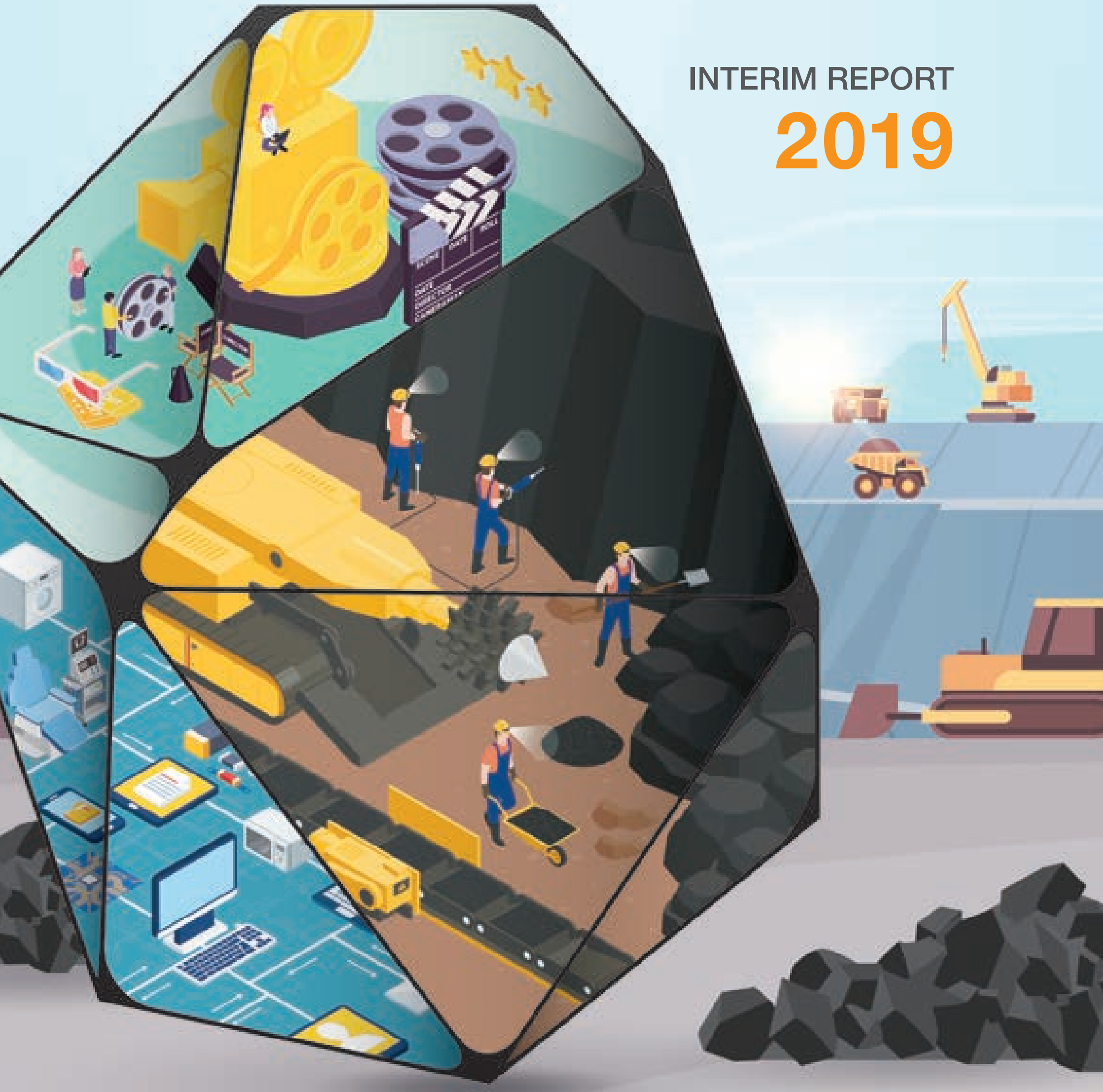
南海石油

South Sea Petroleum Holdings Limited

Stock Code : 76

INTERIM REPORT 2019



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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 interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2019 together with the comparative figures for the previous period as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

