SSP 南海石油

南海石油控股有限公司

SOUTH SEA PETROLEUM HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock code: 76)

ANNOUNCEMENT OF AUDITED RESULTS FOR THE YEAR ENDED 31 DECEMBER 2006

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 2006 together with the comparative figures in 2005 as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2006
(Expressed in US$'000)

	2006	2005
TURNOVER	**41,940**	34,462
Cost of sales	**(33,337)**	(28,076)
	8,603	6,386
Other income	**3,732**	4,857
General and administrative expenses	**(16,240)**	(12,732)
Loss in fair value of financial assets through profit or loss	**(115)**	(1,931)
Impairment of investments	**–**	(1,287)
Impairment loss of amount due from a related company	**(2,663)**	–
LOSS FROM OPERATING ACTIVITIES	**(6,683)**	(4,707)
Finance costs	**(467)**	(478)
LOSS BEFORE TAX	**(7,150)**	(5,185)
Income tax	**126**	523
LOSS FOR THE YEAR	**(7,024)**	(4,662)
Attributable to:		
Equity shareholders of the Company	**(6,971)**	(4,687)
Minority interests	**(53)**	25
	(7,024)	(4,662)
LOSS PER SHARE		
BASIC *(US cents)*	**(0.61)**	(0.83)

CONSOLIDATED BALANCE SHEET
As at 31 December 2006
(Expressed in US$'000)

	2006	2005
NON-CURRENT ASSETS		
Goodwill	**2,523**	2,934
Fixed assets	**33,749**	13,033
Project advances for oil field exploration	**13,139**	5,944
Deferred tax assets	**617**	335
Other assets	**–**	288
	50,028	22,534
CURRENT ASSETS		
Cash and bank balances	**3,865**	1,996
Amount due from related companies	**15**	21
Financial assets at fair value through profit or loss	**103**	116
Trade receivables	**4,411**	8,039
Inventories	**5,477**	6,406
Prepayments, deposits and other receivables	**13,598**	15,453
	27,469	32,031
CURRENT LIABILITIES		
Trade payables	**7,743**	5,860
Other payables and accrued expenses	**3,157**	3,331
Bank loan on discounted debtors	**–**	2,294
Amount due to a director	**–**	142
Amount due to shareholders	**–**	115
Amount due to related companies	**76**	76
Bank overdraft	**–**	125
Government grant received in advance-current portion	**894**	674
Finance lease – current portion	**193**	168
Bank loan – current portion	**18**	62
Taxation	**100**	62
	12,181	12,909
NET CURRENT ASSETS	**15,288**	19,122
TOTAL ASSETS LESS CURRENT LIABILITIES	**65,316**	41,656
NON-CURRENT LIABILITIES		
Finance lease	**343**	183
Bank loan	**–**	15
Government grant received in advance	**865**	1,288
Provisions	**664**	1,560
Convertible debenture	**1,103**	–
	2,975	3,046
	62,341	38,610
CAPITAL AND RESERVES		
Share capital	**15,659**	6,505
Revaluation reserve	**3,615**	3,174
Special capital reserve	**12,037**	12,037
Share premium	**42,627**	24,764
Translation reserve	**7,138**	3,839
Accumulated losses	**(19,547)**	(12,576)
Total equity attributable to equity holders of the Company	**61,529**	37,743
Minority interests	**812**	867
	62,341	38,610

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 as further explained below.

The preparation of financial statements in conformity with HKFRSs 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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note below.

The Group adopted the following new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2006.

HKAS 39 (Amendment)	The Fair Value Option
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

The adoption of the new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

New standards, amendments and interpretations effective for the year ending 31 December 2007 are as follows:

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instrument: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment
HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions

The Group has already commenced an assessment of the impact of these new standards, amendments and interpretations but is not yet in a position to state whether they would have a significant impact on its results of operation and financial position.

Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December each year.

The results of subsidiaries acquired or disposed of during the year are included in consolidated income statement from the effective date of acquisition or disposal respectively.

