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)

ANNOUNCEMENT OF AUDITED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2013

The Board of Directors (the "Board") of South Sea Petroleum Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2013 together with the comparative figures in 2012 as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2013
(Expressed in US$'000)

	Notes	**2013**	2012
TURNOVER		**370,507**	111,943
Cost of sales		**(276,809)**	(81,334)
		93,698	30,609
Other income		**2,461**	3,691
General and administrative expenses		**(23,276)**	(24,714)
Drilling and operating expenses		**(15,297)**	(8,216)
Net gain (loss) in fair value of financial assets held for trading		**22**	(13,421)
Other taxes		**(611)**	(208)
PROFIT (LOSS) FROM OPERATING ACTIVITIES	*3*	**56,997**	(12,259)
Finance costs		**(423)**	(585)
PROFIT (LOSS) BEFORE TAX		**56,574**	(12,844)
Income tax	*4*	**(15,532)**	34
PROFIT (LOSS) FOR THE YEAR		**41,042**	(12,810)
Attributable to:			
Equity shareholders of the Company		**40,816**	(12,919)
Non-controlling interests		**226**	109
		41,042	(12,810)
EARNINGS (LOSS) PER SHARE (US Cents)	*5*		
– Basic		**0.53**	(0.57)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2013
(Expressed in US$'000)

	2013	2012
PROFIT (LOSS) FOR THE YEAR	**41,042**	(12,810)
OTHER COMPREHENSIVE INCOME		
Exchange difference on translation of financial statements	**1,353**	1,750
Revaluation of land and building	**(415)**	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**41,980**	(11,060)
Attributable to:		
Equity shareholders of the Company	**41,689**	(11,220)
Non-controlling interests	**291**	160
	41,980	(11,060)

CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 December 2013
(Expressed in US$'000)

	Notes	2013	2012
NON-CURRENT ASSETS			
Fixed assets	7	**29,600**	32,926
Prepaid lease payments		**5,624**	5,590
Goodwill		**537**	537
Available-for-sale investments		**293**	321
Deferred tax assets		**1,711**	1,359
Long term portion of trade receivable	8	**237,830**	–
		275,595	40,733
CURRENT ASSETS			
Cash and bank balances		**21,766**	26,161
Financial assets at fair value held for trading	9	**30,543**	30,521
Trade and notes receivables	8	**44,387**	18,781
Inventories		**20,019**	19,405
Prepayments, deposits and other receivables		**10,419**	159,581
		127,134	254,449
CURRENT LIABILITIES			
Trade payables	10	**11,064**	12,434
Other payables and accrued expenses		**16,508**	15,633
Bank loan on discounted debtors		**–**	304
Due to non-controlling interest		**862**	1,205
Dividend payable		**–**	2,450
Finance lease-current portion		**90**	184
Taxation		**15,710**	1,738
		44,234	33,947
NET CURRENT ASSETS		**82,900**	220,502
TOTAL ASSETS LESS CURRENT LIABILITIES		**358,495**	261,235
NON-CURRENT LIABILITIES			
Finance lease		**64**	151
Provision		**3,105**	2,605
Convertible debentures	11	**–**	64
		3,169	2,820
NET ASSETS		**355,326**	258,415

	Notes	**2013**	2012
CAPITAL AND RESERVES			
Share capital	*12*	**8,139**	3,711
Revaluation reserve		**3,779**	4,171
Special capital reserve		**12,037**	12,037
Share premium		**478,568**	428,065
Translation reserve		**9,508**	8,243
Accumulated losses		**(160,962)**	(201,778)
Total equity attributable to equity shareholders		**351,069**	254,449
Non-controlling interests		**4,257**	3,966
		355,326	258,415

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Years Ended 31 December	
	2013	2012
	US$'000	*US$'000*
NET CASH USED IN OPERATING ACTIVITIES	**(56,023)**	(49,195)
NET CASH USED IN INVESTING ACTIVITIES	**(3,298)**	(6,799)
CASH FLOW FROM FINANCING ACTIVITIES	**54,382**	48,479
DECREASE IN CASH AND CASH EQUIVALENTS	**(4,939)**	(7,515)
Cash and cash equivalents at beginning of year	**26,161**	33,122
Effect of foreign exchange rates	**544**	554
CASH AND CASH EQUIVALENTS AT END OF YEAR	**21,766**	26,161
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**21,766**	26,161

