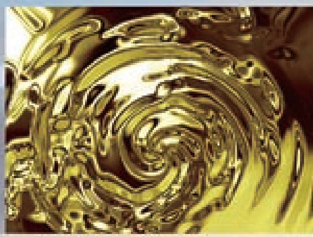
SSP 南海石油

# SOUTH SEA

## PETROLEUM HOLDINGS LIMITED

Stock Code : 76



# Interim Report 2009

# Contents



The Board of Directors ("the Board") of South Sea Petroleum Holdings Limited ("the Company") is pleased to announce the unaudited condensed consolidated balance sheet as at 30 June 2009 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 2009 as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

| | | Six months ended | |
|---|---|---|---|
| | | **30 June 2009** | 30 June 2008 |
| | | **unaudited** | unaudited |
| | *Notes* | ***US$'000*** | *US$'000* |
| **TURNOVER** | *3* | **16,694** | 33,622 |
| Cost of sales | | **(13,625)** | (18,725) |
| | | **3,069** | 14,897 |
| Other income | | **1,056** | 1,723 |
| General and administrative expenses | | **(8,617)** | (8,252) |
| Drilling expenses | | **(3,317)** | (6,154) |
| Impairment of oil properties | | **(43,557)** | – |
| Taxes other than income tax | | **(136)** | (1,729) |
| Net gain (loss) in fair value of financial assets held for trading | | **7,170** | (3,517) |
| **LOSS FROM OPERATING ACTIVITIES** | *4* | **(44,332)** | (3,032) |
| Finance costs | | **(261)** | (320) |
| **LOSS BEFORE TAX** | | **(44,593)** | (3,352) |
| Income tax | *5* | **–** | (57) |
| **LOSS FROM CONTINUING OPERATIONS** | | **(44,593)** | (3,409) |
| **DISCONTINUED OPERATIONS** | | | |
| Gain from discontinued operations | *6* | **–** | 1,723 |
| **LOSS FOR THE PERIOD** | | **(44,593)** | (1,686) |
| Attributable to: | | | |
| Equity shareholders of the Company | | **(44,448)** | (1,680) |
| Minority interests | | **(145)** | (6) |
| | | **(44,593)** | (1,686) |
| **EARNINGS (LOSS) PER SHARE – BASIC** *(US Cents)* | *7* | | |
| From continuing and discontinued operations | | **(0.405)** | (0.015) |
| From continuing operations | | **(0.405)** | (0.031) |
| From discontinued operations | | **–** | 0.016 |

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Six months ended | |
|---|---|---|
| | **30 June 2009** | 30 June 2008 |
| | **unaudited** | unaudited |
| | ***US$'000*** | *US$'000* |
| **LOSS FOR THE PERIOD** | **(44,593)** | (1,686) |
| **OTHER COMPREHENSIVE INCOME** | | |
| Exchange difference on translation of financial statements | **2,344** | 1,011 |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | **(42,249)** | (675) |
| Attributable to: | | |
| Equity shareholders of the Company | **(42,185)** | (908) |
| Minority interests | **(64)** | 233 |
| | **(42,249)** | (675) |

# CONDENSED CONSOLIDATED BALANCE SHEET

| | Notes | 30 June 2009 Unaudited *US$'000* | 31 December 2008 Audited *US$'000* |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Goodwill | | **2,523** | 2,523 |
| Fixed assets | *9* | **20,890** | 63,917 |
| Project advances for exploration | | **9,739** | 9,739 |
| Available-for-sale investments | | **771** | 11,792 |
| Deferred tax assets | | **466** | 414 |
| | | **34,389** | 88,385 |
| **CURRENT ASSETS** | | | |
| Cash and bank balances | | **43,423** | 44,703 |
| Financial assets at fair value held for trading | | **14,292** | 11,376 |
| Tax prepaid | | **208** | 195 |
| Trade receivables | *10* | **8,655** | 6,841 |
| Other loans receivable | | **4,436** | 2,547 |
| Due from an investee company | | **–** | 3,094 |
| Inventories | | **7,644** | 7,415 |
| Prepayments, deposits and other receivables | | **45,062** | 33,362 |
| | | **123,720** | 109,533 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | *11* | **3,842** | 3,010 |
| Other payables and accrued expenses | | **4,872** | 4,537 |
| Bank overdraft | | **1,255** | – |
| Bank loan on discounted debtors | | **2,252** | 2,429 |
| Finance leases-current portion | | **339** | 313 |
| Government grant received in advance-current portion | | **8** | 8 |
| | | **12,568** | 10,297 |

