

SSP 南海石油

South Sea Petroleum Holdings Limited

Stock Code : 76



INTERIM REPORT 2012

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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 2012 of the Company and its subsidiaries (the "Group"), the unaudited condensed consolidated income statement, the unaudited condensed consolidated cash flow statement and the unaudited consolidated statement of changes in equity for the six months ended 30 June 2012 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Six months ended	
		30 June 2012	30 June 2011
	<i>Notes</i>	Unaudited	Unaudited
		US\$'000	US\$'000
TURNOVER	3	40,349	32,152
Cost of sales		(26,812)	(18,634)
		13,537	13,518
Other income		3,288	930
Net gain in fair value of financial assets held for trading		31,532	44,648
General and administrative expenses		(11,720)	(12,346)
Drilling and operating expenses		(5,877)	(5,835)
Other taxes		(208)	(248)
PROFIT FROM OPERATING ACTIVITIES	4	30,552	40,667
Finance costs		(428)	(353)
PROFIT BEFORE TAX		30,124	40,314
Income tax	5	(804)	(225)
PROFIT FOR THE PERIOD		29,320	40,089
Attributable to:			
Equity shareholders of the Company		28,917	40,040
Minority interests		403	49
		29,320	40,089
EARNINGS PER SHARE (US Cents)	6		
– Basic		2.05	14.72
– Diluted		2.01	14.69

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended	
	30 June 2012	30 June 2011
	Unaudited	Unaudited
	US\$'000	US\$'000
PROFIT FOR THE PERIOD	29,320	40,089
OTHER COMPREHENSIVE INCOME		
Exchange differences	(1,336)	597
Revaluation of land and buildings	—	317
	<u> </u>	<u> </u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>27,984</u>	<u>41,003</u>
Attributable to:		
Equity shareholders of the Company	27,793	40,871
Non-controlling interests	191	132
	<u> </u>	<u> </u>
	<u>27,984</u>	<u>41,003</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		30 June 2012 Unaudited US\$'000	31 December 2011 Audited US\$'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Fixed assets	7	31,844	27,388
Prepaid lease payments		6,349	3,033
Goodwill		240	–
Deferred tax assets		1,127	1,114
		39,560	31,535
CURRENT ASSETS			
Cash and bank balances		60,552	33,122
Financial assets at fair value held for trading	8	86,371	58,525
Trade and notes receivables	9	15,179	26,771
Other loans receivable		–	2,700
Inventories		18,153	14,857
Prepayments, deposits and other receivables		91,635	77,512
		271,890	213,487
CURRENT LIABILITIES			
Trade payables	10	9,381	5,343
Other payables and accrued expenses		8,303	9,332
Bank loan on discounted debtors		–	1,314
Bank overdraft		2,803	–
Dividend payable		2,195	–
Finance leases – current portion		193	225
Taxation		1,526	4,291
		24,401	20,505
NET CURRENT ASSETS		247,489	192,982
TOTAL ASSETS LESS CURRENT LIABILITIES		287,049	224,517

		30 June 2012 Unaudited US\$'000	31 December 2011 Audited US\$'000
	<i>Notes</i>		
NON-CURRENT LIABILITIES			
Finance leases		42	109
Provisions		2,926	2,605
Convertible debentures	12	652	1,023
		<u>3,620</u>	<u>3,737</u>
NET ASSETS			
		<u>283,429</u>	<u>220,780</u>
CAPITAL AND RESERVES			
Share capital	13	2,316	602
Revaluation reserve		4,030	3,908
Special capital reserve		12,037	12,037
Share premium		412,267	380,711
Translation reserve		5,561	6,807
Accumulated losses		<u>(159,942)</u>	<u>(188,859)</u>
Total equity attributable to equity shareholders of the Company		<u>276,269</u>	<u>215,206</u>
Non-controlling interests		<u>7,160</u>	<u>5,574</u>
		<u>283,429</u>	<u>220,780</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

	Six months ended	
	30 June 2012	30 June 2011
	Unaudited	Unaudited
	US\$'000	US\$'000
NET CASH USED IN OPERATING ACTIVITIES	(5,059)	(25,910)
NET CASH USED IN INVESTING ACTIVITIES	(1,371)	(1,787)
CASH FLOW FROM FINANCING ACTIVITIES	32,523	24,898
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	26,093	(2,799)
Cash and cash equivalents at 1 January	33,122	21,591
Effect of exchange rate	(1,466)	330
CASH AND CASH EQUIVALENTS AT 30 JUNE	57,749	19,122
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	60,552	22,013
Bank overdraft	(2,803)	(2,891)
	57,749	19,122

