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 2005

The Board of Directors ("the Board") of South Sea Petroleum Holdings Limited (the "Company") to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2005 together with the comparative figures in 2004 as follows:

CONSOLIDATED INCOME STATEMENT

For the Year Ended 31 December 2005

	Notes	**2005** *US$'000*	2004 *US$'000*
TURNOVER	2	**34,462**	46,379
Cost of sales		**(28,076)**	(26,137)
		6,386	20,242
Other revenues		**4,857**	7,106
General and administrative expenses		**(12,732)**	(25,303)
Loss in fair value of financial assets through profit and loss		**(1,931)**	–
Impairment of investment		**(1,287)**	–
(LOSS) PROFIT FROM OPERATING ACTIVITIES	3	**(4,707)**	2,045
Finance costs		**(478)**	(487)
(LOSS) PROFIT BEFORE TAX		**(5,185)**	1,558
Tax	4	**523**	(542)
(LOSS) PROFIT FOR THE YEAR		**(4,662)**	1,016
Attributable to:			
Equity holders of the parent		**(4,687)**	1,144
Minority interests		**25**	(128)
		(4,662)	1,016
(LOSS)/EARNINGS PER SHARE	5		
Basic *(US cents)*		**(0.83)**	0.25

CONSOLIDATED BALANCE SHEET

31 December 2005

	Notes	**2005** *US$'000*	2004 *US$'000*
NON-CURRENT ASSETS			
Oil properties		**219**	–
Goodwill		**2,934**	(6,549)
Fixed assets		**12,814**	13,449
Available-for-sale-investments		**–**	1,287
Project advance		**5,944**	1,478
Other assets		**288**	–
		22,199	9,665
CURRENT ASSETS			
Cash and bank balances		**1,996**	2,243
Due from minorities		**2**	2
Due from a related company		**21**	16
Due from a shareholder		**–**	3,239
Financial assets at fair value through profit or loss		**116**	1
Trade receivables		**8,039**	17,176
Inventories		**6,406**	6,186
Prepayments, deposits and other receivables		**15,451**	11,092
Deferred tax assets		**335**	–
Tax recoverable		**–**	214
		32,366	40,169
CURRENT LIABILITIES			
Trade payables and notes payable	9	**5,860**	14,109
Other payables and accrued expenses		**3,673**	505
Loan from discounted debtors		**2,294**	2,771
Receipt in advance for debenture		**–**	1,871
Due to a director		**142**	–
Due to shareholders		**115**	–
Due to related company		**76**	–
Bank overdraft		**125**	187
Government grant received in advance-current portion		**674**	713
Finance lease – current portion		**168**	144
Bank loans – current portion		**62**	69
Taxation		**62**	–
Provision		**1,218**	–
		14,469	20,369
NET CURRENT ASSETS		**17,897**	19,800
TOTAL ASSETS LESS CURRENT LIABILITIES		**40,096**	29,465
NON-CURRENT LIABILITIES			
Finance lease		**183**	142
Bank loan		**15**	86
Government grant received in advance		**1,288**	2,816
Deferred tax		**–**	460
		1,486	3,504
NET ASSETS		**38,610**	25,961
CAPITAL AND RESERVES			
Share capital	10	**6,505**	4,783
Revaluation reserve		**3,174**	3,441
Special capital reserve		**12,037**	12,037
Share premium		**24,764**	13,236
Translation reserve		**3,839**	6,314
Profit and loss account		**(12,576)**	(14,438)
Funds attributable to equity holders of the Company		**37,743**	25,373
Minority interests		**867**	588
TOTAL EQUITY		**38,610**	25,961

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 ("HKFRS") 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 HKFRSs are 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 as further explained below.

Adoption of new/revised HKFRS

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005.

Certain accounting policies have been changed upon the adoption of new HKFRSs and comparative figures have been amended as required. Details of the changes are summarised as below:

HKFRS 3 "Business Combinations"

Positive goodwill- In prior years, positive goodwill was amortised on a straight line basis over its useful life and was subject to impairment testing when there were indications of impairment. However, with effect from 1 January 2005, goodwill is no longer amortized. The carrying amount of goodwill is reviewed annually and is written down should any impairment arise. The Group has also applied the relevant transitional arrangement in HKFRS 3. No comparative figures for 2004 have been restated accordingly.

