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 2010

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 2010 together with the comparative figures in 2009 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010
(Expressed in US$'000)

	2010	2009
TURNOVER	**61,677**	38,446
Cost of sales	**(42,027)**	(29,237)
	19,650	9,209
Other income	**3,016**	2,586
General and administrative expenses	**(20,957)**	(16,570)
Drilling and operating expenses	**(9,388)**	(6,371)
Net gain (loss) in fair value of financial assets held for trading	**(4,631)**	8,318
Other taxes	**(346)**	(290)
Impairment of oil properties	**(3,600)**	(43,559)
Impairment of project advance	**–**	(9,739)
Impairment of goodwill	**(1,262)**	(1,619)
Impairment loss of other receivable	**–**	(11,210)
LOSS FROM OPERATING ACTIVITIES	**(17,518)**	(69,245)
Finance costs	**(674)**	(295)
LOSS BEFORE TAX	**(18,192)**	(69,540)
Income tax	**(218)**	(276)
LOSS FOR THE YEAR	**(18,410)**	(69,816)

	2010	2009
Attributable to:		
Equity shareholders of the Company	**(18,683)**	(69,304)
Minority interests	**273**	(512)
	18,410	(69,816)
LOSS PER SHARE – BASIC (US Cents)	**7.52**	31.58

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2010
(Expressed in US$'000)

	2010	2009
LOSS FOR THE YEAR	**(18,410)**	(69,816)
OTHER COMPREHENSIVE INCOME		
Exchange difference on translation of financial statements	**48**	2,609
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**(18,362)**	(67,207)
Attributable to:		
Equity shareholders of the Company	**(18,693)**	(66,807)
Minority interests	**331**	(400)
	(18,362)	(67,207)

CONDENSED CONSOLIDATED BALANCE SHEET
As at 31 December 2010
(Expressed in US$'000)

	2010	2009
NON-CURRENT ASSETS		
Goodwill	**–**	1,262
Fixed assets	**22,375**	22,343
Available for sale investment	**771**	771
Deferred tax assets	**368**	168
	23,514	24,544
CURRENT ASSETS		
Cash and bank balances	**22,682**	21,401
Financial assets at fair value held for trading	**16,798**	22,888
Trade receivables	**8,550**	12,063
Other loan receivables	**–**	3,149
Inventories	**10,747**	6,788
Prepayments, deposits and other receivables	**56,360**	49,343
	115,137	115,632
CURRENT LIABILITIES		
Trade payables	**5,035**	3,312
Other payables and accrued expenses	**4,502**	2,170
Bank overdraft	**1,091**	1,587
Bank loan on discounted debtors	**104**	1,980
Finance lease-current portion	**272**	320
Taxation	**472**	–
	11,476	9,369
NET CURRENT ASSETS	**103,661**	106,263
TOTAL ASSETS LESS CURRENT LIABILITIES	**127,175**	130,807
NON-CURRENT LIABILITIES		
Finance lease	**280**	525
Provision	**1,909**	1,429
Convertible debentures	**3,650**	9,087
	5,839	11,041
NET ASSETS	**121,336**	119,766
CAPITAL AND RESERVES		
Share capital	**131,526**	190,722
Revaluation reserve	**3,710**	3,843
Special capital reserve	**12,037**	12,037
Share premium	**198,851**	199,947
Convertible debentures equity reserve	**1,478**	2,253
Translation reserve	**6,041**	5,918
Accumulated losses	**(235,461)**	(216,777)
Total equity attributable to equity shareholders	**118,182**	116,943
Minority interests	**3,154**	2,823
	121,336	119,766

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Years Ended 31 December,	
	2010	2009
	US$'000	*US$'000*
NET CASH USED IN OPERATING ACTIVITIES	**(4,307)**	(23,201)
NET CASH (USED IN) FROM INVESTING ACTIVITIES	**(6,612)**	501
CASH FLOW FROM (USED IN) FINANCING ACTIVITIES	**12,327**	(3,016)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,408**	(25,716)
Cash and cash equivalents at 1 January	**19,814**	44,703
Effect of exchange rate	**369**	827
CASH AND CASH EQUIVALENTS AT 31 December	**21,591**	19,814
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**22,682**	21,401
Bank overdraft	**(1,091)**	(1,587)
	21,591	19,814

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.