NOTES TO THE ACCOUNTS

1. Basis of preparation and significant accounting policies

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRSs) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. The HKFRS is inclusive of all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the HKICPA. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

The measurement basis in the preparation of the financial statements is historical cost, except for the measurement of financial assets at fair value through profit or loss, land and buildings and investment properties.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

In the current year, 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 2013.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (Revised in 2011)	Employee Benefits
HKAS 27 (Revised in 2011)	Separate Financial Statements
HKAS 28 (Revised in 2011)	Investments in Associates and Joint Ventures
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
HK (IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine

The effect of the adoption of the above amendments to standards beginning 1 January 2013 is not material to the Group's results of operations or financial position and on the disclosures set out in these financial statements.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective in the financial year of which the consolidated financial statements were prepared:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[1]
Amendments to HKAS 19 (Revised in 2011)	Defined Benefit Plans – Employee Benefits[2]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets[1]
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle[2]
HKFRS 9	Financial Instruments[3]
HKFRS 14	Regulatory Deferral Accounts[5]
HK (IFRIC) – Int 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.
3 Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.
4 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.
5 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016.

2. 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 year by business segments is as follows:

(Expressed in US$'000)
For the year ended 31 December 2013:

	Oil	**Sale of minerals**	**Contract Electronic manufacturing**	**Trading securities**	**Trading of gold**	**Others**	**Total**
Revenue from external customers	**19,437**	**304,725**	**46,345**	**–**	**–**	**–**	**370,507**
Segment results	**(2,690)**	**62,691**	**1,828**	**97**	**–**	**–**	**61,926**
Unallocated income and expenses							**(4,929)**
Profit from operating activities							**56,997**
Finance costs		**(422)**	**21**			**(22)**	**(423)**
Taxation		**(15,854)**	**322**				**(15,532)**
Profit for the year							**41,042**

	Oil	Sale of minerals	Contract Electronic manufacturing	Trading securities	Trading of gold	Others	Total
Revenue from external customers	12,384	41,093	47,495	–	10,968	3	111,943
Segment results	(3,020)	2,247	3,033	(13,890)	554	–	(11,076)
Unallocated income and expenses							(1,486)
Loss from operating activities							(12,562)
Finance costs			(282)				(282)
Taxation		(150)	184				34
Loss for the year							(12,810)

3. Profit (loss) from operating activities

The Group's profit (loss) from operating activities is arrived at after charging (crediting):

	2013	2012
	US$'000	*US$'000*
Depreciation:		
– owned fixed assets	**4,303**	3,870
– leased fixed assets	**63**	171
Operating lease rentals on		
– land and buildings	**656**	2,601
– plant and machinery	**1,862**	207
Costs of inventories sold	**291,712**	70,642
Fixed assets written off	**–**	150
Staff costs, including directors' remuneration	**17,234**	17,725
Auditors' remuneration		
– Audit fee	**192**	186
– other service	**38**	48
Net loss (gain) in fair value of financial assets at held for trading		
– realized	**–**	4,772
– unrealized	**(22)**	8,649
Provision for bad debts	**116**	–
Provision for plug and abandonment	**500**	–
Foreign exchange gain, net	**(223)**	(25)

4. Tax

Income tax in the consolidated income statement represents:

	2013	2012
	US$'000	*US$'000*
Overseas tax charge		
– Current year	**15,606**	159
– Under provision in prior year	**248**	–
Deferred tax credited	**(322)**	(193)
Tax charge for the year	**15,532**	(34)

Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries. Deferred tax credit for the year represents, deferred tax assets provided in an England subsidiary.

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 have tax losses to set off current year's profits in Hong Kong for the year.