Negative goodwill- In prior years, negative goodwill of the Group was amortized over the weighted average useful life of the depreciable/amortizable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognized in profit and loss accounts those expected losses were incurred.

In accordance with the relevant transitional provisions in HKFRS 3, the Group has derecognized all negative goodwill amounting to US$6,549,000 at 1 January 2005 with a corresponding decrease in accumulated losses. As a result of this change in accounting policy, no negative goodwill is released to profit and loss accounts in the current period. Comparative figures for 2004 have not been restated.

HKAS 1 "Presentation of financial statements"

Minority interests are now treated as a part of equity rather than as a deduction from net assets and in the profit and loss account, minority interests are now disclosed as an allocation to the profit/loss for the period rather than a deduction from profit/loss. This change has been applied retrospectively and 2004 comparatives have been restated accordingly.

HKAS 21 "Effects of Changes in Foreign Exchange Rates"

In the current period, the Group has also applied HKAS 21 which requires positive goodwill to be treated as assets and liabilities of the foreign operation and translated at closing rate at each balance sheet date. Previously, positive goodwill arising on acquisition of foreign operations was reported at historical rate at each balance sheet date. In accordance with the relevant transitional provisions in HKAS 21, positive goodwill arising on acquisition prior to 1 January 2005 is treated as a non-monetary foreign currency item of the Group. Thus, no prior period adjustment has been made.

HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39, Financial Instruments: Recognition and Measurement

In prior years, equity investments held on a continuing basis for an identifiable long-term purpose were classified as investment securities and stated at cost less provision for impairment. With effect from 1 January 2005, and in accordance with HKSA 39, all non-trading investments are classified as available-for-sale investments and continued to be measured at cost less provision for impairment.

Short-term investment held for trading purposes in prior year are reclassified as financial assets at fair value through profit or loss.

HKAS 40 "Investment properties"

In prior years, the increases in fair value of the group's investment properties should be credited to the investment properties revaluation reserve; decreases should be first set off against increases on earlier valuations on a portfolio basis and thereafter debited to operating profit.

In the current year, the Group has, for the first time, adopted HKAS 40 "Investment properties" and elected to use the fair value model to account for all changes in the fair value of investment properties directly recognised in the profit and loss account. Gain on revaluation of US$801,000 was credited to the income statement.

Since there is no revaluation made on the investment properties before, no prior year adjustment is required.

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 income from advertising.

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

(Expressed in US$'000)

	Oil		Contract Electronic manufacturing		Investment properties		Unallocated		Inter-segment elimination		Total	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
Revenue from external customers	**3,574**	18,334	**30,627**	28,045	**–**	–	**261**	–	**–**	–	**34,462**	46,379
Intersegment revenue	**–**	7,209	**–**	–	**–**	–	**–**	4,493	**–**	(2,773)	**–**	–
Other income from external customers	**–**	–	**608**	609	**–**	–	**242**	3,925	**–**	–	**850**	4,534
Exchange gain	**–**	–	**1,829**	–	**–**	–	**–**	–	**–**	–	**1,829**	–
Gain on disposal of fixed assets	**–**	–	**602**	–	**–**	–	**–**	–	**–**	–	**602**	–
Gain on disposal of subsidiary	**–**	–	**–**	–	**–**	–	**100**	980	**–**	–	**100**	980
Gain on revaluation of investment properties	**–**	–	**–**	–	**801**	–	**–**	–	**–**	–	**801**	–
Negative goodwill amortized	**–**	–	**–**	903	**–**	–	**–**	–	**–**	–	**–**	903
Government grant released	**–**	–	**676**	689	**–**	–	**–**	–	**–**	–	**676**	689
Total	**3,574**	25,543	**34,342**	30,246	**801**	–	**603**	9,398	**–**	(2,773)	**39,319**	53,485
Segment results	**(5,710)**	3,992	**3,777**	(650)	**388**	(9)					**(1,545)**	3,333
Unallocated income and expenses											**(3,162)**	(1,288)
(Loss) profit from operation											**(4,707)**	2,045
Finance costs	**–**	–	**(445)**	(487)	**–**	–	**(33)**	–	**–**	–	**(478)**	(487)
Taxation	**246**	(542)	**228**	–	**–**	–	**(6)**	–	**–**	–	**523**	(542)
Loss attributable to shareholders											**(4,662)**	1,016

