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## 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 2015

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 referred to as the “Group”) for the year ended 31 December 2015 together with the comparative figures in 2014 as follows:

#### CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2015

(Expressed in US\$'000)

|  | <i>Notes</i> | <b>2015</b>           | 2014                   |
|--|--------------|-----------------------|------------------------|
| <b>TURNOVER</b>  |              | <b>83,649</b>         | 82,379                 |
| Cost of sales  |              | <u>(65,098)</u>       | <u>(51,035)</u>        |
|  |              | <b>18,551</b>         | 31,344                 |
| Other income   |              | <b>555</b>            | 1,645                  |
| General and administrative expenses                                |              | <b>(29,503)</b>       | (33,979)               |
| Drilling and operating expenses                                    |              | <b>(4,730)</b>        | (8,824)                |
| Net gain (loss) in fair value of financial assets held for trading |              | <b>13,420</b>         | (13,515)               |
| Impairment of trade receivable                                     |              | <u>(6,408)</u>        | <u>–</u>               |
| <b>LOSS FROM OPERATING ACTIVITIES</b>                              | <b>3</b>     | <b>(8,115)</b>        | (23,329)               |
| Finance costs  |              | <u>(128)</u>          | <u>(147)</u>           |
| <b>LOSS BEFORE TAX</b>   |              | <b>(8,243)</b>        | (23,476)               |
| Income tax   | <b>4</b>     | <u>35</u>             | <u>353</u>             |
| <b>LOSS FOR THE YEAR</b>   |              | <b><u>(8,208)</u></b> | <b><u>(23,123)</u></b> |
| Attributable to:   |              |                       |                        |
| Equity shareholders of the Company                                 |              | <b>(7,670)</b>        | (23,021)               |
| Non-controlling interests  |              | <u>(538)</u>          | <u>(102)</u>           |
|  |              | <b><u>(8,208)</u></b> | <b><u>(23,123)</u></b> |
| <b>LOSS PER SHARE (US Cents)</b>                                   |              |                       |                        |
| – Basic  | <b>5</b>     | <b><u>(0.71)</u></b>  | <b><u>(2.74)</u></b>   |

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

*For the year ended 31 December 2015*

*(Expressed in US\$'000)*

|  | <b>2015</b>            | 2014                   |
|--|------------------------|------------------------|
| <b>LOSS FOR THE YEAR</b>                                 | <b>(8,208)</b>         | (23,123)               |
| <b>OTHER COMPREHENSIVE (EXPENSE) INCOME</b>              |                        |                        |
| – Items that may be reclassified to profit or loss       |                        |                        |
| Exchange difference                                      | <b>(2,826)</b>         | (2,163)                |
| Revaluation of land and building                         | <b>513</b>             | 541                    |
|  | <u>          </u>      | <u>          </u>      |
| <b>TOTAL COMPREHENSIVE (EXPENSE) INCOME FOR THE YEAR</b> | <b><u>(10,521)</u></b> | <b><u>(24,745)</u></b> |
| Attributable to:   |                        |                        |
| Equity shareholders of the Company                       | <b>(9,872)</b>         | (24,530)               |
| Non-controlling interests                                | <b>(649)</b>           | (215)                  |
|  | <u>          </u>      | <u>          </u>      |
|  | <b><u>(10,521)</u></b> | <b><u>(24,745)</u></b> |

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION***As at 31 December 2015**(Expressed in US\$'000)*