5. Earnings (loss) per share

The calculation of basic earnings (loss) per share is based on the net profit attributable to equity shareholders for the year of US$40,816,000 (2012: US$12,919,000) and weighted average of 7,677,163,280 (2012: 2,275,578,889) ordinary shares in issue during the year.

6. Dividend

The Directors have decided not to declare any dividend for the year ended 31 December 2013 (2012: Nil).

7. Fixed assets

During the year ended 31 December 2013, the Group acquired approximately US$2,620,000 (2012: US$11,235,000) of fixed assets.

8. Trade and note receivables

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

	2013	2012
	US$'000	*US$'000*
0-30 days	**35,217**	7,424
31-60 days	**4,241**	3,180
61-90 days	**4,211**	3,331
Over 90 days	**718**	4,847
	44,387	18,781

Included in trade and note receivables an amount of US$643 (2012: Nil) which was due from non-controlling interest.

Long term portion of trade receivable is aged within 30 days. The amount is repayable within 9 years.

9. Financial assets at fair value held for trading

	2013	2012
	US$'000	*US$'000*
Hong Kong listed shares	**538**	521
Shares traded on the OTC Bulletin Board in United States	**30,000**	30,000
	30,538	30,521

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

10. Trade payables

The ageing analysis of the trade payables is as follows:

	2013	2012
	US$'000	*US$'000*
0-30 days	**4,997**	2,942
31-60 days	**3,102**	4,839
61-90 days	**1,494**	2,509
Over 90 days	**1,471**	2,141
	11,064	12,434

11. Convertible debentures

During the year, the Company issued the convertible debentures for approximately US$56,127. Finder's fee of US$1,261 was paid or payable to the debenture holders. Conversion right was exercised to convert US$56,192 of the convertible debentures for 4,427,884,750 shares of US$0.001 each.

12. Share capital

	2013	2012
	US$'000	*US$'000*
Authorised:		
500,000,000,000 ordinary shares of US$0.001 each (31.12.2012: 500,000,000,000 ordinary shares of US$0.001 each)	**500,000**	500,000
Issued and fully paid:		
8,139,061,280 ordinary shares of US$0.001 each (31.12.2012: 3,711,176,530 ordinary shares of US$0.001 each)	**8,139**	3,711

13. Related party transactions

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

	2013	2012
	US$'000	*US$'000*
Sales to non-controlling interest	**11,607**	1,321

14. Approval of the Annual Audited Accounts

The Board of Directors of the Company approved the Annual Audited Accounts on 31 March 2014.

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

For the year ended 31 December 2013, the turnover of the Group was $370.507 million, representing an increase of $258.564 million, or 230.98%, as compared to $111.943 million for the prior year. The net profit attributable to shareholders was $40.816 million, or 0.53 cents per share, as compared to net loss of $12.919 million, or 0.57 cent per share, for the same period of 2012. On the balance sheet, at 31 December 2013 the total assets of the Group were 402.729 million, as compared $295.182 million at 31 December 2012, and the net assets of the Group were $355.326 million at 31 December 2013, as compared $258.415 million at 31 December 2012.

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.

Long-term supply of graphite ore at a reasonable price is critical to the development of the Company's graphite business. Up to now the Company, through its subsidiary, has built a significant reserve of graphite ore as its financial resources may possibly permit. The Company wishes that it would be able to not only build an adequate graphite ore reserve for its own subsidiaries, but also sell graphite ore to other companies for a profit. To that end, in August 2013, the Company's subsidiary sold a major portion of its graphite ore reserve for no less than 20%

profit to a company that was willing to enter into a long-term purchasing contract (10 years), and pay 10 million HKD as performance bond. Upon execution of said contract, the Company has not only satisfied its long-term demand for graphite ore, but also locked in the profit through graphite ore sales to other companies over the next 10 years.