		Six months ended	
		30 June	30 June
		2019	2018
		Unaudited	Unaudited
	Notes	***US$'000***	*US$'000*
Continuing operations			
REVENUE	*3*	**42,428**	61,600
Cost of sales		**(35,133)**	(50,107)
		7,295	11,493
Other income		**2,200**	763
General and administrative expenses		**(8,909)**	(6,073)
Fair value gain on financial assets at fair value through profit or loss		**54**	–
PROFIT FROM OPERATING ACTIVITIES	*4*	**640**	6,183
Finance costs		**(26)**	(13)
PROFIT BEFORE TAX		**614**	6,170
Income tax expense	*5*	**(419)**	80
PROFIT FROM CONTINUING OPERATIONS		**195**	6,250

	Notes	Six months ended 30 June 2019 Unaudited *US$'000*	30 June 2018 Unaudited *US$'000*
DISCONTINUED OPERATION	*6*		
Loss from discontinued operation		–	(388)
Gain on disposal of discontinued operation		–	9,709
Profit for the period from discontinued operation		–	9,321
PROFIT FOR THE PERIOD		**195**	15,571
Attributable to:			
Owners of the Company			
– Continuing operations		**195**	6,250
– Discontinued operation		–	9,321
		195	15,571
Non-controlling interests			
– Discontinued operation		–	–
		195	15,571
EARNINGS PER SHARE – BASIC AND DILUTED *(US Cents)*	*7*		
– From continuing and discontinued operations		**0.004**	0.31
– From continuing operations		**0.004**	0.12
– From discontinued operation		–	0.19

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Six months ended	
	30 June	30 June
	2019	2018
	Unaudited	Unaudited
	US$'000	*US$'000*
PROFIT FOR THE PERIOD	**195**	15,571
OTHER COMPREHENSIVE INCOME		
– Item that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	**1,461**	8
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**1,656**	15,579
Attributable to:		
Owners of the Company		
– Continuing operations	**1,656**	6,258
– Discontinued operation	**–**	9,321
Total comprehensive income for the period	**1,656**	15,579

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	Notes	30 June 2019 Unaudited US$'000	31 December 2018 Audited US$'000
NON-CURRENT ASSETS			
Fixed assets	8	**30,376**	29,404
Right-of-use assets		**347**	–
Prepaid lease payments		**2,492**	2,501
Intangible assets		**5,321**	5,323
Non-current loan receivable	11	**3,346**	3,587
Interest in a joint venture		**–**	–
Deferred tax assets		**–**	611
		41,882	41,426
CURRENT ASSETS			
Inventories		**326,296**	324,062
Financial assets at fair value through profit or loss	9	**598**	310
Trade receivables	10	**26,191**	23,460
Other receivables, deposits and prepayments	11	**17,788**	21,864
Amount due from a joint venture		**2,167**	965
Cash and bank balances		**6,284**	14,369
		379,324	385,030
CURRENT LIABILITIES			
Trade payables	12	**7,169**	15,837
Other payables and accruals	13	**23,299**	24,028
Obligations under finance leases		**185**	33
Tax payable		**15,552**	17,313
Contract liabilities		**1,761**	2,339
Lease liabilities		**347**	–
		48,313	59,550
NET CURRENT ASSETS		**331,011**	325,480

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	Notes	30 June 2019 Unaudited US$'000	31 December 2018 Audited US$'000
TOTAL ASSETS LESS CURRENT LIABILITIES		**372,893**	366,906
NON-CURRENT LIABILITIES			
Obligations under finance leases		**677**	–
Deferred tax liabilities		**77**	77
		754	77
NET ASSETS		**372,139**	366,829
CAPITAL AND RESERVES			
Share capital	*15*	**594,084**	590,430
Reserves		**(221,951)**	(223,607)
Total equity attributable to owners of the Company		**372,133**	366,823
Non-controlling interests		**6**	6
TOTAL EQUITY		**372,139**	366,829

