SSP 南海石油

South Sea Petroleum Holdings Limited

Interim Report 2010

Stock Code : 76

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 2010 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 2010 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30 June 2010 Unaudited US$'000	30 June 2009 Unaudited US$'000
TURNOVER	*3*	**22,892**	16,694
Cost of sales		**(16,166)**	(13,625)
		6,726	3,069
Other income		**2,320**	1,056
General and administrative expenses		**(10,080)**	(8,617)
Drilling expenses		**(4,177)**	(3,317)
Impairment of oil properties		**–**	(43,557)
Taxes other than income tax		**(232)**	(136)
Net (loss) gain in fair value of financial assets held for trading		**(5,010)**	7,170
LOSS FROM OPERATING ACTIVITIES	*4*	**(10,453)**	(44,332)
Finance costs		**(510)**	(261)
LOSS BEFORE TAX		**(10,963)**	(44,593)
Income tax	*5*	**–**	–
LOSS FOR THE PERIOD		**(10,963)**	(44,593)
Attributable to:			
Equity shareholders of the Company		**(10,910)**	(44,448)
Minority interests		**(53)**	(145)
		(10,963)	(44,593)
LOSS PER SHARE – BASIC *(US Cents)*	*6*	**(4.67)**	(20.25)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June 2010 Unaudited *US$'000*	Six months ended 30 June 2009 Unaudited *US$'000*
LOSS FOR THE PERIOD	**(10,963)**	(44,593)
OTHER COMPREHENSIVE INCOME		
Exchange difference on translation of financial statements	**(989)**	2,344
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**(11,952)**	(42,249)
Attributable to:		
Equity shareholders of the Company	**(11,862)**	(42,185)
Minority interests	**(90)**	(64)
	(11,952)	(42,249)

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	30 June 2010 Unaudited US$'000	31 December 2009 Audited US$'000
NON-CURRENT ASSETS			
Goodwill		**1,262**	1,262
Fixed assets	7	**25,090**	22,343
Available-for-sale investments		**771**	771
Deferred tax assets		**156**	168
		27,279	24,544
CURRENT ASSETS			
Cash and bank balances		**26,227**	21,401
Financial assets at fair value held for trading		**16,632**	22,888
Trade and notes receivables	8	**11,110**	12,063
Other loans receivable		**–**	3,149
Inventories		**7,590**	6,788
Prepayments, deposits and other receivables		**50,001**	49,343
		111,560	115,632
CURRENT LIABILITIES			
Trade payables	9	**4,298**	3,312
Other payables and accrued expenses		**2,434**	2,170
Bank overdraft		**1,622**	1,587
Bank loan on discounted debtors		**1,926**	1,980
Finance leases-current portion		**266**	320
		10,546	9,369

	Notes	30 June 2010 Unaudited US$'000	31 December 2009 Audited US$'000
NET CURRENT ASSETS		**101,014**	106,263
TOTAL ASSETS LESS CURRENT LIABILITIES		**128,293**	130,807
NON-CURRENT LIABILITIES			
Finance leases		**356**	525
Provisions		**1,669**	1,429
Convertible debentures	*11*	**–**	9,087
		2,025	11,041
NET ASSETS		**126,268**	119,766
CAPITAL AND RESERVES			
Share capital	*12*	**131,526**	109,722
Revaluation reserve		**3,554**	3,843
Special capital reserve		**12,037**	12,037
Share premium		**198,851**	199,947
Convertible debenture equity reserve		**–**	2,253
Translation reserve		**5,255**	5,918
Accumulated losses		**(227,688)**	(216,777)
Total equity attributable to equity shareholders of the Company		**123,535**	116,943
Minority interests		**2,733**	2,823
		126,268	119,766

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

	Six months ended	
	30 June 2010	30 June 2009
	Unaudited	Unaudited
	US$'000	*US$'000*
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**865**	(14,250)
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(5,023)**	10,918
CASH FLOW FROM (USED IN) FINANCING ACTIVITIES	**9,091**	(222)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**4,933**	(3,554)
Cash and cash equivalents at 1 January	**19,814**	44,703
Effect of exchange rate	**(142)**	1,019
CASH AND CASH EQUIVALENTS AT 30 June	**24,605**	42,168
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**26,227**	43,423
Bank overdraft	**(1,622)**	(1,255)
	24,605	42,168

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the Six Months Ended 30 June 2010

(Expressed in US$'000)

	Attributable to equity holders of the Company									
	Share capital	Share premium	Convertible debenture equity reserve	Special capital reserve	Translation reserve	Revaluation reserve	Accumulated losses	Total	Minority interests	Total equity
At 1.1.2010	109,722	199,947	2,253	12,037	5,918	3,843	(216,777)	116,943	2,823	119,766
Total comprehensive income for the period	–	–	–	–	(663)	(289)	(10,910)	(11,862)	(90)	(11,952)
Issue of shares upon conversion of convertible debentures	21,804	(1,096)	(2,253)	–	–	–	–	18,455	–	18,455
At 30.6.2010	131,526	198,851	–	12,037	5,255	3,554	(227,687)	123,536	2,733	126,269

	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
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

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 2009 which is applicable for the period ended 30 June 2010. Details of the accounting policy on discontinued operations are set out below.