3. (Loss) profit from operating activities

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

	2005 *US$'000*	2004 *US$'000*
Amortisation of positive goodwill	**–**	532
Amortisation of negative goodwill	**–**	(903)
Depreciation on fixed assets	**803**	718
Depreciation, depletion and amortization	**25**	1,534

4. Tax

	2005 *US$'000*	2004 *US$'000*
Overseas tax charge	**58**	527
Overseas tax prepaid in 2004 not refund	**214**	–
Deferred tax (reversed) charged	**(460)**	15
Deferred tax credited	**(335)**	–
Overseas tax charge	**(523)**	542

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 assessable profits in Hong Kong for the year.

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

In current year, tax prepaid of US$214,000 made by Seaunion Energy (Limau) Limited in 2004 was refused to refund by the Indonesia Tax Authority.

5. **Basic (loss) earnings per share**

The calculation of basic loss per share is based on the net loss attributable to shareholders for the period of US$4,688,000 (2004: profit of US$1,144,000), and the weighted average of 564,365,955 (2004: 451,580,784) ordinary shares in issue during the period.

6. **Dividend**

The Directors have decided not to declare any dividend for the year ended 31 December 2005 (2004: Nil).

7. **Fixed assets**

During the year ended 31 December 2005 the Group acquired approximately US$891,000 (2004: US$428,000) of fixed assets.

8. **Trade receivables**

	2005	2004
	US$'000	*$'000*
Receivable from Pertamina	**2,331**	11,616
Receivable from others	**5,708**	6,560
	8,039	17,176

The receivable from Pertamina, the state-owned oil company of Indonesia, represents a trade receivable balance arising in the normal course of business recovered out of Pertamina's share of incremental crude oil production.

The ageing analysis of the trade receivables is as follows:

	2005	2004
	S$'000	*S$'000*
0-30 days	**5,833**	7,564
31-60 days	**924**	4,656
61-90 days	**20**	3,082
Over 90 days	**1,261**	1,874
	8,039	17,176

9. **Trade payables and notes payable**

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

	2005	2004
	US$'000	*US$'000*
0-30 days	**3,570**	9,813
31-60 days	**1,728**	2,720
61-90 days	**382**	891
Over 90 days	**180**	685
	5,860	14,109

10. **Share capital**

	2005	2004
	US$'000	*US$'000*
Authorised:		
14,000,000,000 ordinary shares of US$ 0.01 each	**140,000**	140,000
Issued and fully paid:		
650,459,059 ordinary shares of US$ 0.01 each (2004: 478,285,811 ordinary shares of US$ 0.01 each)	**6,505**	4,783

11. **Approval of the Annual Audited Accounts**

The Board of Directors of the Company approved the Annual Audited Accounts on 24 April 2006.

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

OVERVIEW

For the year ended 31 December 2005, due to the expiry of an Enhanced Oil Recovery Contract with Pertamina of Indonesia on 31 December 2004, the Group's turnover fall 25.6%, or US$11.92 million, to US$34.46 million from US$46.38 million for the same period in 2004. The net loss attributable to shareholders was US$4.66 million, or US $0.78 cents per share, as compared to net income of US$1.14 million, or US$0.25 cents per share, of the prior year. On the balance sheet, the total assets of the Group increased 9.4% to US$54.56 million at 31 December 2005 from US$49.83 million at the end of 2004, and the net assets of the Group increased 48.7% to US$38.61 million in 2005 from US$25.96 million in 2004.

BUSINESS DEVELOPMENT

The Company has two principal lines of business. The first line of business is, through its wholly owned subsidiary Global Select Limited ("Global Select"), to develop, explore and produce crude oil in Indonesia and the Philippines, and the second line of business is, through its subsidiary Axiom Manufacturing Services Ltd. ("Axiom"), to provide electronic manufacturing services in the United Kingdom.

During the past year, the Company has made several crude oil properties acquisitions in Asia to strengthen its crude oil business. In December 2004, the Company entered into a Service Contact, through the Department of Energy, with the Government of the Republic of Philippines. Under the Contract, the Company is granted a permission to exploit crude oil and natural gas in an area with 748,000 hectares, approximately 7,478 square kilometers, at Agusan - Dava Basin in Dava province, south of the Philippines. The initial exploitation term is seven years. After that, there are 25 years of production term. Pursuant to the Contract, the Company may sell the crude oil and natural gas it produces at market price on free market. A wholly owned subsidiary of the Company has been set up in Philippines to conduct the exploitation and production operations.