| | Notes | 30 June 2009 Unaudited *US$'000* | 31 December 2008 Audited *US$'000* |
|---|---|---|---|
| **NET CURRENT ASSETS** | | **111,152** | 99,236 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **145,541** | 187,621 |
| **NON-CURRENT LIABILITIES** | | | |
| Finance leases | | **674** | 745 |
| Provisions | | **1,262** | 1,022 |
| | | **1,936** | 1,767 |
| **NET ASSETS** | | **143,605** | 185,854 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | *12* | **109,722** | 109,722 |
| Revaluation reserve | | **3,045** | 2,706 |
| Special capital reserve | | **12,037** | 12,037 |
| Share premium | | **199,947** | 199,947 |
| Translation reserve | | **6,482** | 4,558 |
| Accumulated losses | | **(191,921)** | (147,473) |
| Total equity attributable to equity shareholders of the Company | | **139,312** | 181,497 |
| Minority interests | | **4,293** | 4,357 |
| | | **143,605** | 185,854 |

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| | Six months ended 30 June 2009 Unaudited *US$'000* | Six months ended 30 June 2008 Unaudited *US$'000* |
|---|---|---|
| **NET CASH USED IN OPERATING ACTIVITIES** | **(14,250)** | (5,968) |
| **NET CASH FROM (USED IN) INVESTING ACTIVITIES** | **10,918** | (17,950) |
| **CASH FLOW USED IN FINANCING ACTIVITIES** | **(222)** | (296) |
| **DECREASE IN CASH AND CASH EQUIVALENTS** | **(3,554)** | (24,214) |
| Cash and cash equivalents at 1 January | **44,703** | 93,260 |
| Effect of exchange rate | **1,019** | 845 |
| **CASH AND CASH EQUIVALENTS AT 30 June** | **42,168** | 69,891 |
| **ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS** | | |
| Cash and bank balances | **43,423** | 70,579 |
| Bank overdraft | **(1,255)** | (688) |
| | **42,168** | 69,891 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

*For the Six Months Ended 30 June 2009*

*(Expressed in US$'000)*

| | Attributable to equity holders of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** | **Share premium** | **Special capital reserve** | **Translation reserve** | **Revaluation reserve** | **Accumulated losses** | **Total** | **Minority interests** | **Total Equity** |
| At 1.1.2009 | **109,722** | **199,947** | **12,037** | **4,558** | **2,706** | **(147,473)** | **181,497** | **4,357** | **185,854** |
| Exchange difference | **–** | **–** | **–** | **1,924** | **339** | **–** | **2,263** | **81** | **2,344** |
| Loss for the period | **–** | **–** | **–** | **–** | **–** | **(44,448)** | **(44,448)** | **(145)** | **(44,593)** |
| Total comprehensive income for the period | **–** | **–** | **–** | **1,924** | **339** | **(44,448)** | **(42,185)** | **(64)** | **(42,249)** |
| At 30.6.2009 | **109,722** | **199,947** | **12,037** | **6,482** | **3,045** | **(191,921)** | **139,312** | **4,293** | **143,605** |

| | Attributable to equity holders of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Share capital** | **Share premium** | **Special capital reserve** | **Translation reserve** | **Revaluation reserve** | **Accumulated losses** | **Total** | **Minority interests** | **Total Equity** |
| At 1.1.2008 | 109,722 | 199,947 | 12,037 | 7,791 | 5,147 | (49,176) | 285,468 | 8,399 | 293,867 |
| Exchange difference | – | – | – | 760 | 12 | – | 772 | 239 | 1,011 |
| Loss for the period | – | – | – | – | – | (1,680) | (1,680) | (6) | (1,686) |
| Total comprehensive income for the period | – | – | – | 760 | 12 | (1,680) | (908) | 233 | (675) |
| Disposal of subsidiaries | – | – | – | – | – | – | – | (3,860) | (3,860) |
| At 30.6.2008 | 109,722 | 199,947 | 12,037 | 8,551 | 5,159 | (50,856) | 284,560 | 4,772 | 289,332 |

# NOTES TO THE ACCOUNTS

## 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 2008, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") as disclosed in note 2 to this interim financial report.