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Six months ended **30 June 2019** **Unaudited** ***US$'000***	 30 June 2018 Unaudited *US$'000*
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(11,604)**	75
NET CASH USED IN INVESTING ACTIVITIES	**(1,802)**	(2,278)
CASH FLOW FROM FINANCING ACTIVITIES	**4,483**	366
DECREASE IN CASH AND CASH EQUIVALENTS	**(8,923)**	(1,837)
Cash and cash equivalents at the beginning of period	**14,369**	10,165
Effect of exchange rate	**838**	475
CASH AND CASH EQUIVALENTS AT THE END OF PERIOD	**6,284**	8,803

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2019

(Expressed in US$'000)

	Attributable to owners of the Company						
	Share capital	**Translation reserve**	**Revaluation reserve**	**Accumulated losses**	**Total**	**Non-controlling interests**	**Total equity**
At 1.1.2019	**590,430**	**(2,644)**	**4,889**	**(225,852)**	**366,823**	**6**	**366,829**
Total comprehensive income for the period	**–**	**1,461**	**–**	**195**	**1,656**	**–**	**1,656**
Issue of shares upon conversion of convertible debentures	**3,654**	**–**	**–**	**–**	**3,654**	**–**	**3,654**
At 30.6.2019	**594,084**	**(1,183)**	**4,889**	**(225,657)**	**372,133**	**6**	**372,139**

	Attributable to owners of the Company						
	Share capital	Translation reserve	Revaluation reserve	Accumulated losses	Total	Non-controlling interests	Total equity
At 1.1.2018	590,430	1,631	4,639	(232,761)	363,939	6	363,945
Total comprehensive income for the period	–	116	(108)	15,571	15,579	–	15,579
At 30.6.2018	590,430	1,747	4,531	(217,190)	379,518	6	379,524

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of Preparation

The condensed consolidated financial statements for the six months ended 30 June 2019 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") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The condensed consolidated financial statements for the six months ended 30 June 2019 do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2018.

2. Changes in Significant Accounting Policies

The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's consolidated financial statements for the year ended 31 December 2018, except for the adoption of the following revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA for the first time for the current period's condensed consolidated financial statements:

HKAS 19 (Amendments)	*Plan Amendment, Curtailment or Settlement*
HKAS 28 (Amendments)	*Long-term Interests in Associates and Joint Ventures*
HKFRSs (Amendments)	*Annual Improvements to HKFRSs 2015-2017 Cycle*
HKFRS 9 (Amendments)	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

Impacts and changes in accounting policies of application of HKFRS 16 *Leases*

The Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustment arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 January 2019.

(a) Adjustment recognised on adoption of HKFRS 16

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principle of HKAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weight average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.5%.

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

– the use of a single discount rate to a portfolio of leases with reasonably similar characteristics;

– reliance on previous assessments on whether leases are onerous;

– the exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application; and

– the use of hindsight in determining the lease terms where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date of the Group relied on its assessment made applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*.

As a lessee, the Group's leases are mainly rentals of offices. The right-of-use assets were measured at the amount equal to the lease liability and there were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application. The following table shows the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included.