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 2010.

HKFRS 3 (Revised)	Business combinations
HKAS 27 (Revised)	Consolidated and separate financial statements
HK(IFRIC)-Int 17	Distribution of non-cash assets to owners
HKAS 17 (Amendment)	Leases

The adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements and there have been no significant changes to the accounting polices applied in these 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:

For the six months ended 30 June 2010
(Expressed in US$'000)

	Oil	**Sale of minerals**	**Contract electronic manufacturing**	**Trading securities**	**Others**	**Total**
Revenue from external customers	**4,930**	**5,710**	**12,213**	**–**	**39**	**22,892**
Segment results	**(2,395)**	**(779)**	**221**	**(3,812)**	**–**	**(6,765)**
Unallocated income and expenses						**(3,688)**
Loss from operation						**(10,453)**
Finance costs			**(189)**		**(321)**	**(510)**
Loss for the period						**(10,963)**

For the six months ended 30 June 2009

	Oil	Sale of minerals	Contract electronic manufacturing	Trading securities	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)

4. Loss from operating activities

Loss from operating activities is arrived at after charging:

	Six months ended 30 June 2010 Unaudited *US$'000*	30 June 2009 Unaudited *US$'000*
Depreciation on fixed assets	**1,476**	954

5. Income tax

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

6. Basic loss per share

The calculation of basic loss per share is based on the net loss attributable to shareholders for the period of US$10,910,000 (2009: US$44,448,000), and weighted average of 233,647,186 (2009: 219,447,787) ordinary shares in issue during the period.

The number of ordinary shares in 2009 for the purposes of calculating the basic loss per share has been retrospectively adjusted for the fifty-to-one share consolidation which took place on 2 June 2010.

7. Fixed assets

During the six months ended 30 June 2010 the Group acquired approximately US$5,040,000 (2009: US$225,000) of fixed assets.

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 recoverable amount for the leased period.

8. Trade and notes receivables

	30 June 2010 Unaudited *US$'000*	31 December 2009 Audited *US$'000*
Trade receivables		
– Receivable from BPMIGAS	**1,933**	2,946
– Receivable from others	**7,152**	6,643
Notes receivables	**2,025**	2,474
	11,110	12,063

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.

8. Trade and notes receivables (continued)

The ageing analysis of the trade receivables is as follows:

	30 June 2010	31 December 2009
	Unaudited	Audited
	US$'000	*US$'000*
0-30 days	**9,676**	3,415
31-60 days	**1,354**	5,459
61-90 days	**2**	957
Over 90 days	**78**	2,232
	11,110	12,063

Included in trade receivables an amount of US$2,518,000 (31.12.2009: US$1,631,000) which was due to minority interest.

9. Trade payables

The ageing analysis of the trade payables is as follows:

	30 June 2010	31 December 2009
	Unaudited	Audited
	US$'000	*US$'000*
0-30 days	**3,162**	2,087
31-60 days	**850**	872
61-90 days	**90**	84
Over 90 days	**196**	269
	4,298	3,312

10. Dividend

The Directors have decided not to declare any interim dividend for the six months ended 30 June 2010 (2009: Nil).

11. Convertible debentures

During the period, the Company issued the convertible debentures due August 2012 for approximately US$9,487,000. Finder's fee of US$499,000 has been paid to Megabucks International Limited. Conversion right was exercised to convert US$21,804,000 of the convertible debentures for 2,194,447,870 shares of US$0.01 each. The remaining convertible debentures of US$119,000 were redeemed.

12. Share capital

	30 June 2010 Unaudited *US$'000*	31 December 2009 Audited *US$'000*
Authorised:		
1,000,000,000 ordinary shares of US$0.50 each (31.12.2009: 14,000,000,000 ordinary shares of US$0.01 each)	**500,000**	140,000
Issued and fully paid:		
263,333,744 shares of US$0.50 each (31.12.2009: 10,972,239,359 ordinary shares of US$0.01 each)	**131,526**	109,722

Pursuant to an ordinary resolution passed on 8 January 2010, the Company's authorized share capital was increased to 50,000,000,000 from 14,000,000,000 ordinary shares of US$0.01 each, ranking pari passu with the existing ordinary shares of the Company in all respects.