|   | <i>Notes</i> | <b>2015</b>    | 2014    |
|---|--------------|----------------|---------|
| <b>NON-CURRENT ASSETS</b>                       |              |                |         |
| Fixed assets                                    | 7            | <b>25,151</b>  | 28,838  |
| Prepaid lease payments                          |              | <b>5,000</b>   | 5,359   |
| Goodwill  |              | <b>537</b>     | 537     |
| Available-for-sale investments                  |              | <b>293</b>     | 293     |
| Interest in an associate                        |              | –              | –       |
| Deferred tax assets                             |              | <b>1,693</b>   | 1,752   |
| Long term portion of trade receivable           |              | –              | 211,404 |
|   |              | <b>32,674</b>  | 248,183 |
| <b>CURRENT ASSETS</b>                           |              |                |         |
| Cash and bank balances                          |              | <b>20,097</b>  | 28,743  |
| Financial assets at fair value held for trading | 9            | <b>30,448</b>  | 17,027  |
| Trade and notes receivables                     | 8            | <b>244,907</b> | 61,294  |
| Inventories                                     |              | <b>18,966</b>  | 22,467  |
| Prepayments, deposits and other receivables     |              | <b>53,399</b>  | 9,969   |
|   |              | <b>367,817</b> | 139,500 |
| <b>CURRENT LIABILITIES</b>                      |              |                |         |
| Trade payables                                  | 10           | <b>9,470</b>   | 13,359  |
| Other payables and accrued expenses             |              | <b>13,848</b>  | 17,863  |
| Due to non-controlling interests                |              | <b>662</b>     | 1,241   |
| Finance lease-current portion                   |              | <b>229</b>     | 302     |
| Taxation  |              | <b>15,500</b>  | 15,500  |
|   |              | <b>39,709</b>  | 48,265  |
| <b>NET CURRENT ASSETS</b>                       |              | <b>328,108</b> | 91,235  |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>    |              | <b>360,782</b> | 339,418 |
| <b>NON-CURRENT LIABILITIES</b>                  |              |                |         |
| Finance lease                                   |              | <b>497</b>     | 767     |
| Provision                                       |              | <b>3,105</b>   | 3,105   |
|   |              | <b>3,602</b>   | 3,872   |
| <b>NET ASSETS</b>                               |              | <b>357,180</b> | 335,546 |

|  | <i>Notes</i> | <b>2015</b>      | 2014        |
|--|--------------|------------------|-------------|
| <b>CAPITAL AND RESERVES</b>  |              |                  |             |
| Share capital  | <i>12</i>    | <b>537,004</b>   | 504,850     |
| Revaluation reserve  |              | <b>4,354</b>     | 4,068       |
| Translation reserve  |              | <b>5,222</b>     | 7,710       |
| Accumulated losses   |              | <b>(191,653)</b> | (183,983)   |
|  |              | <hr/>            | <hr/>       |
| Total equity attributable to equity shareholders<br>of the Company |              | <b>354,927</b>   | 332,645     |
|  |              | <hr/>            | <hr/>       |
| Non-controlling interests  |              | <b>2,253</b>     | 2,901       |
|  |              | <hr/>            | <hr/>       |
|  |              | <b>357,180</b>   | 335,546     |
|  |              | <hr/> <hr/>      | <hr/> <hr/> |

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

|   | Years Ended 31 December |          |
|---|-------------------------|----------|
|   | 2015                    | 2014     |
|   | US\$'000                | US\$'000 |
| <b>NET CASH (USED IN) GENERATED FROM OPERATING ACTIVITIES</b> | <b>(38,673)</b>         | 5,690    |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>                  | <b>(563)</b>            | (3,613)  |
| <b>CASH FLOW FROM FINANCING ACTIVITIES</b>                    | <b>31,811</b>           | 5,811    |
| <b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>       | <b>(7,425)</b>          | 7,888    |
| Cash and cash equivalents at beginning of year                | <b>28,743</b>           | 21,766   |
| Effect of foreign exchange rates                              | <b>(1,221)</b>          | (911)    |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>               | <b>20,097</b>           | 28,743   |
| <b>ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS</b>  |                         |          |
| Cash and bank balances  | <b>20,097</b>           | 28,743   |

## 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 2015.

|                      |   |
|----------------------|---|
| HKAS 19 (Amendments) | Defined Benefit Plans: Employee Contributions |
| HKFRSs (Amendments)  | Annual Improvements 2010-2012 Cycle           |
| HKFRSs (Amendments)  | Annual Improvements 2011-2013 Cycle           |

The effect of the adoption of the above amendments to standards beginning 1 January 2015 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 applied any news standard or interpretation that is not yet effective for the current accounting year.

## 2. Turnover and segment information

Turnover represents oil revenue from the sale of crude oil, assembly of electronic components for the contract electronics manufacturer, sales of mineral products, mobile phone and general trading and lease of production assets.

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 2015:

|                                 | Oil          | Sale of minerals | Contract electronic manufacturing | Trading securities | Sales of mobile phones | Lease of production assets | Others       | Total                 |
|---------------------------------|--------------|------------------|-----------------------------------|--------------------|------------------------|----------------------------|--------------|-----------------------|
| Revenue from external customers | <u>5,656</u> | <u>5,752</u>     | <u>61,550</u>                     | <u>-</u>           | <u>3,601</u>           | <u>2,368</u>               | <u>4,722</u> | <u>83,649</u>         |
| Segment results                 | (3,095)      | (8,614)          | 2,928                             | 13,378             | (9,250)                | 1,129                      | 396          | (3,128)               |
| Unallocated income and expenses |              |                  |                                   |                    |                        |                            |              | <u>(4,987)</u>        |
| Loss from operating activities  |              |                  |                                   |                    |                        |                            |              | (8,115)               |
| Finance costs                   |              | (94)             | (34)                              | -                  | -                      | -                          | -            | (128)                 |
| Taxation                        |              | -                | 35                                | -                  | -                      | -                          | -            | <u>35</u>             |
| Loss for the year               |              |                  |                                   |                    |                        |                            |              | <u><u>(8,208)</u></u> |