Condensed consolidated statement of financial position (extract)

	31 December 2018 As originally presented *US$'000*	Impact of HKFRS 16 *US$'000*	**1 January 2019 Restated** ***US$'000***
Non-current assets			
Right-of-use assets	–	475	**475**
Current liabilities			
Lease liabilities	–	475	**475**

(b) The Group's leasing activities and how these accounted for

The Group's leases are mainly rentals of offices. Rental contracts are typically made for fixed periods of 1 to 2 years. Lease terms are negotiated on an individual basis and contains a wide range of different terms and conditions. The lease arrangements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the 2018 financial year, the leases of office were classified as operating leases and the payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as right-of-use assets and a corresponding liability at the date at which the leased assets is available for the use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter period of the asset's use life and the lease term on a straight-line-basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments: fixed payments (including in-substance fixed payments) and payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

– the amount of the initial measurement of lease liability

– any lease payment made at or before the commencement date less any lease incentives received

– any initial direct costs, and

– restoration cost

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

3. Revenue and segment information

Revenue represents revenue from manufacture and sales of electronic products, and sales of mineral products. The segment of oil and the lease of production assets were classified as discontinued operation.

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

Continuing operations

For the six months ended 30 June 2019
(Expressed in US$'000)

	Sale of minerals	Manufacture and sales of electronic products	Trading securities	Film production	Develop and sales of mobile phones	Others	Total
Revenue from external customers	**9,508**	**32,713**	**–**	**–**	**–**	**207**	**42,428**
Segment results	**(19)**	**2,241**	**(1,528)**	**(25)**	**–**	**2**	**671**
Unallocated income and expenses							**(31)**
Profit from operating activities							**640**
Finance costs	**(26)**	**–**	**–**	**–**	**–**	**–**	**(26)**
Income tax expense	**–**	**(419)**	**–**	**–**	**–**	**–**	**(419)**
Profit for the period							**195**

For the six months ended 30 June 2018
(Expressed in US$'000)

	Sale of minerals	Manufacture and sales of electronic products	Trading securities	Film production	Develop and sales of mobile phones	Others	Total
Revenue from external customers	33,206	28,103	–	–	–	291	61,600
Segment results	4,274	3,207	(53)	–	(506)	–	6,922
Unallocated income and expenses							(739)
Profit from operating activities							6,183
Finance costs	–	(13)	–	–	–	–	(13)
Income tax expense	(28)	108	–	–	–	–	80
Profit for the period							6,250

4. Profit from operating activities

Profit from operating activities is arrived at after charging:

	Six months ended 30 June 2019 Unaudited *US$'000*	30 June 2018 Unaudited *US$'000*
Depreciation on fixed assets	**1,222**	692
Impairment of trade receivables	**82**	–

5. Income tax expense

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 or tax losses brought forward.

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

6. Discontinued operation

On 5 March 2018, the Group entered into an agreement to dispose the entire interest of its subsidiary, Kalrez Petroleum (Seram) Limited, at a consideration of US$600,000. The results of the oil business segment operated by this subsidiary have been presented as discontinued operation for the six months ended 30 June 2018.

(a) The results of the discontinued operation were as follows:

	Six months ended 30 June 2018 Unaudited *US$'000*
Revenue	–
General and administration expenses	(216)
Drilling and operating expenses	(172)
Loss for the period from discontinued operation	(388)
Gain on disposal of a subsidiary	9,709
	9,321

(b) Disposal of subsidiary during the six months ended 30 June 2018:

	US$'000
Cash and bank balances	77
Fixed assets	72
Inventories	444
Other receivables, deposits and prepayments	812
Trade payables	(795)
Bank overdraft	(315)
Other payable and accruals	(6,298)
Provision	(3,106)
Net liabilities disposed of	(9,109)
Cash consideration	600
Less: Net liabilities disposed of	9,109
Gain on disposal	9,709

7. Earnings per share

The calculation of basic and diluted earnings per share is based on the net profit attributable to the owners of the Company for the six months ended 30 June 2019 of US$195,000 (2018: US$15,571,000), and 5,313,206,316 (2018: 4,982,709,078) weighted average ordinary shares in issue during the period.

8. Fixed assets

During the six months ended 30 June 2019 the Group acquired approximately US$1,575,000 (2018: US$1,597,000) of fixed assets and had no disposal of fixed assets.