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

2. Turnover and segment information

Turnover represents the aggregate of the amounts invoiced for goods and services net of value added tax and revenue from the sale of crude oil.

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

(Expressed in US$'000)

	Oil		Contract electronic manufacturing		Investment properties		Unallocated		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
Revenue from external customers	**5,207**	3,574	**36,682**	30,627	**–**	–	**51**	261	**41,940**	34,462
Other income from external customers	**9**	–	**970**	608	**–**	–	**216**	241	**1,195**	849
Exchange gain	**–**	–	**–**	1,829	**–**	–	**–**	–	**–**	1,829
Gain on disposal of fixed assets	**–**	–	**–**	602	**–**	–	**–**	–	**–**	602
Gain on disposal of subsidiary	**–**	–	**–**	–	**–**	–	**–**	100	**–**	100
Gain on dilution of equity interests in subsidiaries	**–**	–	**–**	–	**–**	–	**1,032**	–	**1,032**	–
Provision for plug and abandonment written back	**769**	–	**–**	–	**–**	–	**–**	–	**769**	–
Gain on revaluation of investment properties	**–**	–	**–**	–	**–**	801	**–**	–	**–**	801
Government grant released	**–**	–	**736**	676	**–**	–	**–**	–	**736**	676
Total	**5,985**	3,574	**38,388**	34,342	**–**	801	**1,299**	602	**45,672**	39,319
Segment results	**(2,379)**	(5,710)	**508**	3,777	**(50)**	388			**(1,921)**	(1,545)
Unallocated income and expenses									**(4,762)**	(3,162)
Loss from operating activities									**(6,683)**	(4,707)
Finance costs	**–**	–	**(464)**	(445)	**(3)**	–	**–**	(33)	**(467)**	(478)
Taxation	**–**	246	**126**	283	**–**	–	**–**	(6)	**126**	523
Loss for the year									**(7,024)**	(4,662)

3. Loss from operating activities

Loss from operating activities is arrived at after charging:

	2006 *US$'000*	2005 *US$'000*
Depreciation:		
– owned fixed assets	**877**	743
– leased fixed assets	**141**	85
Operating lease rentals on		
– land and buildings	**685**	536
– plant and machinery	**311**	273
Staff costs, including directors' remuneration	**8,770**	6,808
Auditors' remuneration		
– Audit fee	**168**	124
– Other services	**26**	23
Bad debt	**731**	–
Foreign exchange losses, net	**1,945**	–

4. Income tax

	2006 *US$'000*	2005 *US$'000*
Overseas tax charge	**94**	58
Overseas tax prepaid in 2004 not refund	**–**	214
Deferred tax reversed	**–**	(460)
Deferred tax credited	**(220)**	(335)
Tax credited for the year	**(126)**	(523)

No provision for Hong Kong profits tax has been made as, in the opinion of the 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.

5. Basic loss per share

The calculation of basic loss per share is based on the net loss attributable to shareholders for the year of US$6,971,000 (2005: US$4,687,000), and the weighted average of 1,139,577,477 (2005: 564,365,955) ordinary shares in issue during the year.

6. **Dividend**

The Directors have decided not to declare any dividend for the year ended 31 December 2006 (2005: Nil).

7. **Fixed assets**

During the year ended 31 December 2006, the Group acquired approximately US$20,318,000 (2005: US$7,950,000) of fixed assets.

8. **Trade receivables**

	2006 US$'000	2005 US$'000
Receivable from Pertamina	–	2,331
Receivable from others	4,411	5,708
	4,411	8,039

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:

	2006 US$'000	2005 US$'000
0-30 days	3,280	5,833
31-60 days	850	924
61-90 days	263	20
Over 90 days	18	1,262
	4,411	8,039

9. **Trade payables**

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

	2006 US$'000	2005 US$'000
0-30 days	1,839	3,570
31-60 days	2,348	1,728
61-90 days	852	382
Over 90 days	2,704	180
	7,743	5,860

10. **Share capital**

	2006 US$'000	2005 US$'000
Authorised:		
14,000,000,000 ordinary shares of US$0.01 each	140,000	140,000
Issued and fully paid:		
1,565,888,588 ordinary shares of US$0.01 each (2005: 650,459,059 ordinary shares of US$0.01 each)	15,659	6,505

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

The Board of Directors of the Company approved the Annual Audited Accounts on 13 April 2007.