In 2013, the Company's subsidiary in the UK, Axiom Manufacturing Services Limited, received certain order of slot machines to be used for gaming purposes. The quality of the slot machines received very positive feedback from the customers and users. The Company believes that developing an improved machines with multiple functions, including medical diagnosis, entertainment, television viewing and internet surfing would generate a considerable amount of revenue/profit for the Company. Therefore, the Company plans to have Cityhill Limited, a wholly owned subsidiary of the Company, start working on research and development for the design of the new machine ("New Machine"). Upon successful completion of the research and development, the New Machine can be manufactured by Axiom. At the same time, the Company also plans to have Union Arts Limited, another wholly owned subsidiary of the Company, produce infomercial film(s) as a promotional tool for the marketing of the New Machine.

Results of Operations

For the year ended 31 December 2013, the Group's turnover was $370.507 million, an increase of $258.564 million, or 230.98%, as compared to $111.943 million for the same period of the prior year. Specifically, for the year ended 31 December 2013, the turnover of the Group's crude oil operation was $19.437 million as compared to $12.384 million for the same period of 2012, representing an increase of 56.95%. The increase in oil revenue was primarily due to more crude oil were delivered during the year. Compared with last year, China's economic growth has slowed down, as a result, for the year of 2013, the Group's graphite operation generated revenues of $304.725 million, or an increase of 641.55%, as compared to $41.093 million for the same period of last year. For the year ended 31 December 2013, the turnover of the Group's electronics manufacturing service operation was $46.345 million, representing a decrease of $1.150 million, or 2.42%, as compared to $47.495 million for the same period of the prior year. The slightly decrease in the Group's turnover in its electronics manufacturing service operation was largely due to a large contract in the second half of 2012. Overall electronic manufacturing volumes were on a par with that of the last year.

Liquidity and Capital 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 31 December 2013, the Group's cash and cash equivalents were $21.766 million as compared to $26.161 million as at 31 December 2012. For the year of 2013, the Group's operating activities used net cash of $56.023 million. By comparison, net cash used in operating activities was $49.195 million for the same period of 2012.

For the year ended 31 December 2013, the Group's investing activities used net cash of $3.298 million, primarily due to purchase of property and equipment and payment of dividend to minority shareholder . By comparison, net cash used by the Group's investing activities in 2012 was $6.799 million. For the year ended 31 December 2013, the Group's financing activities generated net cash of $54.382 million, primarily from issuance of convertible debentures of the Company. By comparison, net cash provided in financing activities was $48.479 million for the same period of 2012.

At 31 December 2013, 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 31 December 2013, the Group had no off balance sheet arrangements.

Employees and Remuneration Policies

At 31 December 2013, the Group had approximately 785 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. Salaries of employees are maintained at competitive levels while bonuses may be granted on a discretionary basis with reference to the performance of the Group as well as the individual's performance. Other employee benefits include mandatory provident fund, insurance, and medical cover.

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. For the year ended 31 December 2013, 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.

Compliance with the Code on Corporate Governance Practices and Corporate Governance Code

For the year ended 31 December 2013, the Company has complied with all the code provisions as set forth in the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited, 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 22 August 2013, Mr. Han Zhi Jun was appointed as independent non-executive director. Mr. Han shall retire and be re-elected at the next general meeting.

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, all being non-executive directors, were not able to attend the annual general meeting of the Company held on 16 May 2013 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 the code of conduct for dealing in securities of the Company by its Directors. Upon enquiry by the Company, all directors of the Company have confirmed that all directors have complied with the required standards set out in the Model Code throughout the year ended 31 December 2013.

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

During the year ended 31 December 2013, neither the Company, nor any of its subsidiaries, has purchased, sold, or redeemed any of the Company's securities.

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.

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 audited financial statements for the year ended 31 December 2013.

On the date of this announcement, the Audit Committee consists of the following independent non-executive directors: Mr. Ng Lai Po (Chairman), Mr. Lu Ren Jie, and Mr. Chai Woon Chew.

Publication of Results

This announcement of results containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules 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) (together, the "Websites"). The Company's Annual Report 2013 will also be published on the Websites and dispatched to shareholders who elected to receive the printed version of the corporate communication of the Company in due course.

BOARD OF DIRECTORS

As at the date of this announcement, the board of directors comprised of Mr. Guan Xinmin, 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.

On behalf of the Board
Feng Zhong Yun
Managing Director

Hong Kong, 31 March 2014