In April 2005, the Company, through its wholly owned subsidiary Global Select, entered into an agreement to acquire 65% of equity interest in PT. Cahaya Batu Raja Blok, an Indonesian corporation, for US$5.8 million. PT Cahaya Batu Raja Blok owns a Product Contract signed with the Department of Petroleum (BPMIGAS) of the Indonesia government. Pursuant to the Product Contract, PT. Cahaya Batu Raja Blok will explore and develop petroleum and natural gas in Air Komering Block, an area consists of approximately 4,110 square kilometers located in Southern Sumatra, Indonesia for 30 years ending in 2034. As of the date of this Announcement, the acquisition has not been completed.

On 27 September 2005, Global Select Ltd. entered into a share purchase agreement with Lion Energy Limited, an Australian listed company, to acquire 100% equity interests in each of its subsidiaries, Kalrez Petroleum (Seram) Limited ("Kalrez") and Indonesian Prima Energy Services Limited ("IPE") for an aggregate consideration of US$4,850,000.

Kalrez is engaged in the business of exploitation and production of crude oil in Bula Block Oilfield on the Island of Seram in Indonesia. Kalrez holds 100% interest in Bula Petroleum Production Sharing Contract ("Bula PSC") that was entered into with BPMIGAS, Department of Petroleum of Indonesia, on 22 May 2000. The Bula PSC will be expired in 2019. Kalrez is the operator of the Bula Block Oilfields. The acquisition of Kalez is closed on 30 October 2005.

IPE, through its 100%-owned subsidiary PT Prima Jasa Energi ("PJE"), owns and operates a drilling rig and other heavy equipment in Indonesia. The Company brought Kalrez and IPE together as a package. However, the Company placed no book value in IPE when the acquisition of IPE was completed in February 2006, because IPE recorded losses in its business operations in the past with a negative book value.

The Company's crude oil operation under an Enhanced Oil Recovery Contract with Pertamina, the Indonesia state-owned petroleum giant, was expired on 31 December 2004. The Company intends to negotiate with MPMIGAS, Department of Petroleum of Indonesia, to enter into a new contract. No assurance can be given that the new contract will be granted and when it will be granted.

Through Axiom, the Company provides electronic manufacturing services to original equipment manufacturers of telecommunication equipment, computers and related products for business enterprises, video/audio/entertainment products, industrial control equipment, testing and instrumentation products and medical devices. The Company provides its customers with a total solution that includes a full range of services that allow the Company's to take its customers' products from initial design through production, test, distribution and after-market support. In many cases, the Company builds and services products that carry the brand names of its customers.

Substantially all of the Company's manufacturing services are provided on a turnkey basis, whereby the Company purchases components specified by customers from suppliers, assembles the components on printed circuit boards, perform post-production testing and provides its customers with production process and testing documentation. The Company offers its customers flexible, "just-in-time" delivery programs allowing product shipments to be closely coordinated with its customers' inventory requirements. The Company also provides manufacturing services on a consignment basis, whereby the Company utilizes components supplied by the customer to provide assembly and post-production testing services.

RESULTS OF OPERATIONS

For the year ended 31 December 2005, the Group's turnover was US$34.46 million as compared to US$46.38 million in the same period of the previous year. The decrease in turnover was primarily due to the expiration of the EOR Contract on 31 December 31, 2004. For the year ended 31 December 2005, the Group's had net loss of US$4.66 million, or US$0.083 per share, as compared to net profit of US$1.02 million, or US$0.025 per share for the same period of 2004.

Looking forward, market conditions are expected to be better in the year of 2006. Kalrez Petroleum (Seram) Limited, the newly acquired subsidiary of the Company, currently produces 350-400 barrels of crude oil a day. The Company is planning to conduct seismic surveys in Indonesia and the Philippines to exploit and develop crude oil and natural gas. The Company's electronics manufacturing services subsidiary in UK will continue to bid for high value, low volume work winning as much new business from existing customers as possible while adding new customers to the portfolio, and will continue to focus on differentiating itself by providing a low cost, high quality efficient production facility to companies wishing to outsource their manufacturing.