## 2. Adoption of new or amended HKFRSs

In the current period, the Group has applied for the first time the following new and revised HKFRSs issued by the HKICPA, which are relevant to and effective for the Group's financial statements for the annual financial period beginning on 1 January 2009.

| | |
|---|---|
| HKAS 1 (Revised) | Presentation of Financial Statements |
| HKAS 23 (Revised) | Borrowing Costs |
| HKFRS 1 and HKAS 27 (Amendments) | Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or an Associate |
| HKFRS 2 (Amendments) | Share-based Payment – Vesting Conditions and Cancellations |
| HKFRS 7 (Amendments) | Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments |
| HKFRS 8 | Operating Segments |
| HKFRSs (Amendments) | Improvements to HKFRSs 2008 |

Other than as noted below, the adoption of these new and revised HKFRSs has had no material impact on this interim financial report.

**HKAS 1 (Revised) Presentation of Financial Statements**

As a result of the adoption of HKAS 1 (Revised), details of changes in equity during the period arising from transaction with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expenses are presented in the consolidated income statement, if they are recognized as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. The new format for the consolidated statement of comprehensive income and the consolidated statement of changes in equity has been adopted in this interim financial report and corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

**HKFRS 8 Operating Segments**

HKFRS 8 "Operating Segments" replaces HKAS 14 "Segment Reporting". It requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes. On first-time adoption of HKFRS 8 "Operating Segments", the Group determined that the operating segments were the same as the business segments previously identified under HKAS 14 "Segment Reporting".

HKICPA has issued a number of new standards, amendments to standards and interpretations that are effective for accounting periods beginning after 1 January 2009. The Group has carried out an assessment of these standards, amendments and interpretations and considered that they have no significant impact on these interim financial statements.

## 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:

*(Expressed in US$'000)*

**For the six months ended 30 June 2009**

| | Continuing operations | | | | Discontinued operations | | | |
|---|---|---|---|---|---|---|---|---|
| | Oil | Sale of minerals | Contract electronic manufacturing | Trading securities | Oil in Philippine | Exploration of minerals | Others | Total |
| Revenue from external customers | **3,325** | **2,773** | **10,575** | **–** | **–** | **–** | **21** | **16,994** |
| Segment results | **(49,589)** | **(562)** | **(526)** | **7,534** | **–** | **–** | **–** | **(43,143)** |
| Unallocated income and expenses | | | | | | | | **(1,189)** |
| Loss from operation | | | | | | | | **(44,332)** |
| Finance costs | | | **(261)** | | | | | **(261)** |
| Loss for the period | | | | | | | | **(44,593)** |

For the six months ended 30 June 2008

| | Continuing operations | | | | Discontinued operations | | | |
|---|---|---|---|---|---|---|---|---|
| | Oil | Sale of minerals | Contract electronic manufacturing | Trading securities | Oil in Philippine | Exploration of minerals | Others | Total |
| Revenue from external customers | 11,640 | 2,119 | 19,838 | – | – | – | 25 | 33,622 |
| Segment results | 616 | (309) | 986 | (3,517) | (86) | (36) | – | (2,346) |
| Unallocated income and expenses | | | | | | | | (808) |
| Loss from operation | | | | | | | | (3,154) |
| Gain on disposal of subsidiaries | | | | | | | | 1,845 |
| Finance costs | | | (320) | | | | | (320) |
| Taxation | | | (57) | | | | | (57) |
| Loss for the period | | | | | | | | (1,686) |

## 4. Loss from operating activities

Loss from operating activities is arrived at after charging:

| | Six months ended 30 June 2009 Unaudited *US$'000* | 30 June 2008 Unaudited *US$'000* |
|---|---|---|
| **Continuing operations** | | |
| Depreciation on fixed assets | **954** | 931 |

## 5. Income tax

| | Six months ended 30 June 2009 Unaudited *US$'000* | 30 June 2008 Unaudited *US$'000* |
|---|---|---|
| **Continuing operations** | | |
| Overseas tax charges | **–** | 57 |

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

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 for the period.

