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SSP 南海石油

SOUTH SEA PETROLEUM HOLDINGS LIMITED
南海石油控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 076)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2018

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 2018 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 2018 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	Six months ended 30 June 2018 Unaudited *US$'000*	30 June 2017 Unaudited *US$'000* (Restated)
TURNOVER	*3*	**61,600**	27,580
Cost of sales		**(50,107)**	(22,517)
		11,493	5,063
Other income		**763**	644
General and administrative expenses		**(6,073)**	(5,508)
PROFIT FROM OPERATING ACTIVITIES	*4*	**6,183**	199
Finance costs		**(13)**	(39)
PROFIT BEFORE TAX		**6,170**	160
Income tax	*5*	**80**	–
PROFIT FROM CONTINUING OPERATIONS		**6,250**	160
DISCONTINUED OPERATIONS	*6*		
Loss from discontinued operations		**(388)**	(701)
Profit on disposal of discontinued operations		**9,709**	–
		9,321	(701)
PROFIT (LOSS) FOR THE PERIOD		**15,571**	(541)
Attributable to:			
Equity shareholders of the Company			
– Continuing operations		**6,250**	140
– Discontinued operations		**9,321**	(691)
		15,571	(551)
Non-controlling interests			
– Discontinued operations		**–**	10
		15,571	(541)
EARNING (LOSS) PER SHARE – BASIC *(US Cents)*	*7*		
– From continuing and discontinued operation		**0.31**	(0.02)
– From continuing operations		**0.12**	–
– From discontinued operations		**0.19**	(0.02)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Six months ended	
	30 June	30 June
	2018	2017
	Unaudited	Unaudited
	US$'000	*US$'000*
		(Restated)
PROFIT (LOSS) FOR THE PERIOD	**15,571**	(541)
OTHER COMPREHENSIVE INCOME (EXPENSES)		
– Item that may be reclassified to profit or loss		
Exchange differences	**8**	815
TOTAL COMPREHENSIVE INCOME (EXPENSES)		
FOR THE PERIOD	**15,579**	274
Attributable to:		
Equity shareholders of the Company		
– Continuing operations	**6,258**	915
– Discontinued operations	**9,321**	(691)
	15,579	224
Non-controlling interests		
– Discontinued operations	**–**	50
	15,579	274

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**30 June 2018 Unaudited** ***US$'000***	31 December 2017 Audited *US$'000*
NON-CURRENT ASSETS			
Fixed assets	*8*	**24,372**	23,855
Prepaid lease payments		**2,508**	2,581
Intangible assets		**4,271**	4,283
Available-for-sale investments		**–**	–
Interest in an associate		**–**	–
Deferred tax assets		**1,211**	1,238
		32,362	31,957
CURRENT ASSETS			
Cash and bank balances		**11,163**	10,165
Financial assets at fair value held for trading	*9*	**3,635**	3,691
Trade and notes receivables	*10*	**28,757**	17,693
Inventories		**328,134**	338,202
Other receivables, deposits and prepayments	*11*	**37,681**	41,073
Assets classified as held-for-sale		**–**	1,367
Investments held for resale		**1,525**	–
		410,895	412,191
CURRENT LIABILITIES			
Trade payables	*12*	**41,280**	46,516
Other payables and accruals	*13*	**4,439**	7,425
Bank overdraft		**2,360**	–
Finance leases-current portion		**154**	210
Taxation		**15,500**	15,899
Liabilities directly associated with assets classified as held-for-sale		**–**	10,118
		63,733	80,168
NET CURRENT ASSETS		**347,162**	332,023
TOTAL ASSETS LESS CURRENT LIABILITIES		**379,524**	363,980
NON-CURRENT LIABILITIES			
Finance leases		**–**	35
NET ASSETS		**379,524**	363,945
CAPITAL AND RESERVES			
Share capital	*15*	**590,430**	590,430
Revaluation reserve		**4,531**	4,639
Translation reserve		**1,747**	1,631
Accumulated losses		**(217,190)**	(232,761)
Total equity attributable to equity shareholders of the Company		**379,518**	363,939
Non-controlling interests		**6**	6
		379,524	363,945

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOW

	Six months ended 30 June 2018 Unaudited *US$'000*	30 June 2017 Unaudited *US$'000*
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**75**	(19,131)
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(2,278)**	4,820
CASH FLOW FROM FINANCING ACTIVITIES	**366**	10,264
DECREASE IN CASH AND CASH EQUIVALENTS	**(1,837)**	(4,047)
Cash and cash equivalents at 1 January	**10,165**	14,117
Effect of exchange rate	**475**	(84)
CASH AND CASH EQUIVALENTS AT 30 JUNE	**8,803**	9,986
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**11,163**	9,986
Bank overdraft	**(2,360)**	–
	8,803	9,986