LIQUIDITY AND CAPITAL RESOURCES

At 31 December 2005 the Group's cash and cash equivalents were US$2.00 million, as compared to US$2.24 million at 31 December 2004. For the year ended 31 December 2005, the operating and investing activities of the Group used net cash of US$1.62 million and US$8.01 million, respectively. During the same period, the Group's financing activities provided US$11.52 million of net cash, largely by issuing convertible debenture.

At 31 December 2005, the Group had no contingent liabilities. The Group believes that its cash generated from its operations are adequate to meet its operating needs. However, future cash flows are subject to a number of variables, including the Company's level of oil production and oil prices, demand for our electronics manufacturing services, and general global economic conditions. Many of the Group's competitors have significantly greater capital resources than that which is available to us. The Company may need to raise additional capital, in debt or equity, in order to successfully grow and compete.

EMPLOYEES AND REMUNERATION POLICIES

At 31 December 2005, the Group had a total of approximately 272 full-time employees in Indonesia, the United Kingdom and Hong Kong. The Group believes that its relationship with its employees is satisfactory. From time to time, the Group may also use the services of independent consultants and contractors to perform various professional services.

The remuneration of each employee of the Group is determined on the basis of his or her performance and responsibility.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 24 April 2006, the directors of the Company held following long position in the ordinary share of the Company:

	Number of Ordinary Shares held		**Approximate %**
Name	**Personal Interests**	**Corporate Interests**	**of shareholding**
Zhou Ling	–	48,000,000	4.91

Save as disclosed above, as at 24 April 2006, none of the directors and executive officers of the Company and their respective associates had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations that were required, pursuant to Section 352 of the 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.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES

As at 31 December 2005, no person, other than Mr. Zhou Ling's interests which are disclosed in the "Corporate Governance Report," had registered an interest or short position in the shares or underlying shares or debentures of the Company that was required to be kept record by the Company pursuant to Section 336 of the Securities and Futures Ordinance.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the period under review, the Company, or any of its subsidiaries, has not purchased, sold, or redeemed any of the Company's securities.

CORPORATE GOVERNANCE

Throughout the year ended 31 December 2005, the Company was in compliance with the Code of Corporate Governance Practices (the "Code) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, save for a deviation from code provision A. 4.1 of the Code in respect of the service term of independent non-executive directors.

Under 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 existing independent non-executive directors of the Company was appointed for a specific term. This constitutes a deviation from code provision A.4.1 of the Code. However, all directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Articles of Association.

The Board intends to review its corporate governance practices from time to time to ensure they meet shareholders' expectation, comply with regulatory and professional standards.

COMPLIANCE WITH THE MODEL CODE

The Company has adopted the Model Code for Securities Transactions by Directors 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 (the "Model Code"). Having made specific enquiry of the Directors of the Company, all the Directors confirmed that during the year under review they were in compliance with the required standards as set out in Model Code.

DIVIDENDS

The Directors have decided not to declare any dividend for the year ended 31 December 2005 (2004: Nil).

AUDIT COMMITTEE

The Audit Committee provides an important link between the Board and the external auditors of the Company. The Audit Committee reviews the effectiveness of the external and internal audit, internal control and risk evaluation. The Audit Committee of the Company comprises all independent non-executive directors.

The Audit Committee has reviewed with management the accounting policies and practices adopted by the Company and discussed auditing, internal controls and financial reporting matters, including a review of the audited Accounts for the year ended 31 December 2005.

REMUNERATION COMMITTEE

A Remuneration Committee, comprising three independent non-executive directors, has been established in 2005. The committee was set up to review and approve the remuneration packages of the directors.

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). The Company's Annual Report 2005 will also be dispatched to all shareholders of the Company before 30 April 2006.

BOARD OF DIRECTORS

As at the date of this announcement, the board of directors comprised of Mr. Zhou Ling, Ms. Lee Sin Pyung and Ms. Sit Mei being executive directors, Mr. Lu Ren Jie, Mr. Chai Woon Chew and Mr. Ho Choi Chiu being independent non-executive directors.

By Order of the Board
South Sea Petroleum Holdings Limited
Zhou Ling
Chairman

Hong Kong, 24 April 2006