### For the year ended 31 December 2014:

|                                 | Oil           | Sale of minerals | Contract electronic manufacturing | Trading securities | Sales of mobile phones | Lease of production assets | Others   | Total                  |
|---------------------------------|---------------|------------------|-----------------------------------|--------------------|------------------------|----------------------------|----------|------------------------|
| Revenue from external customers | <u>12,871</u> | <u>13,278</u>    | <u>55,664</u>                     | <u>-</u>           | <u>-</u>               | <u>566</u>                 | <u>-</u> | <u>82,379</u>          |
| Segment results                 | (1,310)       | (3,167)          | 2,582                             | (14,566)           | -                      | 109                        | -        | (16,352)               |
| Unallocated income and expenses |               |                  |                                   |                    |                        |                            |          | <u>(6,977)</u>         |
| Loss from operating activities  |               |                  |                                   |                    |                        |                            |          | (23,329)               |
| Finance costs                   |               | (112)            | (35)                              | -                  | -                      | -                          | -        | (147)                  |
| Taxation                        |               | 200              | 153                               | -                  | -                      | -                          | -        | <u>353</u>             |
| Loss for the year               |               |                  |                                   |                    |                        |                            |          | <u><u>(23,123)</u></u> |

### 3. Loss from operating activities

The Group's loss from operating activities is arrived at after charging:

|  | 2015<br><i>US\$'000</i> | 2014<br><i>US\$'000</i> |
|--|-------------------------|-------------------------|
| Depreciation:                                  |                         |                         |
| – owned fixed assets                           | 3,186                   | 3,799                   |
| – leased fixed assets                          | 344                     | 222                     |
| Operating lease rentals on                     |                         |                         |
| – land and buildings                           | 723                     | 641                     |
| – plant and machinery                          | 581                     | 1,327                   |
| Costs of inventories sold                      | 65,098                  | 68,021                  |
| Fixed assets written off                       | 32                      | 5                       |
| Staff costs, including directors' remuneration | 16,852                  | 17,391                  |
| Auditors' remuneration                         |                         |                         |
| – Audit fee                                    | 156                     | 203                     |
| – other service                                | 38                      | 41                      |
| Impairment of due from associate               | 1,853                   | –                       |
| Impairment of inventories                      | 173                     | –                       |
| Foreign exchange loss, net                     | 501                     | 116                     |
|  | <u>501</u>              | <u>116</u>              |

### 4. Tax

Income tax in the consolidated statement of profit or loss statement represents:

|                                | 2015<br><i>US\$'000</i> | 2014<br><i>US\$'000</i> |
|--------------------------------|-------------------------|-------------------------|
| Overseas tax credit            |                         |                         |
| – Over provision in prior year | –                       | (205)                   |
| Deferred tax credited          | (35)                    | (148)                   |
|                                | <u>(35)</u>             | <u>(148)</u>            |
| Tax credit for the year        | (35)                    | (353)                   |
|                                | <u>(35)</u>             | <u>(353)</u>            |

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. Loss per share

The calculation of basic loss per share is based on the net loss attributable to equity shareholders for the year of US\$7,670,000 (2014: US\$23,021,000) and weighted average of 1,083,557,556 (2014: 840,518,356) ordinary shares in issue during the year.

### 6. Dividend

The Directors have decided not to declare any dividend for the year ended 31 December 2015 (2014: Nil).



## 7. Fixed assets

During the year ended 31 December 2015, the Group acquired approximately US\$606,000 (2014: US\$3,736,000) of fixed assets.

## 8. Trade and note receivables

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

|                  | 2015<br><i>US\$'000</i> | 2014<br><i>US\$'000</i> |
|------------------|-------------------------|-------------------------|
| 0-30 days        | 6,125                   | 9,419                   |
| 31-60 days       | 7,943                   | 5,461                   |
| 61-90 days       | 4,828                   | 2,245                   |
| Over 90 days     | <u>232,266</u>          | <u>44,169</u>           |
|                  | <u>251,162</u>          | <u>61,294</u>           |
| less: Impairment | <u>6,255</u>            | –                       |
|                  | <u><u>244,907</u></u>   | <u><u>61,294</u></u>    |

Included in trade and note receivables an amount of US\$724,000 (2014: US\$403,000) which was due from non-controlling interest.