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

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

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

	Attributable to equity holders of the Company						
	Share capital	Translation reserve	Revaluation reserve	Accumulated losses	Total	Non-controlling interests	Total equity
At 1.1.2017	562,721	771	3,909	(223,184)	344,217	1,767	345,984
Total comprehensive income (expenses) for the period	–	553	222	(551)	224	50	274
Issue of shares upon conversion of convertible debentures	10,342	–	–	–	10,342	–	10,342
At 30.6.2017	573,063	1,324	4,131	(223,735)	354,783	1,817	356,600

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 preparation of the unaudited interim financial information in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The accounting policies of these Interim Accounts are consistent with those used in the annual financial statements for the year ended 31 December 2017 which is applicable for the period ended 30 June 2018.

2. Adoption of new or amended HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and revised HKFRSs for the preparation of the Group's condensed consolidated financial statements.

Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers
Amendments to HKAS 40	Transfers to Investment Property
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Considerations
Annual Improvements to HKFRSs 2014-2016 cycle	Amendments to HKFRS 1 and HKAS 28

The adoption of the new and revised HKFRSs in the current interim period has had no material impact on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. Turnover and segment information

Turnover represents revenue from assembly of electronic components for the contract electronics manufacturer, and sales of mineral products. As mentioned in note 6, the Group disposed the business of leasing production assets in 2017 and the oil business during the period. The segment of oil and the lease of production assets were classified as discontinued operations. Prior period comparative segment information has been restated to conform with current period presentation.

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

Continuing operations

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

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

For the six months ended 30 June 2017
(Expressed in US$'000)
(Restated)

	Sale of minerals	Contract electronic manufacturing	Trading securities	Develop of mobile phones	Others	Total
Revenue from external customers	6,148	21,319	–	–	113	27,580
Segment results	638	1,386	43	(622)	–	1,440
Unallocated income and expenses						(1,241)
Profit from operating activities						199
Finance costs	(26)	(13)	–	–	–	(39)
Taxation	–	–	–	–	–	–
Profit for the period						160

4. Profit from operating activities

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

	Six months ended 30 June, 2018	30 June, 2017
	Unaudited	Unaudited
	US$'000	*US$'000*
Depreciation on fixed assets	**692**	1,334
Unrealised (gain) loss in fair value of financial assets held for trading	**57**	(38)
Loss on disposal of fixed assets	**–**	406
Provision for impairment of inventories	**–**	217
Provision for impairment of due from associate	**–**	598

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 or has tax losses brought forward.

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

6. Discontinued operations

On 14 September 2017, the Group disposed the entire interests in its subsidiary, Luo Bei Xin Long Yuan Graphite Production Co. Limited, at a consideration of USD4,042,000 and the entire production assets of its subsidiary, South Sea Graphite (Luobei) Co., Limited at a consideration of USD3,701,000. The Group's business in leasing of production assets were discontinued.

On 5 March 2018, the Group entered into an agreement to dispose the entire interest of its subsidiary, Kalrez Petroleum (Seram) Limited, at a consideration of USD600,000. The results of the oil business segment operated by this subsidiary and the results of the lease of production assets segments together with the related loss on disposal of Luo Bei Xin Long Yuan Graphite Production Co. Limited have been presented as discontinued operations in the consolidated financial statements.

The consolidated results of the business in leasing of production assets and the oil business were presented in the consolidated financial statements as discontinued operations. The consolidated statement of profit or loss distinguished the discontinued operations from continuing operations and the comparative figures have been restated accordingly.

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

	Six months ended 30 June, 2018 Unaudited *US$'000*	30 June, 2017 Unaudited *US$'000*
Revenue	**–**	2,350
General and administration expenses	**(216)**	(1,823)
Drilling and operating expenses	**(172)**	(1,228)
Loss for the period from discontinued operations	**(388)**	(701)
Profit on disposal of a subsidiary	**9,709**	–
	9,321	701

(b) Disposal of subsidiary during the period:

	US$'000
Fixed assets	72
Cash and bank balances	77
Other receivables, deposits and prepayments	813
Inventories	444
Trade payables	(795)
Bank overdraft	(315)
Other payable and accruals	(6,298)
Provision	(3,105)
Net liabilities disposed	(9,109)
Cash consideration	600
Gain on disposal	9,709

7. Earnings (Loss) per share

The calculation of basic earnings (loss) per share is based on the net profit attributable to equity shareholders for the period of US$15,571,000 (2017: loss of US$551,000), and 4,982,709,078 (2017: weighted average of 3,647,930,735) ordinary shares in issue during the period.