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

Overview

For the year ended 31 December 2006, the Group's turnover was US$41.94 million, a 21.7% increase, as compared to US$34.46 million for the same period of 2005. The net loss attributable to shareholders was US$6.97 million (of which approximately $1.94 million was due to foreign currency difference), or US$0.61 cents per share, as compared to net loss of US$4.69 million, or US$0.83 cents per share, of the prior year. On the balance sheet, the total assets of the Group increased 42% to US$77.50 million at 31 December 2006 from US$54.57 million at the end of 2005, and the net assets of the Group increased 61.46% to US$62.34 million in 2006 from US$38.61 million in 2005.

Business Development

The Group has two principal lines of business. The first line of business is to develop, explore and produce crude oil in Indonesia and the Philippines, and the second line of business is to provide electronic manufacturing services in the United Kingdom.

The Group owns two oilfields: Bula Block Oilfield in Indonesia, and Agusan-Davao Basin Oilfield in Davao, the Philippines. Bula Block Oilfield is operated by the Group's wholly owned subsidiary, Kalrez Petroleum (Seram) Limited, under 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.

Agusan-Davao Basin Oilfield of the Group is operated by South Sea Petroleum (Philippines) Corp., a 100% owned subsidiary of the Group. Under the Service Contract with the Department of Energy, the Republic of Philippines, the Group is granted a permission to exploit crude oil and natural gas in an area with approximately 7,478 square kilometers at Agusan-Davao Basin of the Philippines. The initial exploitation term is seven years. After that, there are 25 years of production term. The Group is currently conducting seismic survey and other preparation work on the oilfield.

In April 2005, the Group 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 consisting of approximately 4,110 square kilometers located in Southern Sumatra, Indonesia for 30 years ending in 2034. The acquisition has not been completed up to the date of issue of these financial statements.

Since 1994, the Group had operated the crude oil business at Limau Oilfield in Indonesia under an Enhance Oil Recovery Contract with Pertamina, the Indonesia state-owned petroleum giant. The EOR Contract expired on 31 December 2004. The Group is negotiating with BPMIGAS, Department of Petroleum of Indonesia, to renew the Contract or enter into a new contract for the oil production at this Limau Oilfield we previously operated. No assurance can be given that the contract will be renewed or granted and when it will be granted.

Through Axiom Manufacturing Services Limited, the Group 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 Group provides its customers with a total solution that includes a full range of services that allow the Group to take its customers' products from initial design through production, test, distribution and after-market support. In many cases, the Group builds and services products that carry the brand names of its customers.

Substantially all of the Group's manufacturing services are provided on a turnkey basis, whereby the Group 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 Group offers its customers flexible, just-in-time delivery programs allowing product shipments to be closely coordinated with its customers' inventory requirements. The Group also provides manufacturing services on a consignment basis, whereby the Group utilizes components supplied by customers to provide assembly and post-production testing services.

In November 2006, Starlight Media & Advertising Limited, a subsidiary of the Group, issued certain number of its new shares which is equal to 85% of the total post-transaction outstanding capital shares to a third party in exchange for an aggregate consideration of HK$8.5 million. Pursuant to the agreement, the share purchaser will occupy the controlling board seats and will be solely responsible for meeting all cash and financing requirements of Starlight in the future.

The Group plans to continue making investments in exploiting and developing crude oil and natural gas in Indonesia and the Philippines. In Bula Block Oilfield in Indonesia, the Group plans to conduct more seismic surveys and drill more oil wells, and increase daily oil production. In Agusan-Davoa Basin Oilfield in the Philippines, the Group intends to conduct more seismic surveys and drill more test wells.