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2012

(Expressed in US\$'000)

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

	Attributable to equity holders of the Company								Non- controlling interest	Total equity
	Share capital	Share premium	Convertible debenture equity reserve	Special capital reserve	Translation reserve	Revaluation reserve	Accumulated losses	Total		
At 1.1.2011	<u>131,667</u>	<u>198,851</u>	<u>1,478</u>	<u>12,037</u>	<u>5,899</u>	<u>3,710</u>	<u>(235,460)</u>	<u>118,182</u>	<u>3,154</u>	<u>121,336</u>
Total comprehensive income for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>498</u>	<u>333</u>	<u>40,040</u>	<u>40,871</u>	<u>132</u>	<u>41,003</u>
Issue of shares upon conversion of convertible debentures	<u>26,000</u>	<u>(1,291)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,709</u>	<u>-</u>	<u>24,709</u>
Convertible debentures - equity component	<u>-</u>	<u>-</u>	<u>(561)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(561)</u>	<u>-</u>	<u>(561)</u>
At 30.6.2011	<u>157,667</u>	<u>197,560</u>	<u>917</u>	<u>12,037</u>	<u>6,397</u>	<u>4,043</u>	<u>(195,420)</u>	<u>183,201</u>	<u>3,286</u>	<u>186,487</u>

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation and significant accounting policies

These unaudited consolidated interim financial statements of the Group ("Interim Accounts") have been prepared in accordance with Hong Kong Accounting Standard 34, "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies of these Interim Accounts are consistent with those used in the annual financial statements for the year ended 31 December 2011 which is applicable for the period ended 30 June 2012. Details of the accounting policy on discontinued operations are set out below.

2. Adoption of new or amended HKFRSs

There are no amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on the Group.

The following new standards and amendments to standards have been issued but are not effective for this interim report and have not been early adopted.

HKAS 1 (Amendment)	Presentation of Financial Statements ⁽¹⁾
HKFRS 10	Consolidated Financial Statements ⁽²⁾
HKAS 13	Fair Value Measurements ⁽²⁾
HKFRS 7 (Amendment)	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities ⁽²⁾
HKFRS 12	Disclosure of Interests in Other Entities ⁽²⁾
HKAS 32 (Amendment)	Financial Instruments: Presentation Offsetting Financial Assets and Financial Liabilities ⁽³⁾
HKFRS 9	Financial Instruments ⁽⁴⁾

(1) Effective for annual periods beginning on or after 1 July 2012

(2) Effective for annual periods beginning on or after 1 January 2013

(3) Effective for annual periods beginning on or after 1 January 2014

(4) Effective for annual periods beginning on or after 1 January 2015

3. Turnover and segment information

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

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

For the six months ended 30 June 2012

(Expressed in US\$'000)

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

For the six months ended 30 June 2011

	Oil	Sale of minerals	Contract electronic manufacturing	Trading securities	Others	Total
Revenue from external customers	<u>7,883</u>	<u>9,265</u>	<u>14,950</u>	<u>-</u>	<u>54</u>	<u>32,152</u>
Segment results	(1,330)	(91)	545	44,730	-	43,854
Unallocated income and expenses						<u>(3,187)</u>
Profit from operating activities						40,667
Finance costs			(22)		(331)	(353)
Taxation		(225)				<u>(225)</u>
Profit for the period						<u>40,089</u>

4. Profit from operating activities

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

	Six months ended	
	30 June 2012	30 June 2011
	Unaudited	Unaudited
	US\$'000	US\$'000
Depreciation on fixed assets	1,666	1,513
Net gain in fair value of financial assets held for trading		
– realized	1,044	731
– unrealised	(32,576)	(45,379)

5. Income tax

No provision for Hong Kong profits tax has been made as, in the opinion of the Company's directors, the Company did not have any estimated assessable profits.

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

6. Earnings per share

The calculation of basic earnings per share is based on the net profit attributable to equity shareholders for the period of US\$28,917,000 (2011: US\$40,040,000), and weighted average of 1,410,414,240 (2011: 272,024,352) ordinary shares in issue during the period.