8. Fixed assets

During the six months ended 30 June 2018 the Group acquired approximately US$1,597,000 (2017: US$3,918,000) of fixed assets and no disposal of fixed assets (2017: disposed fixed assets with net book value of approximately USD3,600,000).

9. Financial assets at fair value held for trading

	30 June 2018	31 December 2017
	Unaudited	Audited
	US$'000	*US$'000*
Hong Kong listed shares	**485**	541
Shares traded on the OTCQB Marketplace in the United States	**3,150**	3,150
	3,635	3,691

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

10. Trade and notes receivables

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

	30 June 2018	31 December 2017
	Unaudited	Audited
	US$'000	*US$'000*
0-30 days	**15,623**	5,252
31-60 days	**6,157**	7,007
61-90 days	**2,579**	3,356
Over 90 days	**4,398**	2,078
	28,757	17,693

11. Other receivables, deposits and prepayments

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

	30 June 2018	31 December 2017
	Unaudited	Audited
	US$'000	*US$'000*
Purchase deposits	**168**	5,039
Film project expenses	**11,690**	15,116
Other deposits and prepayments	**8,316**	1,588
Other receivables	**17,527**	19,330
	37,681	41,073

12. Trade payables

The ageing analysis of the trade payables is as follows:

	30 June 2018 Unaudited US$'000	31 December 2017 Audited US$'000
0-30 days	**3,088**	2,403
31-60 days	**1,993**	1,212
61-90 days	**3,747**	3,962
Over 90 days	**32,452**	38,939
	41,280	45,516

13. Other payables and accruals

The ageing analysis of other payables and accruals is as follows:

	30 June 2018 Unaudited *US$'000*	31 December 2017 Audited *US$'000*
Other payables	**821**	376
Accruals and deferred income	**2,457**	4,878
Deposits received	**652**	–
Other taxes payable	**509**	2,171
	4,439	7,425

14. Dividend

The Directors have decided not to declare any interim dividend for the six months ended 30 June 2018 (2017: Nil).

15. Share capital

	30 June 2018 Unaudited *US$'000*	31 December 2017 Audited *US$'000*
Issued and fully paid:		
4,982,709,078 ordinary shares (31.12.2017: 4,982,709,078 ordinary shares)	**590,430**	590,430

16. Commitment

Operating lease commitments outstanding at 30 June 2018 not provided for in the financial statements were as follows:

	30 June 2018 Unaudited US$'000	31 December 2017 Audited US$'000
(a) Total future minimum lease payments receivable under non-cancellable operating leases		
(i) On land and buildings expiring		
Within one year	**205**	210
In the second to fifth years inclusive	**487**	786
	692	996
(b) Total future minimum lease payment payable under non-cancellable operating leases		
(i) On land and buildings expiring:		
Within one year	**123**	151
In the second to fifth years inclusive	**57**	115
	180	266

17. Fair value measurement of financial instrument

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into level 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair values measurement are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair values measurement are those derived from inputs other than quoted prices include within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair values measurement are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

	Level 1 ***US$'000***	**Level 2** ***US$'000***	**Level 3** ***US$'000***	**30 June 2018 Total** ***US$'000***
Financial assets at fair value held for trading	**3,635**	**–**	**–**	**3,635**

	Level 1 *US$'000*	Level 2 *US$'000*	Level 3 *US$'000*	31 December 2017 Total *US$'000*
Financial assets at fair value held for trading	3,691	–	–	3,691

18. Related party transactions

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

	Six months ended 30 June 2018 Unaudited *US$'000*	30 June 2017 Unaudited *US$'000*
Rental income received and receivable from non-controlling interests	**–**	787

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

	Six months ended 30 June 2018 Unaudited *US$'000*	30 June 2017 Unaudited *US$'000*
Salaries, allowances and benefits in kind	**372**	577

19. Comparative figures

Certain comparative figures have been restated to conform with the current year's presentation.

20. Approval of the Interim Accounts

The Board of Directors of the Company approved the Interim Accounts on 31 August 2018.