## 6. Discontinued operations

On 21 May 2008, the Group disposed the entire interests in its subsidiaries, Comp Assets International Limited, PT. Global Select Indonesia, Mega Resources International Enterprises Limited, and South Sea Petroleum (Philippines) Corporation at a consideration of USD9,700,000. The Group's oil exploration business in Philippines, a small part of oil exploration business in Indonesia and the mineral exploration business in China were discontinued.

The results and the cash flows of the discontinued operations were as follows:

| | **Six months ended 30 June 2009 Unaudited** | 1 January 2008 to 21 May 2008 Unaudited |
|---|---|---|
| | ***US$'000*** | *US$'000* |
| Other revenue | – | 4 |
| Administration expenses | – | (126) |
| Loss from discontinued operations | – | (122) |
| Gain on disposal of discontinued operations | – | 1,845 |
| | – | 1,723 |
| Net cash used in operating activities | – | (87) |
| Net cash used in investing activities | – | (54) |
| Net cash used in financing activities | – | (6,720) |
| Decrease in cash and cash equivalent | – | (6,861) |

The unaudited net assets of the discontinued operations at 21 May 2008 are as follows:

| | *US$'000* |
|---|---|
| Fixed assets | 14,241 |
| Project advances for oil field exploration and mining | 11,141 |
| Cash and bank balances | 1,339 |
| Prepayments, deposits and other receivables | 4,851 |
| Other payable and accrued expenses | (19,849) |
| Exchange reserve | (8) |
| Minority interests | (3,860) |
| Net assets disposed | 7,855 |
| Gain on disposal | 1,845 |
| | 9,700 |
| Satisfied by: | |
| Shares in new Joint Venture | 9,700 |

## 7. Basic earnings (loss) per share

### (i) From continuing and discontinued operations

The calculation of basic loss per share is based on the net loss attributable to shareholders for the period of US$44,448,000 (2008: US$1,680,000), and 10,972,239,359 (2008: 10,972,239,359) ordinary shares in issue during the period.

### (ii) From continuing operations

The calculation of basic loss per share is based on the net loss attributable to shareholders for the period of US$44,448,000 (2008: US$3,403,000), and 10,972,239,359 (2008: 10,972,239,359) ordinary shares in issue during the period.

### (iii) From discontinued operations

In 2008 the calculation of basic earning per share is based on the net profit attributable to shareholders for the period of US$1,723,000 and 10,972,239,359 ordinary shares in issue during the period.

## 8. Dividend

The Directors have decided not to declare any interim dividend for the six months ended 30 June 2009 (2008: Nil).

## 9. Fixed assets

During the six months ended 30 June 2009 the Group acquired approximately US$225,000 (2008: US$15,380,000) of fixed assets.

Subsequent to the balance sheet date on 1 July 2009, the Group's oil properties under exploring were leased to an independent third party (ITP) for further exploration for six and a half year. During the leased period, the ITP will be entitled to the oil income not exceeding 10,000 barrels per day if they can explore any oil. The agreement is subject to renewal after expiration. The Group impaired the amount of these leased oil properties to the estimated recoverable amount for the leased period.

## 10. Trade receivables

| | 30 June 2009<br>Unaudited<br>*US$'000* | 31 December 2008<br>Audited<br>*US$'000* |
|---|---|---|
| Receivable from BPMIGAS | **2,474** | 301 |
| Receivable from others | **6,181** | 6,540 |
| | **8,655** | 6,841 |

The receivable from BPMIGAS, the state-owned oil company of Indonesia, represents a trade receivable balance arising in the normal course of business recovered out of BPMIGAS's share of incremental crude oil production.