The diluted earnings per share for the period is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential ordinary shares arising from the convertible debentures to 1,436,357,421; and the adjusted profit attributable to shareholders of the Company of US\$31,383,000, being the profit attributable to the shareholders of the Company of US\$28,906,000 adjusted to eliminate the interest expense of US\$11,000.

7. Fixed assets

During the six months ended 30 June 2012 the Group acquired approximately US\$2,015,000 (2011: US\$2,046,000) of fixed assets.

8. Financial assets at fair value held for trading

	30 June 2012	31 December 2011
	Unaudited	Audited
	US\$'000	US\$'000
Hong Kong listed shares	11,371	13,525
Shares traded on the OTC Bulletin Board in the United States	75,000	45,000
	86,371	58,525

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 receivables is as follows:

	30 June 2012 Unaudited US\$'000	31 December 2011 Audited US\$'000
0-30 days	7,931	8,921
31-60 days	3,620	11,827
61-90 days	1,717	3,244
Over 90 days	1,911	2,779
	15,179	26,771

Included in trade receivables an amount of US\$1,529,000 (31.12.2011: US\$1,148,000) which was due to non-controlling interest.

10. Trade payables

The ageing analysis of the trade payables is as follows:

	30 June 2012 Unaudited US\$'000	31 December 2011 Audited US\$'000
0-30 days	4,599	1,595
31-60 days	3,466	2,442
61-90 days	757	805
Over 90 days	559	501
	9,381	5,343

11. Dividend

The Directors of the Company have decided not to declare any interim dividend for the six months ended 30 June 2012 (2010: Nil).

Dividend paid to non-controlling interest represents dividend declared by subsidiary of the Company.

12. Convertible debentures

During the period, the Company issued the convertible debentures due August 2012 for approximately US\$33,936,000. Finder's fee of US\$7,235,000 was paid in advance to the debenture holders. Conversion right was exercised to convert US\$34,940,000 of the convertible debentures for 1,714,641,800 shares of US\$0.001 each.

13. Share capital

	30 June 2012 Unaudited <i>US\$'000</i>	31 December 2011 Audited <i>US\$'000</i>
Authorised: 500,000,000,000 ordinary shares of US\$0.001 each	<u>500,000</u>	<u>500,000</u>
Issued and fully paid: 2,316,176,530 shares of US\$0.001 each (31.12.2011: 601,534,730 ordinary shares of US\$0.001 each)	<u>2,316</u>	<u>602</u>

During the period, 1,714,641,800 ordinary shares of US\$0.001 each were issued by exercising the convertible debentures for an aggregate consideration of approximately US\$34,940,000.

14. Related party transactions

- i. During the period, the Group entered into the following transactions with related party:

	Six months ended 30 June 2012 Unaudited <i>US\$'000</i>	30 June 2011 Unaudited <i>US\$'000</i>
Sales to non-controlling interest	2,599	4,384
Purchases from non-controlling interest	<u>257</u>	<u>–</u>

- ii. During the period, the remuneration of directors and other member of key management was as follows:

	Six months ended 30 June 2012 Unaudited <i>US\$'000</i>	30 June 2011 Unaudited <i>US\$'000</i>
Salaries, allowances and benefits in kind	<u>1,496</u>	<u>1,431</u>

15. Acquisition of subsidiary

At 31 January 2012, the company subscribed 51% of shares in Luo Bei Xin Long Yuan Graphite Production Co. Limited at a consideration of USD4,042,000 by contributing USD1,506,000 in cash and USD2,536,000 in fixed assets. The Company is still awaiting for final approval from local authorities.

The fair value of net assets acquired is as followed:

	30 June 2012 Unaudited US\$'000
Construction in progress	15
Fixed assets	6,707
Prepaid lease payments	3,423
Cash and bank balances	501
Inventories	32
Prepayment, deposits and other receivables	4,744
Due from non-controlling interest	78
Trade payables	(47)
Other payables and accrued expenses	(252)
Due to intermediate holding company	(1,724)
Due to non-controlling interest	(6,022)
Non-controlling interest	(3,653)
	<hr/>
Net assets acquired	3,802
Goodwill	240
	<hr/>
	4,042
	<hr/>
Satisfied by:	
Cash	1,506
Fixed assets contribution	2,536
	<hr/>
	4,042
	<hr/>

16. Capital Commitment

Commitments outstanding at 30 June 2012 not provided for in the financial statements were as follows:

	30 June 2012 Unaudited US\$'000	31 December 2011 Audited US\$'000
Capital Commitments in respected of acquisition of fixed assets		
– Authorised but not contracted for	244	–
– Contracted but not provided for	–	40
	<hr/>	<hr/>

17. Approval of the Interim Accounts

The Board of Directors of the Company approved the Interim Accounts on 31 August 2012.