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 2018, the turnover of the Group was $61.600 million, an increase of $34.020 million, or 123.35%, as compared to $27.580 million for the same period of prior year. The net profit attributable to shareholders was $15.571 million, or 0.31 cents per share, as compared to net loss of $0.551 million, or 0.02 cents per share, for the same period of 2017. On the statement of financial position, at 30 June 2018 the total assets of the Group were $443.258 million, as compared to $444.148 million at 31 December 2017, and the net assets of the Group were $379.524 million at 30 June 2018, as compared to $363.945 million at 31 December 2017.

BUSINESS REVIEW

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

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

The Company's electronic manufacturing services are operated by its wholly-owned subsidiary Axiom Manufacturing Services Limited in the United Kingdom ("Axiom"). Axiom offers comprehensive contract manufacturing services, from design of electronic products to manufacturing, to the medical, national defense, transportation, aerospace, security, maritime and natural gas industries and other sectors. The electronic products of contract manufacturing and design are usually labeled with customers' brand names. Axiom's customers are mainly located in the United Kingdom and North America.

Through its wholly-owned subsidiary Unicorn Arts Limited ("Unicorn"), the Company's cultural and multi-media business operations include motion picture production, television and online programming, and introduction of valuable foreign movies to Mainland China, etc. The shooting of the Company's first movie, "Pegasus", a black-humor feature film with an anti-war and anti-nuclear weapons theme, was completed. Now that post production and special effects are under way. The movie is scheduled for worldwide release by the end of this year.

New Graphite Production Lines

The Company has been engaged in graphite business for 10 years. Graphite is widely used in aerospace, steel, automobile, electric vehicle, battery and lubricant industries. On the one hand, as a nonrenewable mineral resource, graphite deposits are limited and diminishing. On the other hand, since Andre Geim and Konstantin Novoselov received their Nobel Prize in 2010 for their discovery of the unique properties of graphene, the demand for graphite as a strategic material has been increased. 14 materials including graphite and rare earth elements are viewed as key materials.

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

In order to gain more profit, the Company plans to expand its current graphite operations as soon as possible by building additional graphite product production lines in Madagascar.

New High-Tech Joint Venture

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

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

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

Customers can also exchange their electronic receipts online for gold-backed US dollars, British pounds, Euros, Australia dollars, RMB, Hong Kong dollars and Japanese yen for their use at any location all over the world.

Disposal of Crude Oil Production Subsidiary

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

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

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

Investing into Shanghai Guo Xiong

Liaoning Sinorth Resources Co., Ltd. ("Liaoning Sinorth"), a wholly-owned subsidiary of the Company, entered into an agreement with Shanghai Guo Xiong Investment and Development Co., Ltd. ("Shanghai Guo Xiong"), pursuant to the agreement, Liaoning Sinorth invests RMB10.1 million for 25% of interest equity of Shanghai Guo Xiong, the total registration capital of which is RMB40.40 million. The main business of Shanghai Guo Xiong is investing in real estate properties, which are largely located in Shandong Province, China. Due to certain financial circumstances of real estate business in China, the Company plans to resell it for a profit this year.

RESULTS OF OPERATIONS

Continuing Operations

For the six months ended 30 June 2018, the Group's turnover was $61.600 million, an increase of $34.020 million, or 123.35%, as compared to $27.580 million for the same period of last year. For the six months ended 30 June 2018, the Group's turnover of graphite operation was $33.206 million, an increase of 440.11% as compared to $6.148 million for the same period in 2017.

For the six months ended 30 June 2018, the turnover of the Group's electronics manufacturing service operation was $28,103 million, representing an increase of $6.784 million, or 31.82%, as compared to $21.319 million for the same period of the prior year. The increase in electronics manufacturing service revenue was primarily due to an increase in sales. For the period under review, the Company's cultural operations generated no revenues. All film project costs were recorded as current assets in the Group's consolidated financial statements. Those film project costs will be recognized with the theatrical distribution of the motion picture for exhibition.

Discontinued Operations

For the six months ended 30 June 2018, there is no turnover from crude oil operation and leasing of production assets. The turnover of these two segments of the Group for the same period in 2017 was $2.350 million, representing a decrease of 100%.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's operations are primarily funded by cash flows from its operations and PRC Government grant. At 30 June 2018, the Group's cash and cash equivalents were $8.803 million as compared to $9.986 million as at 30 June 2017. For the six months ended 30 June 2017, the Group's operating activities generated net cash of $0.075 million. By comparison, net cash used in operating activities was $19.131 million for the same period of 2017.