9. Financial assets at fair value through profit or loss

	30 June 2019 Unaudited *US$'000*	31 December 2018 Audited *US$'000*
Hong Kong listed shares	**598**	310

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

10. Trade receivables

The ageing analysis of the trade receivables is as follows:

	30 June 2019 Unaudited *US$'000*	31 December 2018 Audited *US$'000*
0-30 days	**12,208**	8,981
31-60 days	**5,487**	8,963
61-90 days	**3,851**	2,805
Over 90 days	**4,645**	2,711
	26,191	23,460

11. Other receivables, deposits and prepayments

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

	30 June 2019 Unaudited *US$'000*	31 December 2018 Audited *US$'000*
Purchase deposits	**4,474**	12,166
Other deposits and prepayments	**11,007**	6,881
Other receivables	**5,653**	6,404
	21,134	25,451
Categorised as:		
Current portion	**17,788**	21,864
Non-current portion	**3,346**	3,587
	21,134	25,451

As at 30 June 2019, other receivables under non-current portion included a loan with a principal amount of US$3,600,000 (31 December 2018: US$3,600,000) which was secured interest bearing at 5% per annum and repayable within 2 years. The loan was not past due nor impaired as at 30 June 2019.

12. Trade payables

The ageing analysis of the trade payables is as follows:

	30 June 2019 Unaudited *US$'000*	31 December 2018 Audited *US$'000*
0-30 days	**2,722**	3,534
31-60 days	**2,465**	4,472
61-90 days	**1,285**	3,708
Over 90 days	**697**	4,123
	7,169	15,837

13. Other payables and accruals

The analysis of other payables and accruals is as follows:

	30 June 2019 Unaudited *US$'000*	31 December 2018 Audited *US$'000*
Other payables	**18,290**	16,968
Accruals	**4,047**	4,388
Other tax payable	**962**	2,672
	23,299	24,028

14. Dividend

The Directors have decided not to declare any interim dividend for the six months ended 30 June 2019 (2018: Nil).

15. Share capital

	30 June 2019 Unaudited *US$'000*	31 December 2018 Audited *US$'000*
Issued and fully paid: 5,482,709,078 ordinary shares (31.12.2018: 4,982,709,078 ordinary shares)	**594,084**	590,430

During the six months ended 30 June 2019, 500,000,000 ordinary shares were issued by exercising the convertible debentures for an aggregate principal amount of HK$30,000,000.

16. Commitment

Operating lease commitments outstanding at 30 June 2019 not provided for in the financial statements were as follows:

	30 June 2019 Unaudited	31 December 2018 Audited
	US$'000	*US$'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	**155**	155
In the second to fifth years inclusive	**503**	582
	658	737
(b) Total future minimum lease payments payable under non-cancellable operating leases		
(i) On land and buildings expiring:		
Within one year	**170**	308
In the second to fifth years inclusive	**177**	167
	347	475

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 2019 Total Unaudited**
	US$'000	***US$'000***	***US$'000***	***US$'000***
Financial assets at fair value through profit or loss	**598**	**–**	**–**	**598**

	Level 1	Level 2	Level 3	31 December 2018 Total Audited
	US$'000	*US$'000*	*US$'000*	*US$'000*
Financial assets at fair value through profit or loss	310	–	–	310

18. Related party transactions

During the period, the remuneration of Directors and other member of key management was as follows:

	Six months ended 30 June 2019 Unaudited	30 June 2018 Unaudited
	US$'000	*US$'000*
Salaries, allowances and benefits in kind	**270**	372

19. Approval of the Condensed Consolidated Interim Financial Statements

The Board of Directors of the Company approved the condensed consolidated interim financial statements on 30 August 2019.

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 2019, the revenue of the Group was $42.4 million, a decrease of $19.2 million, or 31.2%, as compared to $61.6 million for the same period of prior year. The net profit attributable to shareholders was $195,000, as compared to net profit of $15.6 million, for the same period of 2018. As at 30 June 2019, the total assets of the Group were $421.2 million, as compared to $426.5 million at 31 December 2018, and the net assets of the Group were $372.1 million at 30 June 2019, as compared to $366.8 million at 31 December 2018.