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 2012, the turnover of the Group was \$40.349 million, representing an increase of \$8.197 million, or 25.49%, as compared to \$32.152 million for the same period of prior year. The net profit attributable to shareholders was \$28.917 million, or 2.05 cents per share, as compared to net income of \$40.04 million, or 14.72 cents per share, for the same period of 2011. On the statement of financial position, at 30 June 2012 the total assets of the Group were \$311.450 million, as compared to \$245.022 million at 31 December 2011, and the net assets of the Group were \$283.429 million at 30 June 2012, as compared to \$220.780 million at 31 December 2011.

BUSINESS REVIEW

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

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

Through its majority owned subsidiary, South Sea Graphite (Luobei) Co., Limited ("SSG"), and wholly owned subsidiary, Liaoning Sinorth Resources Co., Limited, the Company is engaged in the business of production and sale of graphite products in Luobei, Heilongjiang Province of China, and in Liaoning Province respectively. On 12 July 2012, the Company acquired an additional 17% of SSG's equity interest. As a result, SSG became a wholly owned subsidiary of the Company.

Through its wholly owned subsidiary, Axiom Manufacturing Services Ltd. ("Axiom") in the United Kingdom, the Company provides electronics manufacturing services in the business-to-business or business-to-industry sectors and to original equipment manufacturers in the following market sectors:

- Medical devices
- Industrial control equipment
- Domestic appliances
- Computer and related products
- Testing and instrumentation products
- Ministry of Defense products

As a result of efficiently managing costs and assets, Axiom is able to offer its customers an outsourcing solution that represents a lower total cost of acquisition than that typically provided by the OEM's own manufacturing operation. OEMs contract with Axiom to build their products or to obtain services related to product development and prototyping, volume manufacturing or aftermarket support. In many cases 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 where Axiom purchases customer specific components from suppliers, assembles the components onto printed circuit boards, performs post production testing and provides customers with production process and test documentation. Axiom also provides manufacturing services on a consignment basis where materials are provided by the customers for Axiom to build into finished printed circuit boards or products. Axiom offers its customers flexible just-in-time delivery programs which allow product shipments to be closely coordinated with the customers' inventory requirements. Additionally, Axiom completes the assembly of final products for its customers by integrating the manufactured printed circuit boards into the customers' finished products. Most of Axiom's customers are located within the United Kingdom.

Prospects

The Company believes that mineral resources are strategically valuable and worth investment over the long term, and the Company deems it strategically important to procure a steady supply of graphite raw materials to ensure sustainable operation and growth of its graphite business. If financing is available on terms acceptable to the Company, the Company intends to acquire additional graphite mineral resources, increase oil production, and develop or acquire hi-technology to support and complement its existing electronics hardware business in the UK.

In addition, the Company, through its wholly-owned subsidiary Cityhill Ltd., established a global e-commerce platform, which will facilitate the trading of the Company's and its subsidiaries products, including graphite products, among buyers and sellers. The trading platform will also enhance high-tech contents in the Company's electronics products. The Company believes that these endeavors will enable it to strengthen earnings and profitability, and deliver more value to its shareholders.

Long-term supply of graphite ore at a reasonable price is critical to the development of graphite business. Based on such strategic consideration, the Company, through its subsidiary, entered into a ten-year long-term graphite ore supply agreement with a supplier recommended by the Company's convertible debenture investor, whereby over the next ten years the company will not only build an adequate graphite ore reserve for its own subsidiaries, but also sell graphite ore to other companies for a profit through its newly constructed online trading platform.

Results of Operations

For the six months ended 30 June 2012, the Group's turnover was \$40.349 million, an increase of \$8.197 million, or 25.49%, as compared to \$32.152 million for the same period of 2011. Specifically, for the six months ended 30 June 2012, the turnover of the Group's crude oil operation was \$6.613 million as compared to \$7.883 million for the same period of the previous year, representing a decrease of 16.12%. The decrease in oil revenue was primarily because some oil has not been shipped due to oil tank shipment schedule. For the same period, the Group's graphite operation generated revenues of \$12.239 million, or an increase of 32.10%, as compared to \$9.265 million for the six months ended 30 June 2011. During this period, the prices of graphite products were declining due to an unfavorable domestic and international economic conditions, the increase in the Group's graphite operation revenue was primarily because more graphite products were produced and sold. For the six months ended 30 June 2012, the turnover of the Group's electronics manufacturing service operation was \$21.494 million, representing an increase of \$6.544 million, or 43.78%, as compared to \$14.950 million for the same period of the prior year. The turnover increase in the Group's electronics manufacturing service operation was largely due to an increase in sales orders and new customers.