During the six months ended 30 June 2018, the Group's investing activities used net cash of $2.278 million, primarily by acquisition of investment held for resale, purchase of machinery and equipment and from sale proceed from disposal of subsidiary. By comparison, net cash from the Group's investing activities in 2017 was $4.820 million. For the six months ended 30 June 2018, the Group had cash from financing activities of $0.366 million mainly from PRC Government grant. By comparison, net cash provided in financing activities was $10.264 million for the same period of prior year.

As at 30 June 2018, the Group's gearing ratio, calculated as the aggregate of bank overdraft and finance lease divided by the amount of total equity, was 0.66% (2017: 0.09%).

As at 30 June 30, 2018, the Group had no contingent liabilities. The Group believes that its cash balance and the cash generated from operations and from financing activities 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

As at 30 June 2018, the Group had no off balance sheet arrangements.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2018, the Group had approximately 348 employees in the United Kingdom, China and Hong Kong. The Group believes that its relationship with its employees is satisfactory.

The remuneration policy of the Group employees is set by the Remuneration Committee on the basis of the employees' merit, qualifications and competence. The emoluments of the Directors of the Company are decided by the Remuneration Committee. No share option scheme is in operation.

FOREIGN EXCHANGE EXPOSURE

The Company's principal operating subsidiaries earn revenues and incur costs in US dollars, Chinese Renminbi and British pounds, respectively. For the six months ended 30 June 2018, the Group did not engaged in any hedging activities. The Company will continue to monitor the risk of foreign exchange fluctuation on the Company's results of operations, financial conditions and cash flows.

MATERIAL UNCERTAINTIES

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

LEGAL PROCEEDINGS

The Group is not aware of any pending or threatened legal proceeding that, if determined in a manner adverse to us, could have a material adverse effect on the business and operations of the Group.

EVENTS AFTER THE REPORTING PERIOD

There is no subsequent event after the reporting period which has material impacts on the consolidated financial statements of the Group.

SUFFICIENCY OF PUBLIC FLOAT

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

ADDITIONAL INFORMATION

Compliance with the Code of Corporate Governance Practices

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

Code Provision A.2.1: The roles of chairman and chief executive should be separate

Code provision A.2.1 provides that the roles of chairman and chief executive should be separate and should not be performed by the same person. The Company deviates from this provision because Mr. Feng Zhong Yun performs both the roles of chairman and chief executive since Mr. Guan Xinmin, the former Chairman of the Company, was passed away in May 2014. The Board believes that the current arrangement would provide the Company with strong and consistent leadership and facilitates the implementation and execution of the Company's business strategies. The Board shall nevertheless review the structure from time to time in light of the prevailing circumstances.

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

Under the code provision A.4.1 of the CG Code, non-executive Directors (including independent non-executive directors) shall be appointed for a specific term and subject to re-election. None of the Company's existing independent non-executive Directors was appointed for a specific term. This constitutes a deviation from code provision A.4.1 of the CG Code. However, the Company's Articles of Association stipulate that all independent non-executive Directors shall retire and be re-elected at least once every three years, which is an adequate measure to ensure that the Company's corporate governance complies with the same level to that required under the Code on Governance Practices and Corporate Governance Code.

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

Code Provision A.6.7: Independent non-executive Directors and non-executive Directors should attend general meeting

Mr. Lu Ren Jie and Mr. Chai Woon Chew, being non-executive Directors, were not able to attend the annual general meeting of the Company held on 31 May 2018 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 2018.

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

During the six months ended 30 June 2018, 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 2018, none of the Directors and chief executive officers of the Company and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations that were required, pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), to be entered in the register referred to therein or which were required, pursuant to the Model Code contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

Directors' Interests in Contracts

During the six months ended 30 June 2018, 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 2018, 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 pool 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 2018.

Board of Directors

As at the date of this announcement, the board of Directors is comprised of Mr. Feng Zhong Yun and Ms. Zhang Xue being executive Directors, Mr. Han Zhi Jun, Mr. Chai Woon Chew, Mr. Ng Lai Po and Mr. Lu Ren Jie being independent non-executive Directors.

Publication of Results

The Interim Report will be published in due course on website of The Stock Exchange of Hong Kong Limited (http://www.hkex.com.hk) and website of the Company (http://www.southseapetro.com.hk), and will be dispatched to shareholders who selected to receive the printed version of the Company's corporate communication on or before 30 September, 2018.

On behalf of the Board
Feng Zhong Yun
Managing Director

Hong Kong, 31 August 2018