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 2010.

HKAS 3 (Revised)	Business combinations
HKAS 27 (Revised)	Consolidated and separate financial statements
HK(IFIC) int 17	Distribution of noncash assets to owners
HKAS 17 (Amendments)	Leases

The adoption of these new and revised HKFRSs has no significant financial impact on these financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

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 2010:

	Oil	Sale of minerals	Contract electronic manufacturing	Trading securities	Others	Total
Revenue from external customers	11,006	23,044	27,561	–	66	61,677
Segment results	(8,569)	884	881	(3,460)	–	(10,264)
Unallocated income and expenses						(7,254)
Loss from operation						(17,518)
Finance costs			(287)		(387)	(674)
Taxation		(460)	242			(218)
Loss for the year						(18,410)

For the year ended 31 December 2009:

	Oil	Sale of minerals	Contract electronic manufacturing	Trading securities	Others	Total
Revenue from external customers	9,238	6,915	22,272	–	21	38,446
Segment results	(69,675)	(3,018)	(1,853)	8,426	–	(66,120)
Unallocated income and expenses						(3,125)
Loss from operation						(69,245)
Finance costs			(253)		(42)	(295)
Taxation			(276)			(276)
Loss for the year						(69,816)

3. Loss from operating activities

Loss from operating activities is arrived at after charging:

	2010	2009
	US$'000	*US$'000*
Depreciation:		
– owned fixed assets	**2,130**	1,718
– leased fixed assets	**300**	258
Operating lease rentals on		
– land and buildings	**1,212**	994
– plant and machinery	**988**	885
Costs of inventories sold	**48,236**	33,047
Staff costs, including directors' remuneration	**12,822**	10,410
Auditors' remuneration	**115**	183
Realised loss in fair value of financial assets at held for trading	**1,584**	8,678
Foreign exchange losses, net	**20**	126

4. Tax

	2010	2009
	US$'000	*US$'000*
Overseas tax charge – current year	**463**	–
– Overprovision in respect of prior year	**(36)**	–
Deferred tax (credit) charge	**(209)**	276
	218	276

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 (2009: reversed) 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. **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$18,683,000 (2009: US$69,304,000) and weighted average of 248,612,465 (2009: 219,444,787) ordinary shares in issue during the year.

The number of ordinary shares in 2009 for the purposes of calculating the basic loss per share has been retrospectively adjusted for the fifty-to-one share consolidation which took place on 2 June 2010.

6. **Dividend**

The Directors have decided not to declare any dividend for the year ended 31 December 2010 (2009: Nil).

7. **Fixed assets**

During the year ended 31 December 2010, the Group acquired approximately US$6,842,000 (2009: US$1,518,000) of fixed assets.

8. **Trade and note receivables**

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

	2010	2009
	US$'000	*US$'000*
0-30 days	**4,424**	3,415
31-60 days	**1,997**	5,459
61-90 days	**1,518**	957
Over 90 days	**611**	2,232
	8,550	12,063

9. **Trade payables**

The ageing analysis of the trade payables is as follows:

	2010	2009
	US$'000	*US$'000*
0-30 days	**1,714**	2,087
31-60 days	**2,156**	872
61-90 days	**969**	84
Over 90 days	**196**	269
	5,035	3,312

10. **Convertible debentures**

During the year, the Company issued the convertible debentures for approximately US$14,615,000. Finder's fee of US$499,000 and US$270,000 have been paid to Megabucks International Limited and Kelton Capital Group Limited respectively. Conversion right was exercised to convert US$21,804,000 of the convertible debentures for 2,194,447,870 shares of US$0.01 each. Convertible debentures of US$119,000 were redeemed.