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

|  | 2015<br><i>US\$'000</i> | 2014<br><i>US\$'000</i> |
|--|-------------------------|-------------------------|
| Hong Kong listed shares                                  | 448                     | 527                     |
| Shares traded on the OTC Bulletin Board in United States | <u>30,000</u>           | <u>16,500</u>           |
|  | <u><u>30,448</u></u>    | <u><u>17,027</u></u>    |

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:

|              | 2015<br><i>US\$'000</i> | 2014<br><i>US\$'000</i> |
|--------------|-------------------------|-------------------------|
| 0-30 days    | 2,708                   | 2,596                   |
| 31-60 days   | 3,232                   | 4,468                   |
| 61-90 days   | 1,684                   | 3,030                   |
| Over 90 days | <u>1,846</u>            | <u>3,265</u>            |
|              | <u><u>9,470</u></u>     | <u><u>13,359</u></u>    |

## 11. Convertible debentures

During the year, the Company issued the convertible debentures for approximately US\$33,846,000. Finder's fee of approximately US\$1,692,000 was paid or payable to the debenture holders.

## 12. Share capital

|  | 2015<br><i>US\$'000</i> | 2014<br><i>US\$'000</i> |
|--|-------------------------|-------------------------|
| Issued and fully paid:   |                         |                         |
| 1,473,429,078 ordinary shares with no par value<br>(31.12.2014: 879,241,817 ordinary shares) | <u>537,004</u>          | <u>504,850</u>          |

## 13. Related party transactions

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

|  | 2015<br><i>US\$'000</i> | 2014<br><i>US\$'000</i> |
|--|-------------------------|-------------------------|
| Sales to non-controlling interests           | 296                     | 3,169                   |
| Rental income from non-controlling interests | <u>2,363</u>            | <u>566</u>              |

## 14. 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<br><i>US\$'000</i> | Level 2<br><i>US\$'000</i> | Level 3<br><i>US\$'000</i> | 31 December<br>2015<br>Total<br><i>US\$'000</i> |
|---|----------------------------|----------------------------|----------------------------|---|
| Financial assets at fair value held for trading | <u>30,448</u>              | <u>–</u>                   | <u>–</u>                   | <u>30,448</u>                                   |
|   |                            |                            |                            | 31 December<br>2014                             |
|   | Level 1<br><i>US\$'000</i> | Level 2<br><i>US\$'000</i> | Level 3<br><i>US\$'000</i> | Total<br><i>US\$'000</i>                        |
| Financial assets at fair value held for trading | <u>17,027</u>              | <u>–</u>                   | <u>–</u>                   | <u>17,027</u>                                   |

## 15. Approval of the Annual Audited Accounts

The Board of Directors of the Company approved the Annual Audited Accounts on 31 March 2016.

## **MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*(In this report, all the “\$” refers to the legal currency of the United States of America, unless otherwise specified)*

For the year ended 31 December 2015, the turnover of the Group was \$83.649 million, representing an increase of \$1.270 million, or 1.54%, as compared to \$82.379 million for the prior year. The net loss attributable to shareholders was \$7.670 million, or 0.71 cents per share, as compared to net loss of \$23.021 million, or 2.74 cent per share, for the same period of 2014. On the balance sheet, at 31 December 2015 the total assets of the Group were \$400.491 million, as compared to \$387.683 million at 31 December 2014, and the net assets of the Group were \$357.180 million at 31 December 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 business operations, in 2014 the Company, through its wholly owned subsidiary Cityhill Limited, started to develop a line of Piece of Cake products in different forms, such as mobile phones, tablets and set top boxes. In 2015, the Company, through its wholly owned subsidiary Unicorn Arts Limited, started to develop the cultural industrial business and multi-media products, including making movies, TV shows and Internet programs.

