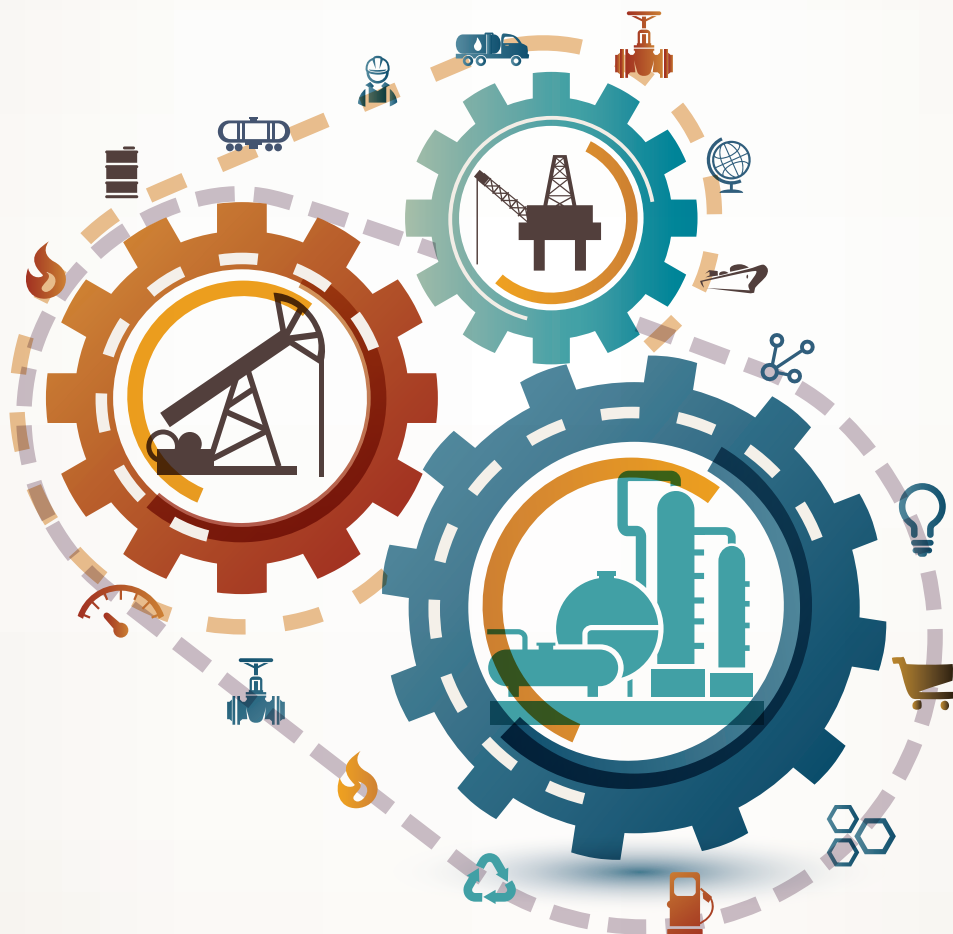


# SSP 南海石油

South Sea Petroleum Holdings Limited

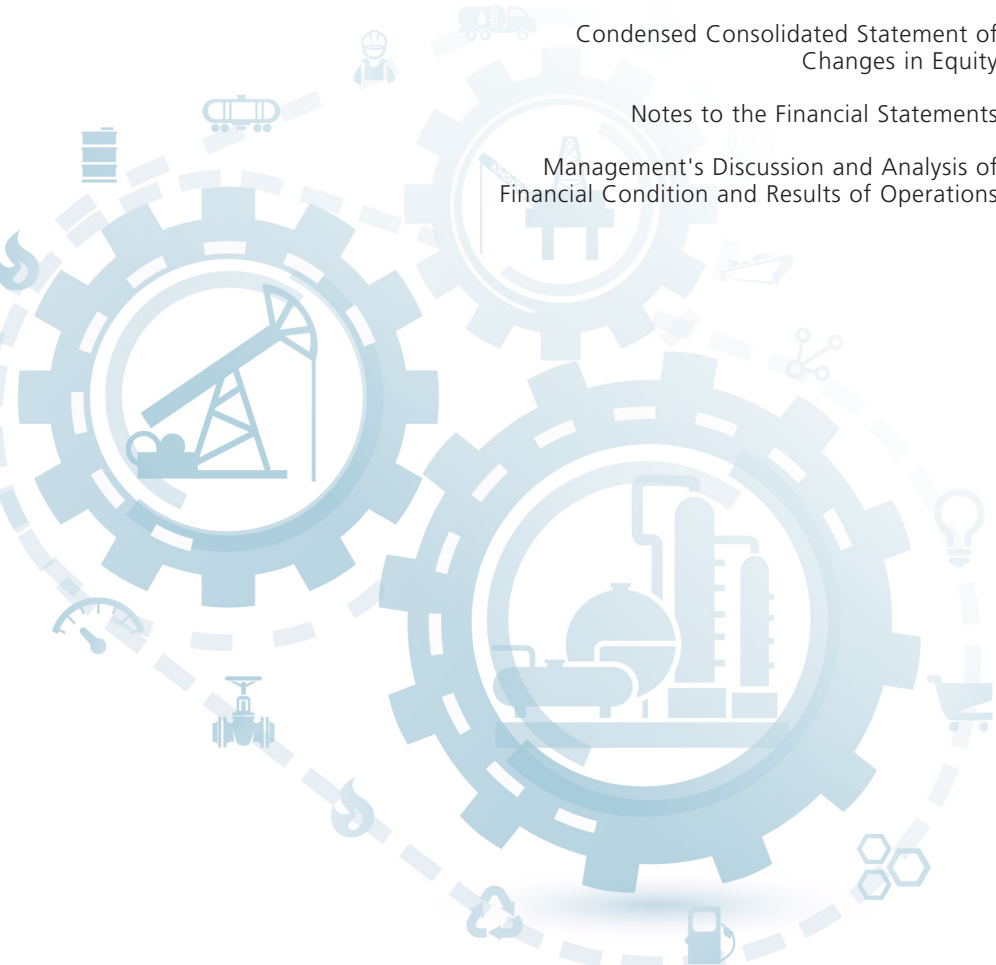
Stock Code : 76



2015 | INTERIM  
REPORT

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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 2015 of the Company and its subsidiaries (the "Group"), the unaudited condensed consolidated statement of profit or loss and the unaudited condensed consolidated statement of cash flow and the unaudited consolidated statement of changes in equity for the six months ended 30 June 2015 as follows:

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		<b>Six months ended</b>	
		<b>30 June 2015</b>	30 June 2014
		<b>Unaudited</b>	Unaudited
	<i>Notes</i>	<b>US\$'000</b>	<i>US\$'000</i>
<b>TURNOVER</b>	3	<b>43,225</b>	42,990
Cost of sales		<u><b>(30,200)</b></u>	<u>(30,544)</u>
		<b>13,025</b>	12,446
Other income		<b>117</b>	799
Net gain (loss) in fair value of financial assets held for trading		<b>39</b>	(7,560)
General and administrative expenses		<b>(16,605)</b>	(14,228)
Drilling and operating expenses		<b>(2,829)</b>	(3,815)
Provision for impairment of amount due from associate		<u><b>(1,205)</b></u>	<u>—</u>
<b>LOSS FROM OPERATING ACTIVITIES</b>	4	<b>(7,458)</b>	(12,358)
Finance costs		<u><b>(66)</b></u>	<u>(16)</u>
<b>LOSS BEFORE TAX</b>		<b>(7,524)</b>	(12,374)
Income tax	5	<u><b>—</b></u>	<u>—</u>
<b>LOSS FOR THE PERIOD</b>		<u><b>(7,524)</b></u>	<u>(12,374)</u>
Attributable to:			
Equity shareholders of the Company		<b>(7,100)</b>	(12,373)
Non-controlling interests		<u><b>(424)</b></u>	<u>(1)</u>
		<u><b>(7,524)</b></u>	<u>(12,374)</u>
<b>LOSS PER SHARE (US Cents)</b>	6		
– Basic		<u><b>(0.88)</b></u>	<u>(1.50)</u>



## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	<b>Six months ended</b>	
	<b>30 June 2015</b>	30 June 2014
	<b>Unaudited</b>	Unaudited
	<b>US\$'000</b>	US\$'000
<b>LOSS FOR THE PERIOD</b>	<b>(7,524)</b>	(12,374)
<b>OTHER COMPREHENSIVE INCOME (EXPENSES)</b>		
– Item that may be reclassified to profit or loss		
Exchange differences	<u>253</u>	<u>135</u>
<b>TOTAL COMPREHENSIVE INCOME (EXPENSES) FOR THE PERIOD</b>	<b><u>(7,271)</u></b>	<b><u>(12,239)</u></b>
Attributable to:		
Equity shareholders of the Company	<b>(6,850)</b>	(12,201)
Non-controlling interests	<b><u>(421)</u></b>	<u>(38)</u>
	<b><u>(7,271)</u></b>	<b><u>(12,239)</u></b>



## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		<b>30 June 2015 Unaudited US\$'000</b>	31 December 2014 Audited US\$'000
	<i>Notes</i>		
<b>NON-CURRENT ASSETS</b>			
Fixed assets	7	<b>27,258</b>	28,838
Prepaid lease payments		<b>5,302</b>	5,359
Goodwill		<b>537</b>	537
Available-for-sale investments		<b>293</b>	293
Interest in an associate		–	–
Deferred tax assets		<b>1,767</b>	1,752
Long term portion of trade receivable	9	<b>196,909</b>	211,404
		<b>232,066</b>	248,183
<b>CURRENT ASSETS</b>			
Cash and bank balances		<b>32,272</b>	28,743
Financial assets at fair value held for trading	8	<b>17,067</b>	17,027
Trade and notes receivables	9	<b>56,332</b>	61,294
Inventories		<b>26,612</b>	22,467
Prepayments, deposits and other receivables		<b>34,485</b>	9,969
		<b>166,768</b>	139,500
<b>CURRENT LIABILITIES</b>			
Trade payables	10	<b>11,714</b>	13,359
Other payables and accrued expenses		<b>21,218</b>	17,863
Bank overdraft		<b>5,130</b>	–
Due to non-controlling interests		<b>1,290</b>	1,241
Finance leases-current portion		<b>268</b>	302
Taxation		<b>15,500</b>	15,500
		<b>55,120</b>	48,265
<b>NET CURRENT ASSETS</b>		<b>111,648</b>	91,235
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>343,714</b>	339,418



		<b>30 June 2015 Unaudited US\$'000</b>	31 December 2014 Audited US\$'000
	<i>Notes</i>		
<b>NON-CURRENT LIABILITIES</b>			
Finance leases		<b>651</b>	767
Provisions		<b>3,105</b>	3,105
		<b>3,756</b>	3,872
<b>NET ASSETS</b>			
		<b>339,958</b>	335,546
<b>CAPITAL AND RESERVES</b>			
Share capital	13	<b>516,533</b>	504,850
Revaluation reserve		<b>4,182</b>	4,068
Translation reserve		<b>7,846</b>	7,710
Accumulated losses		<b>(190,083)</b>	(183,983)
Total equity attributable to equity shareholders of the Company		<b>337,478</b>	332,645
Non-controlling interests		<b>2,480</b>	2,901
		<b>339,958</b>	335,546



## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

	<b>Six months ended</b>	
	<b>30 June 2015</b>	30 June 2014
	<b>Unaudited</b>	Unaudited
	<b>US\$'000</b>	US\$'000
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b>(13,155)</b>	(190)
<b>NET CASH USED IN INVESTING ACTIVITIES</b>	<b>(96)</b>	(2,408)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>	<b>11,533</b>	4,100
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(1,718)</b>	1,502
Cash and cash equivalents at 1 January	<b>28,743</b>	21,766
Effect of exchange rate	<b>117</b>	352
<b>CASH AND CASH EQUIVALENTS AT 30 June</b>	<b>27,142</b>	23,620
<b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>		
Cash and bank balances	<b>32,272</b>	27,263
Bank overdraft	<b>(5,130)</b>	(3,643)
	<b>27,142</b>	23,620



## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 June 2015

(Expressed in US\$'000)

	Attributable to equity holders of the Company					Non-Controlling interests	Total equity
	Share capital	Translation reserve	Revaluation reserve	Accumulated losses	Total		
At 1.1.2015	<u>504,850</u>	<u>7,710</u>	<u>4,068</u>	<u>(183,983)</u>	<u>332,645</u>	<u>2,901</u>	<u>335,546</u>
Total comprehensive income for the period	<u>-</u>	<u>136</u>	<u>114</u>	<u>(7,100)</u>	<u>(6,850)</u>	<u>(421)</u>	<u>(7,271)</u>
Issue of shares upon conversion of convertible debentures	<u>11,683</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,683</u>	<u>-</u>	<u>11,683</u>
At 30.6.2015	<u>516,533</u>	<u>7,846</u>	<u>4,182</u>	<u>(190,083)</u>	<u>337,478</u>	<u>2,480</u>	<u>339,958</u>

	Attributable to equity holders of the Company							Non-Controlling interests	Total equity
	Share capital	Share premium	Special Capital reserve	Translation reserve	Revaluation reserve	Accumulated losses	Total		
At 1.1.2014	<u>8,139</u>	<u>478,568</u>	<u>12,037</u>	<u>9,508</u>	<u>3,779</u>	<u>(160,962)</u>	<u>351,069</u>	<u>4,257</u>	<u>355,326</u>
Total comprehensive income for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>52</u>	<u>120</u>	<u>(12,373)</u>	<u>(12,201)</u>	<u>(38)</u>	<u>(12,239)</u>
Transfer to no-par value regime on 3 March, 2014	<u>490,605</u>	<u>(478,568)</u>	<u>(12,037)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Issue of shares upon conversion of convertible debentures	<u>3,670</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,670</u>	<u>-</u>	<u>3,670</u>
At 30.6.2014	<u>520,414</u>	<u>-</u>	<u>-</u>	<u>9,560</u>	<u>3,899</u>	<u>(173,335)</u>	<u>342,538</u>	<u>4,219</u>	<u>346,757</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 2014 which is applicable for the period ended 30 June 2015.

### 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 2015.

- Annual Improvements to HKFRSs 2010-2012 Cycle
- Annual Improvements to HKFRSs 2011-2013 Cycle

The adoption of the new and revised HKFRSs has no significant financial effect on these unaudited interim condensed consolidated financial statements and there have been no significant changes to the accounting policies applied in these unaudited interim condensed consolidated financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.





#### 4. Loss from operating activities

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

	<b>Six months ended</b>	
	<b>30 June, 2015</b>	30 June, 2014
	<b>Unaudited</b>	Unaudited
	<b>US\$'000</b>	US\$'000
Depreciation on fixed assets	<b>1,809</b>	2,214
Unrealised (gain) loss in fair value of financial assets held for trading	<b>(39)</b>	7,560
Provision for impairment of amount due from associate	<b>1,205</b>	–
Provision for impairment of inventories	<b>404</b>	–
	<b>404</b>	–

#### 5. Income tax

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.

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

#### 6. Loss per share

The calculation of basic loss per share is based on the net loss attributable to equity shareholders for the period of US\$7,100,000 (2014: US\$12,373,000), and weighted average of 810,528,871 (2014: 8,263,370,679) ordinary shares in issue during the period.