During the period, 2,194,447,870 ordinary shares of US$0.01 each were issued by exercising the convertible debentures for an aggregate consideration of approximately US$21,804,000.

As at 2 June 2010, the Company effected a share consolidation on the basis that every fifty (50) existing issued and unissued Shares of US$0.01 each in the capital of the Company be consolidated into one (1) consolidated share of US$0.50.

The share consolidation was approved by the board of directors of the Company and by a majority of the Company's shareholders at its Extraordinary General Meeting held on 1 June 2010.

13. Related party transactions

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

	Six months ended 30 June 2010 Unaudited *US$'000*	 30 June 2009 Unaudited *US$'000*
Sales to minority interest	**5,710**	–

14. Approval of the Interim Accounts

The Board of Directors of the Company approved the Interim Accounts on 24 August 2010.

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 2010, the Group's turnover was $22.892 million an increase of $6.198 million or 37%, as compared to $16.694 million for the same period of the prior year. The net loss attributable to shareholders was $10.910 million, or $4.67 cents per share, as compared to net loss of $44.448 million, or $20.25 cents per share (adjusted), for the same period of 2009. On the balance sheet, the total assets of the Group as at 30 June 2010 were $138.839 million, as compared $104.176 million at 31 December 2009, and the net assets of the Group were $126.268 million at 30 June 2010, as compared $119.766 million at 31 December 2009.

Business Development

The Group has two principal lines of business. The first line of business is to develop and produce of crude oil and minerals, 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 majority owned subsidiary, South Sea Graphite (Luobei) Co., Ltd (formerly Heilongjiang Beifang Graphite Co., Ltd.), the Company is engaged in the business of 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 2010, the Group's turnover was $22.892 million, an increase of $6.198 million, or 37%, as compared to $16.69 million for the same period of the prior year. For the six-month period, the turnover of the Group's crude oil operation was $4.931 million as compared to $3.33 million in the same period of 2009 an increase of 48%. The increase in oil revenue was primarily due to increased oil prices. For the same period the Group's graphite operation generated revenues of $5.710 million, an increase of $2.94 million, or 106.14%, as compared to $2.77 million for the six months ended 30 June 2009. During the six-month period in 2010, the turnover of the Group's electronics manufacturing service operation was $12.21 million, an increase of $1.64 million, or 15.52%, as compared to $10.57 million for the same period of the prior year. The increase in sales was largely attributable to an increase in customer orders and Axiom attaining additional new customers.

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 2010, the Group's cash and cash equivalents were $24.605 million, as compared to $19.81 million as at 31 December 2009. For the six months ended 30 June 2010, the Group's operating activities used net cash of $0.865 million. During the same period, the Group's investing activities used net cash of $5.023 million, primarily due to purchase of property and equipment. For the six months ended 30 June 2010, the Group's financing activities generated net cash of $9.091 million.

On 4 August 2009, the Company contracted to issue convertible debentures for an aggregate amount of HK$171 million with 6% interest and due 2012. The net proceeds are used as working capital reserve to increase the Group's oil and graphite production.

On 9 December 2009, the Company contracted to issue convertible debentures for an aggregate amount of US$100 million with 6% interest and due 2015. The net proceeds are intended to be used as capital reserve to increase graphite ore reserve and expand graphite production capacity in China.

At 30 June 2010, 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 2010, the Group had no off balance sheet arrangements.

Employees and Remuneration Policies

As at 30 June 2010, the Group had a total of approximately 575 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 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.

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.

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

Save as disclosed in the section "Substantial Shareholders" as set forth in the Company's Corporate Governance Report stated below, at 31 December 2009, 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.

At 30 June 2010, the Directors and Chief Executive Officer of the Company held following long positions in the ordinary share of the Company:

	Number of Ordinary Shares held		Approximate %
Name	**Personal Interests**	**Corporate Interests**	**of shareholding**
Zhou Ling	–	640,000	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 CONTRACTS

During the year under review, 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 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 PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 30 June 2010, 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, neither the Company, nor its subsidiaries, purchased, sold, or redeemed any of the Company's listed securities.

DIVIDENDS

The Directors have decided not to declare any interim dividend for the six months ended 30 June 2010 (2009: 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") 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 2010.

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 2010.

PUBLICATION OF RESULTS

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

Zhou Ling
Chairman

Hong Kong, 24 August 2010