For the year ended 31 December 2015, the Company has made the following developments:

1. The first and second generations of Piece of Cake mobile phones developed by the Company were launched in March and June 2015, respectively.
2. 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 to promote the Company's products. Pegasus will be exhibited worldwide in 2016.
3. In 2015, the Company entered into several agreements with Sinocreative Limited, an independent third party. Sinocreative will be responsible for the global promotion and selling of Pegasus. The Company and Sinocreative will work closely to produce Pegasus movie series as well as to cooperate in other cultural media business. Sinocreative undertakes to invest HK\$1 billion to the projects.
4. 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, 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.
5. 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 lease agreements with LouBei Haida Graphite Ltd., an independent third party in Luobei, Heilongjiang. Under the agreements, SSG and XLY lease out their production assets to receive an aggregate of RMB23.40 million of rental income each year.
6. In February 2016, the Company made an announcement that the Company is negotiating with an independent third party to acquire large flakes graphite mines. The Company has engaged professionals for reserve estimation. As at the date of this announcement, no agreement in relation to the acquisition is entered into between the Company and the independent third party.

## Results of Operations

For the year ended 31 December 2015, the Group's total turnover was \$83.649 million, an increase of \$1.270 million, or 1.54%, as compared to \$82.379 million for the same period of the prior year. Specifically, for the year ended 31 December 2015, the turnover of the Group's crude oil operation was \$5.656 million as compared to \$12.871 million for the same period of 2014, representing a decrease of 56.06%. The decrease in the Company's oil revenue was primarily due to the significant drop in oil price on the world markets during the year, even though the Company's amount of oil production was no much change. For the year of 2015, the Group's graphite operation generated revenues of \$5.752 million, representing a decrease of 58.45%, as compared to \$13.844 million for the same period of last year. The decrease in the Group's sale of graphite was primarily because beginning in June 2015, SSG and XLY leased out all of their production assets to the lease and, in return, will receive an aggregate of RMB23.40 million of rental income each year. For the year ended 31 December 2015, the turnover from lease of production assets was \$2.368 million. For the year ended 31 December 2015, the turnover of the Group's electronics manufacturing service operation was \$61.550 million, an increase of \$5.886 million, or 10.57%, as compared to \$55.664 million for the same period of the prior 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 2015, the Group's cash and cash equivalents were \$20.097 million as compared to \$28.743 million as at 31 December 2014. For the year of 2015, the Group's operating activities used net cash of \$38.673 million. By comparison, net cash generated in operating activities was \$5.690 million for the same period of 2014.

For the year ended 31 December 2015, the Group's investing activities used net cash of \$0.563 million, primarily due to purchase of property and equipment and prepaid lease premium. By comparison, net cash used by the Group's investing activities in 2014 was \$3.613 million. For the year months ended 31 December 2015, the Group's financing activities generated net cash of \$31.811 million, primarily from issuance of convertible debentures of the Company. By comparison, net cash provided in financing activities was \$5.811 million for the same period of 2014.

On 3 November 2015, the Company entered into a subscription agreement with an investor for HK\$45,980,000 nil interest convertible 1-year debentures due 3 November 2016. The conversion price was HK\$0.22. The net proceed of approximately HK\$43,600,000 was used, through Unicorn Arts Limited ("Unicorn Arts"), a wholly owned subsidiary of the Company, to develop the cultural industrial business and multi-media products, including making movies, TV shows and Internet programmes. The debenture was issued and fully converted into the ordinary shares of the Company.

On 30 December 2015, the Company entered into a subscription agreement with an investor for an aggregate of HK\$1.0 billion nil interest convertible debenture dues 31 December 2021. The conversion price is HK\$0.125. The net proceed of approximately HK\$950 million is intended to be used, through Unicorn Arts, in the development of cultural and multi-media business.

At 31 December 2015, 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**

At 31 December 2015, the Group had no off balance sheet arrangements.

## **EMPLOYEES AND REMUNERATION POLICIES**

At 31 December 2015, the Group had approximately 378 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. For the year ended 31 December 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 flow.

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

For the year ended 31 December 2015, the Company has complied with all the code provisions, where appropriate, 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.

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

Mr. Han Zhi Jun, 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 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 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 2015.

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

During the year ended 31 December 2015, neither the Company, nor any of its subsidiaries, 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.

**Appointment of Auditor**

On 16 January 2015, the Board appointed UC CPA (Practising) Limited as auditors of the Company and its subsidiaries with effect from 16 January 2015 to fill the vacancy following the resignation of JP Union & CO., and to hold office until the conclusion of the next annual general meeting of the Company. The reason for JP Union's resignation was that the Company could not reach a consensus with JP Union on the audit fees for the year ending 31 December 2014.



## **Audit Committee**

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. The Audit Committee has adopted the terms of reference which are in line with Code on Corporate Governance Practices as set forth in Appendix 14 to the Listing Rules.

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 2015.

## **Publication of 2015 Final Results and Annual Report**

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 2015 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. 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 2016