The ageing analysis of the trade receivables is as follows:

| | 30 June 2009<br>Unaudited<br>*US$'000* | 31 December 2008<br>Audited<br>*US$'000* |
|---|---|---|
| 0-30 days | **4,252** | 5,215 |
| 31-60 days | **1,040** | 256 |
| 61-90 days | **1,193** | 92 |
| Over 90 days | **2,170** | 1,278 |
| | **8,655** | 6,841 |

## 11. Trade payables and notes payable

The ageing analysis of the trade payables and notes payable is as follows:

| | 30 June 2009<br>Unaudited<br>*US$'000* | 31 December 2008<br>Audited<br>*US$'000* |
|---|---|---|
| 0-30 days | **1,809** | 744 |
| 31-60 days | **882** | 683 |
| 61-90 days | **–** | 299 |
| Over 90 days | **1,151** | 1,284 |
| | **3,842** | 3,010 |

## 12. Share capital

| | 30 June 2009 Unaudited *US$'000* | 31 December 2008 Audited *US$'000* |
|---|---|---|
| Authorised: | | |
| 14,000,000,000 ordinary shares of US$0.01 each | **140,000** | 140,000 |
| Issued and fully paid: | | |
| 10,972,239,359 shares of US$0.01 each | **109,722** | 109,722 |

## 13. Post balance sheet event

Subsequent to the balance sheet date on 1 July 2009, the Group's oil properties under exploring were leased to an independent third party (ITP) for further exploration for six and a half year. During the leased period, the ITP will be entitled to the oil income not exceeding 10,000 barrels per day if they can explore any oil. The agreement is subject to renewal after expiration. The Group impaired the amount of these leased oil properties to the estimated recoverable amount for the leased period.

Subsequent to the balance sheet date, the Group will incorporate a new subsidiary primarily involved in trading of mining products.

On 4 August 2009, the Company entered into a Subscription Agreement with the Subscriber for an aggregate amount of HK$171,000,000 6% interest Debentures due 2012 which will be issued subsequent to the balance sheet date. The net proceeds are intended to be used as working capital reserve to increase oil and graphite production.

## 14. Capital commitments

At 30 June 2009, capital commitments not provided for are as follows:

| | 30 June 2009 Unaudited *US$'000* | 31 December 2008 Audited *US$'000* |
|---|---|---|
| Contracted for | **–** | 706 |

## 15. Comparative figures

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

## 16. Approval of the Interim Accounts

The Board of Directors of the Company approved the Interim Accounts on 23 September 2009.

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

For the six months ended 30 June 2009, the Group's turnover was $16.69 million, as compared to $33.62 million for the same period of the previous year. The net loss attributable to shareholders was $44.45 million, or $0.41 cents per share, as compared to net loss of $1.68 million, or $0.015 cents per share, for the same period of 2008. On the balance sheet, the total assets of the Group as at 30 June 2009 were $158.11 million, as compared $197.92 million at 31 December 2008, and the net assets of the Group were $143.61 million at 30 June 2009, as compared $185.85 million at 31 December 2008.

## Business Development

The Group has two principal lines of business. The first line of business is to develop, explore and produce crude oil and mining, such as graphite, in Asian countries. The second line of business is to provide 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 70.5% owned subsidiary, Heilongjiang Beifang Graphite Co., Ltd., the Company is engaged in the business of exploration, production and sale of graphite products in Luobei, Heilongjiang Province of China.

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 sign contracts 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 name of its customers and substantially all of Axiom's manufacturing services are provided on a turnkey basis whereby the Company purchases customer-specific components from suppliers, assembles the components onto printed circuit boards, performs post production testing and provide the customer with production process and test documentation. Axiom also provides manufacturing services on a consignment basis whereby material is provided by the customer 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.