The number of ordinary shares in 2014 for the purposes of calculating the basic loss per share has been retrospectively adjusted for the ten-to-one share consolidation which took place on 9 October, 2014.

#### 7. Fixed assets

During the six months ended 30 June 2015 the Group acquired approximately US\$114,000 (2014: US\$2,425,000) of fixed assets.



## 8. Financial assets at fair value held for trading

	<b>30 June 2015 Unaudited US\$'000</b>	31 December 2014 Audited US\$'000
Hong Kong listed shares	<b>567</b>	527
Shares traded on the OTC Bulletin Board in the United States	<b>16,500</b>	16,500
	<b>17,067</b>	17,027

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

## 9. Trade and notes receivables

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

	<b>30 June 2015 Unaudited US\$'000</b>	31 December 2014 Audited US\$'000
0-30 days	<b>8,026</b>	9,419
31-60 days	<b>5,711</b>	5,461
61-90 days	<b>952</b>	2,245
Over 90 days	<b>41,643</b>	44,169
	<b>56,332</b>	61,294

The long term portion of trade receivable and the current portion receivable from sales of graphite ore (the "Purchaser") totalling approximately USD253,241,000 (2014: USD252,870,000) represent a trade receivable balance arising in the normal course of business. The balance is secured over the unsold graphite ore acquired by the Purchaser, non-interest bearing and repayable within 8.5 years. The Purchaser has to repay at least USD26,425,500 each year until fully settled. Should the Purchaser sold the goods of cost more than this minimum payment in a year, they have to settle the excess balance with credit term of 30 days.

Included in trade receivables an amount of US\$332,000 (2014: US\$403,000) which was due from non-controlling interest.



## 10. Trade payables

The ageing analysis of the trade payables is as follows:

	<b>30 June 2015 Unaudited US\$'000</b>	31 December 2014 Audited US\$'000
0-30 days	6,255	2,596
31-60 days	2,495	4,468
61-90 days	1,452	3,030
Over 90 days	1,512	3,265
	<b>11,714</b>	<b>13,359</b>

## 11. Dividend

The Directors have decided not to declare any interim dividend for the six months ended 30 June 2015 (2014: Nil).

## 12. Convertible debentures

During the period, the Company issued the convertible debentures for approximately US\$12,298,000. Finder's fee of US\$615,000 was paid or payable to the debenture holders. Conversion right was exercised to convert US\$12,298,000 of the convertible debentures for 169,480,560 shares of the Company.

## 13. Share capital

	<b>30 June 2015 Unaudited US\$'000</b>	31 December 2014 Audited US\$'000
Issued and fully paid:		
1,048,722,377 ordinary shares		
(31.12.2014: 879,241,817 ordinary shares)	<b>516,533</b>	<b>504,850</b>

During the period, 169,480,560 ordinary shares were issued by exercising the convertible debentures for an aggregate consideration of approximately US\$12,298,000.



#### 14. Commitment

Operating lease commitments outstanding at 30 June 2015 not provided for in the financial statements were as follows:

	<b>30 June 2015 Unaudited US\$'000</b>	31 December 2014 Audited US\$'000
(i) Total future minimum lease payments receivable on land and building and other assets under non-cancellable operating leases		
– Within one year	3,772	360
– In the second to fifth years inclusive	<u>14,776</u>	<u>–</u>
	<u><b>18,548</b></u>	<u>360</u>
(ii) Total future minimum lease payment payable under non-cancellable operating leases		
(a) On land and buildings expiring:		
– Within one year	139	126
– In the second to fifth years inclusive	<u>9</u>	<u>–</u>
	<u><b>148</b></u>	<u>126</u>
(b) On other fixed assets expiring:		
– Within one year	136	95
– In the second to fifth years inclusive	<u>–</u>	<u>35</u>
	<u><b>136</b></u>	<u>130</u>