11. Share capital

	2010	2009
	US$'000	*US$'000*
Authorised:		
1,000,000,000 ordinary shares of US$0.50 each (31.12.2009: 14,000,000,000 ordinary shares of US$0.01 each)	**500,000**	140,000
Issued and fully paid:		
263,333,744 ordinary shares of US$0.50 each (31.12.2009: 10,972,239,359 ordinary shares of US$0.01 each)	**131,526**	109,722

Pursuant to an ordinary resolution passed on 8 January 2010, the Company's authorized share capital was increased to US$500,000,000 from 14,000,000,000 ordinary shares of US$0.01 each, ranking pari passu with the existing ordinary shares of the Company in all respects.

During the year, 2,194,447,870 ordinary shares of US$0.01 each were issued by exercising the convertible debentures for an aggregate consideration of approximately US$21,804,000.

As at 2 June 2010, the Company effected a share consolidation on the basis that every fifty (50) existing issued and unissued Shares of US$0.01 each in the capital of the Company be consolidated into one (1) consolidated share of US$0.50.

The share consolidation was approved by the board of directors of the Company and by a majority of the Company's shareholders at its Extraordinary General Meeting held on 1 June 2010.

12. Related party transactions

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

	2010	2009
	US$'000	*US$'000*
Sales to minority interest	**12,814**	3,951
Purchases from minority interest	**1,755**	–

13. Approval of the Annual Audited Accounts

The Board of Directors of the Company approved the Annual Audited Accounts on 30 March 2011.

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

(In this review, all the "$" refers to the legal currency of the United States of America, unless otherwise specified)

For the year ended 31 December 2010, the turnover of the Group was $61.677 million, representing an increase of $22.05 million, or 60.43%, as compared to $38.446 million for the same period of the prior year. The net loss attributable to shareholders was $18.683 million, or $7.52 cents per share, as compared to net loss of $69.304 million, or $31.58 cents per share (adjusted), for the same period of 2009. On the balance sheet, at 31 December 2010 the total assets of the Group were $138.651 million, as compared $104.176 million at 31 December 2009, and the net assets of the Group were $121.336 million at 31 December 2010, as compared $119.766 million at 31 December 2009.

Business Review

The Group has two principal lines of business. The first line of business is to develop and produce of crude oil and minerals, such as graphite, in Asian countries. The second line of business is to provide 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 subsidiary, South Sea Graphite (Luobei) Co., Limited, the Company is engaged in the business of production and sale of graphite products in Luobei, Heilongjiang Province of China.

Through its wholly-owned subsidiary Axiom Manufacturing Services Ltd. ("Axiom") in the United Kingdom, the Company provides electronics manufacturing services in the business-to-business or business-to-industry sectors and to original equipment manufacturers in the following market sectors:

- Medical devices
- Industrial control equipment
- Domestic appliances
- Computer and related products
- Testing and instrumentation products
- Ministry of Defense products

As a result of efficiently managing costs and assets, Axiom is able to offer its customers an outsourcing solution that represents a lower total cost of acquisition than that typically provided by the OEM's own manufacturing operation. OEMs sign contracts with Axiom to build their products or to obtain services related to product development and prototyping, volume manufacturing or aftermarket support.

In many cases Axiom builds products that carry the brand name of its customers and substantially all of Axiom's manufacturing services are provided on a turnkey basis whereby the Company purchases customer-specific components from suppliers, assembles the components onto printed circuit boards, performs post production testing and provide the customer with production process and test documentation. Axiom also provides manufacturing services on a consignment basis whereby material is provided by the customer for Axiom to build into finished printed circuit boards or products. Axiom offers its customers flexible just-in-time delivery programs, which allow product shipments to be closely coordinated with the customers' inventory requirements. Additionally Axiom completes the assembly of final products for its customers by integrating the manufactured printed circuit boards into the customers' finished products. Most of Axiom's customers are located within the United Kingdom.