Business Review

After disposal of its Indonesia based crude oil operations in March, 2018 (as discussed below), the Group's businesses consist of (i) production and trading of minerals, primarily graphite products, worldwide, (ii) manufacture and sales of electronic products in the United Kingdom, and (iii) multi-media development and motion picture production.

The Company has been engaged in the production and sale of graphite products worldwide for more than 10 years. The graphite business operations are considered by the Company as its main path for profit growth. The customers include steel mills, lithium battery companies, refractory material companies and users of graphite products in China and around the world.

The Company's electronic manufacturing businesses are operated by its wholly-owned subsidiary Axiom Manufacturing Services Limited in the U.K ("Axiom"). Axiom is engaged in the business of manufacture and sales of electronic products and its customers are mainly located in the UK.

Through its wholly-owned subsidiary Unicorn Arts Limited ("Unicorn"), the Company's cultural and multi-media business operations include motion picture production, television and online programming, and introduction of valuable foreign movies to Mainland China, etc. The production of the Company's first movie, "Pegasus", a black-humor feature film with an anti-war and anti-nuclear weapons theme, has been completed.

Graphite Production

The Company has been engaged in graphite business for more than 10 years. Graphite is widely used in aerospace, steel, automobile, electric vehicle, battery and lubricant industries. On the one hand, as a nonrenewable mineral resource, graphite deposits in the world are limited and diminishing. On the other hand, Since Andre Geim and Konstantin Novoselov received their Nobel Prize in 2010 for their discovery of the unique properties of graphene, the demand for graphite as a strategic material has been increased. Fourteen materials including graphite and rare earth elements are viewed as key materials.

As its main development focus for profit growth, in 2016 the Company seized an opportunity of purchasing a large amount of semi-processed mixed-grade graphite as strategic reserve, just like land reserves for real estate developers. The purchased graphite reserve will be mainly used as the Company's raw material for high-grade graphite products, which laid the foundation for the Company to further grow its graphite business. In 2017, the Company built graphite production lines and in Madagascar, Africa. In January 2018, the newly built graphite production lines started to produce graphite products.

In order to grow and gain more profit, in addition to expand its existing graphite production facilities, the Company also planned to build additional graphite production lines in Madagascar. To finance the new graphite production lines, the Company decided to issue HK$600 million nil interest 10-year convertible debentures, which have been approved by the shareholders of the Company at its extraordinary general meeting held on 9 November 2018.

The Company appointed an independent professional valuer to conduct a valuation on the net realizable market value of the Inventory as at 31 December 2018. Below is the summary of the valuation.

Name of valuer Roma Oil and Mining Associates Limited ("Roma")

Basis and assumptions

- The standard as set forth in Hong Kong Accounting Standard 2 – Inventories
- The semi-processed mixed grade graphite is a second-grade product but with market price tied to those of top-grade graphite
- Market historical data and future price trend
- Absence of any restriction on the sale of the Marovintsy graphite inventory (the "Inventory") by relevant government authorities
- Roma's independent market analyses and evaluation

The total Inventory value is calculated based on

(1) Net realisable price per tonne of Inventory
(2) Volume of the Inventory
(3) Average density of the Inventory
(4) The Inventory derived from stocktake

Valuation method adopted The Market Approach

The valuation of inventory performed by Roma in consideration of the valuation of inventory is reviewed by BDO and its expert as to the appropriateness and reasonableness of the methodology, assumptions and basis for the purpose of inventory impairment assessment. Accordingly no impairment loss on Madagascar inventory was recognised in the Group's consolidated financial statements for the year ended 31 December 2018.