## 15. 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).

	<b>Level 1</b> <i>US\$'000</i>	<b>Level 2</b> <i>US\$'000</i>	<b>Level 3</b> <i>US\$'000</i>	<b>30 June</b> <b>2015 Total</b> <i>US\$'000</i>
Financial assets at fair value held for trading	<u>17,067</u>	<u>–</u>	<u>–</u>	<u>17,067</u>
	<i>Level 1</i> <i>US\$'000</i>	<i>Level 2</i> <i>US\$'000</i>	<i>Level 3</i> <i>US\$'000</i>	<i>31 December</i> <i>2014 Total</i> <i>US\$'000</i>
Financial assets at fair value held for trading	<u>17,027</u>	<u>–</u>	<u>–</u>	<u>17,027</u>

## 16. Related party transactions

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

	<b>Six months ended</b> <b>30 June 2015</b> <b>Unaudited</b> <i>US\$'000</i>	<b>30 June 2014</b> <b>Unaudited</b> <i>US\$'000</i>
Rental income received and receivable from non-controlling interests	<b>484</b>	–
Sales to non-controlling interests	<u><b>52</b></u>	<u>3,379</u>

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

	<b>Six months ended</b> <b>30 June 2015</b> <b>Unaudited</b> <i>US\$'000</i>	<b>30 June 2014</b> <b>Unaudited</b> <i>US\$'000</i>
Salaries, allowances and benefits in kind	<u><b>606</b></u>	<u>1,321</u>

## 17. Approval of the Interim Accounts

The Board of Directors of the Company approved the Interim Accounts on 31 August 2015.



## 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 2015, the turnover of the Group was \$43.225 million, a slight increase of \$0.235 million, or 0.55%, as compared to \$42.990 million for the same period of prior year. The net loss attributable to shareholders was \$7.100 million, or 0.88 cents per share, as compared to net loss of \$12.373 million, or 1.50 cents per share, for the same period of 2014. On the statement of financial position, at 30 June 2015 the total assets of the Group were \$398.834 million, as compared to \$387.683 million at 31 December 2014, and the net assets of the Group were \$339.958 million at 30 June 2015, as compared to \$335.546 million at 31 December 2014.

### Business Review

The Group is primarily 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 wholly owned subsidiaries, South Sea Graphite (Luobei) Co., Ltd., Liaoning Sinorth Resources Co., Ltd., and majority owned subsidiary, Luo Bei Xin Long Yuen Graphite Productions Co., Ltd, the Company is engaged in the business of production and sale of graphite products worldwide, mostly in China.

Through its majority owned subsidiary, Axiom Manufacturing Services Ltd. in the United Kingdom ("Axiom"), the Company provides electronics manufacturing services to companies in the following industrial market sectors:

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





Generally, 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. Most of Axiom's customers are located within the United Kingdom and North America.

In addition to its traditional operations of business in crude oil, minerals and electronic manufacturing services, in 2014, the Company, through its wholly owned subsidiary Cityhill Limited, started to develop a line of Piece of Cake (POC) products in different forms, such as mobile phones, tablets and set top boxes. The devices have multiple functions, including medical diagnosis, entertainment, television viewing and Internet surfing. The target customers are home-based Internet users. The products will initially be introduced in Asia. If successful, the Company intends to expand its market to Europe, North America and other parts of the world.

During the six months ended 30 June 2015, the Company has made the following developments:

1. The first generation of Piece of Cake mobile phone developed by the Company was launched, and the Company received the first batch of 1,000 pieces of Piece of Cake mobile phone in March of 2015. The products were all sold out.

In June 2015, the Company began to make its second generation of Piece of Cake mobile phone, and 10,000 pieces of the products were all sold out.