For the year of 2006, the Group's electronics manufacturing services operations in UK has continued to make progress with both revenues and operating profits showing an increase on the previous year. Business in current market sectors continues to be strong while activities continue to develop opportunities within military and aerospace sectors – these have already led to approved supplier status with one major multinational defense contractor. We believe our business model in UK is suited to the contract electronics market place and that plans put in place for 2007 should result in further growth in revenues and profits over the next few years.

Results of Operations

For the year ended 31 December 2006, the Group's turnover increased by US$7.48 million, or 21.7%, to US$41.94 million from US$34.46 million in the same period of the previous year. The increase in turnover was a result of sales increase on both business lines of the Group. For the year, the turnover of the Group's crude oil operation increased by US$1.63 million, and the turnover of the Group's contract electronics manufacturing service line of business increased by US$6.06 million. For the year ended 31 December 2006, the Group's had net loss of US$6.97 million (of which approximately $1.94 million was due to foreign currency difference), or US$0.0061 per share, as compared to net loss of US$4.66 million, or US$0.0083 per share for the same period of the previous year. On the balance sheet, the total assets of the Group increased 42% to US$77.50 million at 31 December 2005 from US$54.57 million at the end of 2005, and the net assets of the Group increased 61.46% to US$62.34 million in 2006 from US$38.61 million in 2005.

Liquidity and Capital Resources

The Group's operations are primarily funded by cash flows from its operations and to a certain extent, from issuance of convertible debentures in order to conduct more exploitation activities in Indonesian and the Philippines oilfields.

At 31 December 2006 the Group's cash and cash equivalents were US$3.87 million, as compared to US$1.87 million at 31 December 2005. For the year ended 31 December 2006, the Group's operating activities generated net cash of US$0.45 million. For the same period, the Group's investing activities used US$27.17 million of net cash, primarily attributable to additions to oil properties (US$18.82 million), project retainer (US$7.20 million), and purchase of other fixed assets (US$1.30 million). For the same period, the Group's financing activities provided net cash of US$26.03 million, largely from proceeds of issuing convertible debenture (US$20.02 million) and from issuance of equity shares (US$8.13 million).

In March 2006, the Company contracted to issue convertible debentures for an aggregate amount of HK$200 million nil interest and due 2009. The net proceeds are used to conduct 2D/3D seismic survey and to drill wells at the oilfields of the Group.

In February 2007, the Company issued convertible debentures for an aggregate amount of HK$40 million nil interest and due 2008. The net proceeds are to be used in increasing production of crude oil in Bula Block Oilfield on the Island of Seram, Indonesia.

At 31 December 2006, the Group had no contingent liabilities. The Group believes that the cash generated from its operations, proceeds from sale of its ordinary shares, and borrowings from issuance of convertible debentures are adequate to meet its operating expenses and capital expenditure for the next twelve months. However, the Group's continuing operating and investing activities may require it to obtain additional sources of financing. In that case, the 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.

There are no off balance sheet arrangements.

Employees and Remuneration Policies

At 31 December 2006, the Group had a total of approximately 262 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 13 April 2007, the directors of the Company held following long position in the ordinary share of the Company:

Name	Number of Ordinary Shares held: Personal Interests	Number of Ordinary Shares held: Corporate Interests	Approximate % of shareholding
Zhou Ling	–	32,000,000	1.26

Save as disclosed above, as at 13 April 2007, 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 2006, 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 2006, the Company was in compliance with the Code of Corporate Governance Practices, 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 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, all independent non-executive 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.

In addition to complying with applicable statutory requirements, the Board expects continually reviewing and enhancing its corporate governance practices in light of local and international best practices.

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 2006 (2005: 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 2006.

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 2006 will also be dispatched to all shareholders of the Company before 30 April 2007.

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
Zhou Ling
Chairman

Hong Kong, 13 April 2007