New High-Tech Joint Venture

In January 2018, Cityhill Limited, a wholly-owned subsidiary of the Company, entered into an agreement with a US company, which is listed on the OTC markets in the United States, to form a joint venture company. The name of the joint venture company is Gold Gold Gold Limited ("3G"), in which each party holds 50% of equity interest. The Group hopes that 3G will become another new venture with profit growth potential.

3G provides physical gold purchase, safekeeping, circulation and liquidation services to customers worldwide. The US company will help to develop North American and European markets, while Cityhill will help to develop Asian markets.

The main business of 3G is to accept purchase/sales orders from customers all over the world. Customers can purchase or sell physical gold at market prices. Customers can choose to take possession of the gold, or deposit the gold in exchange for electronic receipts of gold. Customers can tender their electronic receipts to withdraw gold or sell gold at market price at any time.

Film Production

The Company's cultural and multi-media business operations include motion picture production, television and online programming, and introduction of valuable foreign movies to Mainland China, etc. The production of the Company's first movie, "Pegasus", a black-humor feature film with an anti-war and anti-nuclear weapons theme, has been completed.

For the years ended 31 December 2017 and 2018, the Group appointed an independent professional valuer to conduct valuations on the recoverable amount of the film in consideration of the different scenarios related to the approval status in the PRC.

Below is the summary of the valuations.

	As at 31.12.2017	**As at 31.12.2018**
Name of valuer	BMI Appraisal Limited ("BMI")	BMI Appraisal Limited
Assumptions	• There will be no material change in political, legal, fiscal, technological, economic, market conditions, laws, regulations, market return, market risk, interest rates, exchange rates. • The supply and demand, market prices and the relevant costs, of Pegasus will not differ materially from those of present or expected; • Pegasus are marketable and liquid. Market data, industrial information and statistical figures obtained from publicly available sources are true and accurate. • Pegasus has acquired, or will acquire, adequate financial capital for the investments in projected capital expenditure and working capital. • The senior management of Pegasus has sufficient knowledge and experience, adopted reasonable and appropriate contingency measures against any human disruption and natural disaster.	
Basis *(Note)*	Expected to be released and released globally by the end of 2018 Base on the same categories box office released in 2016 & 2017	Expected to be released with/without China in two scenario in 2020 Base on the same categories box office released in 2017 & 2018
Valuation method adopted	Discounted cash flow method	Discounted cash flow method
Discount rate	30.5%	21.3%

Note: As at 31 December 2017, the management of the Company expected to submit the film release application and further obtain the approval to release the film by the end of 2018. However, the Company did not obtain the approval as at 31 December 2018 and up to the date of this report. The management cannot be sure the approval can be obtained in 2019. Hence, the management expects the film can be released in 2020 which is the earliest possible release date under the current status.

Disposal of Crude Oil Production Subsidiary

Since May 2000, through its wholly-owned subsidiary Kalrez Petroleum (Seram) Limited, the Company had been engaged in the operation of the Bula oilfield in Indonesia pursuant to the Production Sharing Contract ("Bula PSC") entered into with BPMIGAS, Department of Petroleum of Indonesia. The Bula PSC will expire in the end of 2019.

For the past few years, due to low oil price and ageing oilfields, the performance of Kalrez has negatively affected the Group's results of operations. As of 31 December 2017 and for the year ended 31 December 2017, both Kalrez's profit and net assets were negative, i.e. -$1,500,000 and -$5,150,000, respectively. Besides its oil business and assets in Indonesia, Kalrez did not have any other business or assets. When the Bula PSC expires in the end of 2019, all Kalrez's assets will belong to the Indonesian government pursuant to the Bula PSC. In addition, Kalrez will be liable for the severance payment to its employees and the plug and abandon liabilities. The Company believed that it was in the best interest of all shareholders of the Company to sell Kalrez to end continuing losses.