2. In June 2015, the Company entered into a Memorandum of Understanding with 北京小馬當紅文化傳播有限公司 (“小馬公司”), whose businesses include e-commerce, multi-media production, and marketing, etc. Under the agreement, both parties agreed that:
  - (i) Both parties shall cooperate with each other to sell the Company's electronic products, multimedia products, mining products, and daily consumer goods which are recommended and approved by both parties;
  - (ii) [www.goldpay.com](http://www.goldpay.com), an online payment platform owned by a subsidiary of the Company, will serve as a payment platform to develop the online business of both parties.
3. In June 2015, the Company entered into a Memorandum of Understanding with SinoCreative Limited, which owns 24-hour TV commercial slots in Macau Lotus Satellite TV Media Limited. Under the agreement, SinoCreative shall sponsor TV commercial slots worth HK\$60 million to the Company to support and advertise the online sale of the Company's e-commerce products, including the Company's Piece of Cake mobile phone, the Goldpay online payment system (electronic gold “Goldpay”), mining products and daily consumer goods.



Both parties also agreed that SinoCreative shall produce entertainment and infomercial programs for the Company and its business partner, 小馬公司, to market and promote the sale of e-commerce products and multi-media products of the Company and 小馬公司. SinoCreative also agreed to grant a 50% discount to the Company.

As a promotional tool for marketing of the Company's line of Piece of Cake products, Unicorn Arts Limited, a wholly owned subsidiary of the Company, is producing an infomercial film by the name of Pegasus (“天馬”) to promote the Company's products. As of the date of this announcement, the film shooting has been completed.

In May 2015, South Sea Graphite (Luobei) Co., Ltd. (“SSG”) and Luo Bei Xin Long Yuen Graphite Productions Co., Ltd. (XLY”), two subsidiaries of the Company, entered into a separate long-term lease agreement with a graphite company in Luobei, Heilongjing. Under the agreements, SSG and XLY agreed to lease out all of their production assets to the lessee and, in return, will receive an aggregate of net RMB23.40 million of rental income each year. The amount of the rental income will be renegotiated every five years.

## Results of Operations

For the six months ended 30 June 2015, the Group's turnover was \$43.225 million, a slight increase of \$0.235 million, or 0.55%, as compared to \$42.990 million for the same period of the prior year. Specifically, during the six month period ended 30 June 2015, the turnover of the Group's crude oil operation was \$2.546 million as compared to \$5.179 million for the same period of 2014, representing a decrease of 50.84%. The decrease in oil revenue was primarily due to significant drop in oil prices on the international markets. In fact, our oil production is relatively stable.

Compared with last year, for the six months ended 30 June 2015, the Group's graphite operation and facilities generated revenues of \$3.895 million, or a decrease of 66.69%, as compared to \$11.692 million for the same period of last year. During the six month period ended 30 June 2015, the turnover of the Group's electronics manufacturing service operation was \$33.184 million, representing an increase of \$7.065 million, or 27.05%, as compared to \$26.119 million for the same period of the prior year. The increase in electronics manufacturing service revenue was due to an increase in sales orders and new customers.



## Liquidity and Financial Resources

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

At 30 June 2015, the Group's cash and cash equivalents were \$27.142 million as compared to \$28.743 million as at 31 December 2014. For the six months ended 30 June 2015, the Group's operating activities used net cash of \$13.155 million. By comparison, net cash used in operating activities was \$0.19 million for the same period of 2014.

During the six month period ended 30 June 2015, the Group's investing activities used net cash of \$96 million, primarily due to purchase of property and equipment. By comparison, net cash used by the Group's investing activities in 2014 was \$2.408 million. For the six months ended 30 June 2015, the Group's financing activities generated net cash of \$11.533 million, primarily from issuance of convertible debentures of the Company. By comparison, net cash provided in financing activities was \$4.100 million for the same period of 2014.

At 30 June 2015, the Group had no contingent liabilities.