Liquidity and Capital Resources

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

At 30 June 2012, the Group's cash and cash equivalents were \$57.749 million as compared to \$33.122 million as at 31 December 2011. For the six months ended 30 June 2012, the Group's operating activities used net cash of \$5.059 million. By comparison, net cash used in operating activities was \$25.910 million for the same period of 2011.

During the same period, the Group's investing activities used net cash of \$1.371 million, primarily due to purchase of property and equipment. By comparison, net cash used by the Group's investing activities in 2011 was \$1.787 million. For the six months ended 30 June 2012, the Group's financing activities generated net cash of \$32.523 million, primarily from issuance of convertible debentures of the Company. By comparison, net cash provided in financing activities was \$24.898 million for the same period of 2011.

On 4 April 2011, the Company entered into a Subscription Agreement with a US based institutional investor for an aggregate of US\$250 million 3% interest convertible debentures due April 2021. The net proceeds were intended to be used as funding for potential acquisitions of graphite mineral resources and capital reserve to increase oil production in the Bula Oilfields, Indonesia, and to develop or acquire hi-technology to support and complement its existing electronics hardware business in the UK, thereby enhancing high-tech contents in its electronics products.

At 30 June 2012, the Group had no contingent liabilities. The Group believes that its cash balance and the cash generated from operations are adequate to meet its operating expenses and capital expenditure for the next twelve months. However, the Group's continuing operating and investing activities may require it to obtain additional sources of financing. In that case, the Group may seek financing from institutional investors, banks, or other sources of financing. There can be no assurance that any necessary additional financing will be available to the Group at that time.

OFF BALANCE SHEET ARRANGEMENTS

At 30 June 2012, the Group had no off balance sheet arrangements.

EMPLOYEES AND REMUNERATION POLICIES

At 30 June 2012, the Group had approximately 900 employees in Indonesia, the United Kingdom, China and Hong Kong. The Group believes that its relationship with its employees is satisfactory.

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

MATERIAL UNCERTAINTIES

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

FOREIGN EXCHANGE EXPOSURE

The Group's principal operating subsidiaries earn revenues and incur costs in US dollars, Chinese Renminbi and British pounds, respectively. During the six-month period under review, 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.

DIVIDENDS

The Directors have decided not to declare any interim dividend for the six months ended 30 June 2012 (2011: 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.

PURCHASE, SALE OR REDEMPTION OF SHARES

During the period under review, neither the Company, nor its subsidiaries, purchased, sold, or redeemed any of the Company's listed securities.

DIRECTOR'S AND CHIEF EXECUTIVES' INTERESTS IN SHARES

At 30 June 2012, none of the Directors or chief executives of the Company or any of their associates had any interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations as recorded in the registers maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance (Chapter 571, Laws of Hong Kong) (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

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

DIRECTORS' INTERESTS IN CONTRACTS

During the six months ended 30 June 2012, 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 year 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 2012, no person, other than a director or chief executive's interests which are disclosed in the section "Director's and Chief Executives' Interests in Shares" above, had registered an interest, short position, or lending power 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.

COMPLIANCE WITH THE CODE OF CORPORATE GOVERNANCE PRACTICES

The Company has complied with 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.

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

Changes in Directors' information since the date of the 2011 annual report of the Company, which are required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules, are set out below:

Mr. Guan Xinmin, Ms. Lee Sin Pyung, and Ms. Zhang Xue were re-elected as the Company's executive director, respectively, on the Company's Annual General Meeting held on 23 May 2012.

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

COMPLIANCE OF THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors by Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all directors of the Company have confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2012.

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 Interim Accounts for the six months ended 30 June 2012.

PUBLICATION OF INTERIM REPORT

This interim report will also 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://finance.thestandard.com.hk/en/comp_reports.asp?code=00076).

On behalf of the Board

Guan Xinmin

Chairman

Hong Kong, 31 August 2012