## Results of Operations

For the six months ended 30 June 2009, the Group's turnover was $16.69 million, a decrease of $16.93 million, or 50%, as compared to $33.62 million for the same period of the previous year. For the six-month period, the turnover of the Group's crude oil operation was $3.33 million as compared to $11.64 million for the same period of 2008. The decrease in oil revenue was because of decrease in production and declining oil prices during this period. For the same period the Group's graphite operation generated revenues of $2.77 million, an increase of $0.65 million, or 30.7%, as compared to $2.12 million for the same period in 2008. The turnover of the Group's electronics manufacturing service operation in 2009 was $10.57 million, a decrease of $9.27 million, or 48.3%, as compared to $19.84 million for the same period of the prior year. The decrease in sales was largely due to the financial decline within the United Kingdom, customers were being more cautious and keeping their order books to a minimum.

At the period end, an impairment loss of certain previously capitalized oil exploratory costs in an amount of approximately $43.56 million was recognized.

## Liquidity and Capital Resources

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

At 30 June 2009, the Group's cash and cash equivalents were $42.17 million, as compared to $69.89 million as at 31 December 2008. For the six months ended 30 June 2009, the Group's operating activities used net cash of $14.08 million. During the same period, the Group's investing activities generated net cash of $10.92 million, primarily attributable to sale of available-for-sale investments of $11.02 million. For this six-month period, the Group's financing activities used net cash of $0.22 million.

At 30 June 2009, the total borrowings of the Group were approximately $4.52 million (At 31 December 2008: $3.49 million). The gearing ratio (calculated as total borrowings divided by total assets) of the Group as at 30 June 2009 was 2.86% (At 31 December 2008: 1.76%).

At 30 June 2009, 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 2009, the Company had no off balance sheet arrangements.

## Employees and Remuneration Policies

As at 30 June 2009, the Group had a total of approximately 571 full-time 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 Reminbi and British pounds, respectively. The Group will continue to monitor the risk of foreign exchange fluctuation on the Group's results of operations, financial conditions and cash flows.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 30 June 2009, the Directors and Chief Executive Officer of the Company held following long positions in the ordinary share of the Company:

| Name | Number of Ordinary Shares held<br>Personal Interests | <br>Corporate Interests | Approximate %<br>of shareholding |
|---|---|---|---|
| Zhou Ling | – | 32,000,000 | 0.29% |

Save as disclosed above, as at the date of this report, none of the directors and executive officers of the Company and their respective associates had any interest or short position 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 ("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 COMPETING BUSINESS

As of 30 June 2009, none of the directors of the Company, including their respective associates, are considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules.

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 June 2009, 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, Underlying Shares and Debentures" above, had registered an interest, short position, or lending poor in the shares or underlying shares or debentures of the Company that was required to be kept by the Company pursuant to Section 336 of the SFO.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the period under review, the Company, or any of its subsidiaries, has not purchased, sold, or redeemed any of the Company's securities.

## DIVIDENDS

The Directors have decided not to declare any interim dividend for the six months ended 30 June 2009 (2008: Nil).

## COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the all the code provisions as set forth in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited throughout the accounting period covered by the interim report.

## COMPLIANCE WITH THE MODE CODE

The Company has adopted the Model Code for Securities Transactions by Directors by Listed Issuers (the "Model Code") se 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 2009.

## 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 2009.

## PUBLICATION OF RESULTS

This Interim Report containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be also 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).

## CHANGE IN EXECUTIVE DIRECTOR AND AUTHORIZED REPRESENTATIVE

On 28 August 2009, the board of directors of the Company announced that Ms. Zhange Xue had been appointed as an executive director and the Company's authorized representative with effect from 1 September 2009. Ms. Sit Mei will resign, due to her personal reason, as the executive director of the Company with effect from 1 October, 2009.

As at the date of this announcement, the board of directors comprised of Mr. Zhou Ling, Ms. Lee Sin Pyung, Ms. Zhang Xue and Ms. Sit Mei being executive directors, Mr. Lu Ren Jie, Mr. Chai Woon Chew and Mr. Ho Choi Chiu being independent non-executive directors.

On behalf of the Board

**Zhou Ling**
*Chairman*

Hong Kong, 23 September 2009