## Convertible Debentures

In August 2014, the Company entered into a subscription agreement with Unique Hero Development Limited for an aggregate of HK\$1.660 million 0% interest convertible debentures due 31 December 2018. The reasons to issue this convertible debenture were that, Axiom Manufacturing Services Limited, a wholly owned subsidiary of the Company, will start the mass production of Piece of Cake products. After deducting related fees and expenses, the net proceeds amount to approximately HK\$1.577 million, of which 80% will be used as working capital for the manufacturing and selling of the Piece of Cake products, and the rest will be reserved for the Company as working capital.

In 2014, the Company issued the convertible debenture for approximately US\$6,410,000. Conversion right was exercised to convert the debentures for 300,000,000 ordinary shares before 9 October 2014 and 35,335,689 ordinary shares after 9 October 2014. Of the US\$6,410,000, approximately US\$2,564,000 was used for the development of the Company's POC products, and approximately US\$3,846,000 was used for the Company's general and administrative expenses.

During the six months ended 30 June 2015, the Company issued the convertible debentures for approximately US\$12,298,000. Conversion right was exercised to convert the debentures for 169,480,560 shares. The proceeds were used for the manufacture of the POC products and for production of an infomercial film to promote the Company's line of POC products.

The Group believes that its cash balance and cash generated from operations, and the cash from issuance of the Company's convertible debentures 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 Company may need to raise funds through private placements, either in equity offerings, or interest bearing borrowings. There can be no assurance that any necessary additional financing will be available to the Company at that time. If we are unable to raise funds, our ability to grow will be materially hindered.



## Off Balance Sheet Arrangements

At 30 June 2015, the Group had no off balance sheet arrangements.

## Employees and Remuneration Policies

At 30 June 2015, the Group had approximately 392 employees in Indonesia, the United Kingdom, China and Hong Kong. The Group believes that its relationship with its employees is satisfactory.

The remuneration policy of the Group employees is set by the Remuneration Committee on the basis of the employees' merit, qualifications and competence. The emoluments of the Directors of the Company are decided by the Remuneration Committee. From time to time, the Group may also use services of independent consultants and contractors to render various professional services. No share option scheme is in operation.

## 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 ended 30 June 2015, the Group has not engaged in any hedging activities. The Group will continue to monitor the risk of foreign exchange fluctuation on the Group's results of operations, financial conditions and cash flows.

## Interim Dividends

The Directors have decided not to declare any interim dividend for the six months ended 30 June 2015 (2014: 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.



## ADDITIONAL INFORMATION

### Compliance with the Code of 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, except for two deviations as below:

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

Under the code provision A.4.1 of the 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 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 26 June, 2015, Mr. Feng Zhong Yun was re-elected as an executive director; Mr. Ng Lai Po and Mr. Chai Woon Chew were re-elected as an independent non-executive director, respectively.

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

Mr. Lu Ren Jie, Mr. Chai Woon Chew and Mr. Ng Lai Po, being non-executive directors, were not able to attend the annual general meeting of the Company held on 26 June, 2015 due to other business engagements.

### Compliance with the Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors of the Company. All Directors have confirmed that, following specific enquiry by the Company, they fully complied with Mode Code throughout the six month period ended 30 June 2015.



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

During the six months ended 30 June 2015, 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 2015, none of the Directors and 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 2015, none of the Company's Directors had a material interest, either direct or indirect, in any contract of significance to the business of the Company to which the Company or any of its subsidiaries was a party.

At no time during the period under the review was the Company or any of the Company's subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares, or debentures of, the Company or any other body corporate.

## Substantial Shareholders and Other Person's Interest in Shares

At 30 June 2015, no person, other than a Director or Chief Executive's interests which are disclosed in the section "Directors' and Chief Executive's Interests and Short Positions in Shares" above, had registered an interest, short position, or lending 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.

## Review by the Audit Committee

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Company and discussed auditing, internal controls and financial reporting matters, including a review of the unaudited financial statements for the six months ended 30 June 2015.



## 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 18 September, 2015.

On behalf of the Board

**Feng Zhong Yun**  
*Managing Director*

Hong Kong, 31 August 2015