In March 2018, Global Select Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with PT Hana Mandiri Global, an energy investment company in Indonesia, whereby PT Hana Mandiri Global agreed to purchase from Global Select 100% of equity interest in its wholly-owned subsidiary Kalrez Petroleum (Seram) Limited ("Kalrez") for $600,000.

The disposal was completed on 8 March 2018.

Results of Operations

Continuing Operations

For the six months ended 30 June 2019, the Group's turnover was $42.4 million, a decrease of $19.2 million, or 31.2%, as compared to $61.6 million for the same period of last year. For the six months ended 30 June 2019, the Group's turnover of graphite operation was $9.5 million, a decrease of 71.4% as compared to $33.2 million for the same period in 2018.

For the six months ended 30 June 2019, the turnover of the Group's electronics manufacturing service was $32.7 million, representing an increase of $4.6 million, or 16.4%, as compared to $28.1 million for the same period of the prior year. The increase in electronics manufacturing service revenue was primarily due to an increase in sales volume.

For the period under review, the Company's film production segment operations generated no revenues. All capitalised film project costs were recorded as non-current assets in the Group's consolidated financial statements.

Liquidity and Financial Resources

As at 30 June 2019, the Group's current assets were $379.3 million (31 December 2018: $385.0 million), of which $6.3 million (31 December 2018: $14.4 million) were bank balances and cash on hand. As at 30 June 2019, the net asset of the Group amounted to $372.1 million, representing an increase of approximately 1.4% as compared to $366.8 million at 31 December 2018.

As at 30 June 2019, the share capital of the Company was $594.1 million (31 December 2018: $590.4 million). As at 30 June 2019, the Group had total current liabilities of $48.0 million (31 December 2018: $59.6 million), mainly comprising trade and other payables and tax payable. As at 30 June 2019, the Group's gearing ratio, calculated as the aggregate of finance lease less cash divided by the amount of total equity, was nil (2018: Nil).

As at 30 June 2019, the Group had no contingent liabilities. The Group believes that its cash balance and the cash generated from operations are adequate to meet its operating expenses and capital expenditure for the next twelve months. However, the Group's continuing operations 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.

Capital Structure

There has been no change in capital structure of the Company for the six months 30 June 2019. The capital of the Company comprises ordinary shares and reserves.

Share Capital

As at 30 June 2019, the Company's issued share capital was US$594,084,000 and the number of its issued ordinary share was 5,482,709,078.

During the six months ended 30 June 2019, 500,000,000 ordinary shares were issued by exercising the convertible debentures for an aggregate principal amount of HK$30,000,000.

Commitments

As at 30 June 2019, the Group's operating lease payable commitments was approximately $0.3 million (31 December 2018: $0.5 million).

As at 30 June 2019, there were no capital commitments to the Group related to the purchase of fixed assets (31 December 2018: Nil).

Employees and Remuneration Policies

As at 30 June 2019, the Group had approximately 348 employees in 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 ended 30 June 2019, the Group did not engaged 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.

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 impacts on the consolidated financial statements of the Group.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company has maintained at all times during the year sufficient public float as prescribed by the Listing Rules.

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 31 May 2018, Ms. Zhang Xue was re-elected as executive Director; and Mr. Han Zhi Jun and Mr. Lu Ren Jie were re-elected as an independent non-executive Directors, respectively.

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 2019.

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

During the six months ended 30 June 2019, 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 2019, 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 2019, 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

As at 30 June 2019, the persons or corporations (not being a Director or chief executive of the Company) who had an interest or short position in the shares which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO were as follows:

Name	Capacity/Nature of Interest	Number of Shares	Approximate Percentage of Shareholding Interest*
Zhao Jie	Beneficial Owner	1,125,000,000	20.52%

* *Based on a total of 5,482,709,078 issued shares of the Company as at 30 June 2019.*

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 consolidated financial statements for the six months ended 30 June 2019.

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

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 2019.

On behalf of the Board

Feng Zhong Yun
Managing Director

Hong Kong, 30 August 2019