Prospects

The Company believes that mineral resources are strategically valuable and worth investment over the long term. During the year, the price of graphite products doubled in the global market. As a result, the Company's revenue generated from its graphite business increased significantly. The Company deems it strategically important to procure a steady supply of graphite raw materials to ensure sustainable operation and growth of its graphite business. If financing is available on terms acceptable to the Company, the Company intends to acquire additional graphite mineral resources, increase oil production, and to develop or acquire hi-technology to support and complement its existing electronics hardware business in the UK, thereby enhancing high-tech contents in its electronics products. The Company believes that these endeavors will enable it to strengthen earnings and profitability, and deliver more value to its shareholders.

Results of Operations

For the year ended 31 December 2010, the Group's turnover was $61.677 million, an increase of $23.231 million, or 60.43%, as compared to $38.446 million for the same period of the prior year. Specifically, for the year of 2010, the turnover of the Group's crude oil operation was $11.066 million as compared to $9.238 million in the same period of 2009, representing an increase of 19.14%. The increase in oil revenue was primarily due to increased oil prices. For the same period, the Group's graphite operation generated revenues of 23.044 million, an increase of $16.129 million, or 233.25%, as compared to $6.915 million for the year ended 31 December 2009. The increase in the Group's graphite operation revenue was primarily due to an increase in customer orders, increase in sales prices, and attaining additional new customers. During the year of 2010, the turnover of the Group's electronics manufacturing service operation was $27.561 million, representing an increase of $5.289 million, or 23.75%, as compared to $22.27 million for the same period of the prior year. The turnover increase in the Group's electronics manufacturing service operation was largely attributable to an increase in customer orders.

Liquidity and Capital Resources

The Group's operations are primarily funded by cash flows from its operations, and to a small extent, from issuance of the Company's ordinary shares and convertible debentures.

At 31 December 2010, the Group's cash and cash equivalents were $21.591 million, as compared to $19.81 million as at 31 December 2009. For the year ended 31 December 2010, the Group's operating activities used net cash of $4.307 million. During the same period, the Group's investing activities used net cash of $6.612 million, primarily due to purchase of property and equipment. By comparison, net cash used in operating activities in 2009 was $23.20 million, and net cash generated in investing activities in 2009 was $0.5 million. For the year ended 31 December 2010, the Group's financing activities generated net cash of $12.327 million, primarily from issuance of convertible debentures of the Company.

At 31 December 2010, 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 2010, the Group had no off balance sheet arrangements.

Employees and Remuneration Policies

As at 31 December 2010, the Group had a total of approximately 1,130 full-time 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. The remuneration of each employee of the Group is determined on the basis of his or her performance and responsibility.

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. During the year of 2010 the Group did not engage 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.

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.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December 2010, the directors of the Company held following long position in the ordinary share of the Company:

Name	Number of Ordinary Shares held Personal Interests	Corporate Interests	Approximate % of shareholding
Zhou Ling	–	640,000	0.24%

Save as disclosed above, as at 31 December 2010, 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 Securities and Futures Ordinance ("SFO"), to be entered in the register referred to therein or which were required, pursuant to the Model Code contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As of 31 December 2010, none of the directors of the Company, including their respective associates, are considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 December 2010, no person, other than a director or chief executive's interests which are disclosed in the section "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures" above, had registered an interest, short position, or lending poor in the shares or underlying shares or debentures of the Company that was required to be kept by the Company pursuant to Section 336 of the SFO.

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.

DIVIDENDS

The Directors have decided not to declare any dividend for the year ended 31 December 2010 (2009: Nil).

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the 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 during the year under review.

COMPLIANCE WITH THE MODE CODE

The Company has adopted the Model Code for Securities Transactions by Directors by Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Upon enquiry by the Company, all directors of the Company have confirmed that they have complied with the required standards set out in the Model Code.

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 Annual Accounts for the year ended 31 December 2010.

On the date of this Report, the Audit Committee consists of the following independent non-executive directors: Mr. Ho Choi Chiu (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 2010 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 before 11 April 2011.

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. Zhang Xue being executive directors, Mr. Lu Ren Jie, Mr. Chai Woon Chew and Mr. Ho Choi Chiu being independent non-executive directors.

On behalf of the Board
Lee Sin Pyung
Managing Director

Hong Kong, 30 March 2011