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 2012

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 2012 together with the comparative figures in 2011 as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2012
(Expressed in US$'000)

	Notes	**2012**	2011
TURNOVER		**111,943**	92,162
Cost of sales		**(81,334)**	(47,783)
		30,609	44,379
Other income		**3,691**	3,884
General and administrative expenses		**(24,714)**	(25,017)
Drilling and operating expenses		**(8,216)**	(12,025)
Net gain (loss) in fair value of financial assets held for trading		**(13,421)**	42,351
Other taxes		**(208)**	(500)
(LOSS) PROFIT FROM OPERATING ACTIVITIES	*3*	**(12,259)**	53,072
Finance costs		**(585)**	(749)
(LOSS) PROFIT BEFORE TAX		**(12,844)**	52,323
Income tax	*4*	**34**	(3,479)
(LOSS) PROFIT FOR THE YEAR		**(12,810)**	48,844
Attributable to:			
Equity shareholders of the Company		**(12,919)**	46,601
Non-controlling interests		**109**	2,243
		(12,810)	48,844
(LOSS) EARNINGS PER SHARE (US Cents)	*5*		
– Basic		**(0.57)**	14.19
– Diluted		**–**	14.18

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012
(Expressed in US$'000)

	2012	2011
(LOSS) PROFIT FOR THE YEAR	**(12,810)**	48,844
OTHER COMPREHENSIVE INCOME		
Exchange difference on translation of financial statements	**1,504**	962
Revaluation of land and building	**14**	319
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**(11,292)**	50,127
Attributable to:		
Equity shareholders of the Company	**(11,220)**	47,707
Non-controlling interests	**(72)**	2,420
	(11,292)	50,127

CONDENSED CONSOLIDATED BALANCE SHEET

As at 31 December 2012
(Expressed in US$'000)

	Notes	**2012**	2011
NON-CURRENT ASSETS			
Fixed assets	*7*	**32,926**	27,388
Prepaid lease payments		**5,590**	3,033
Goodwill		**537**	–
Available-for-sale investments		**321**	–
Deferred tax assets		**1,359**	1,114
		40,733	31,535
CURRENT ASSETS			
Cash and bank balances		**26,161**	33,122
Financial assets at fair value held for trading	*8*	**30,521**	58,525
Trade and notes receivables	*9*	**18,781**	26,771
Other loan receivables		**–**	2,700
Inventories		**19,405**	14,857
Prepayments, deposits and other receivables		**159,581**	77,512
		254,449	213,487
CURRENT LIABILITIES			
Trade payables	*10*	**12,434**	5,343
Other payables and accrued expenses		**15,633**	9,332
Bank loan on discounted debtors		**304**	1,314
Finance lease-current portion		**184**	225
Taxation		**1,738**	4,291
		33,947	20,505
NET CURRENT ASSETS		**220,502**	192,982
TOTAL ASSETS LESS CURRENT LIABILITIES		**261,235**	224,517
NON-CURRENT LIABILITIES			
Finance lease		**151**	109
Provision		**2,605**	2,605
Convertible debentures	*11*	**64**	1,023
		2,820	3,737
NET ASSETS		**258,415**	220,780

	Notes	**2012**	2011
CAPITAL AND RESERVES			
Share capital	*12*	**3,711**	602
Revaluation reserve		**4,171**	3,908
Special capital reserve		**12,037**	12,037
Share premium		**428,065**	380,711
Translation reserve		**8,243**	6,807
Accumulated losses		**201,778**	(188,859)
Total equity attributable to equity shareholders		**254,449**	215,206
Non-controlling interests		**3,966**	5,574
		258,415	220,780

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Years Ended 31 December,	
	2012	2011
	US$'000	*US$'000*
NET CASH USED IN OPERATING ACTIVITIES	**(50,922)**	(33,972)
NET CASH USED IN INVESTING ACTIVITIES	**(5,718)**	(2,895)
CASH FLOW FROM FINANCING ACTIVITIES	**48,722**	47,415
INCREASE IN CASH AND CASH EQUIVALENTS	**(7,918)**	10,548
Cash and cash equivalents at beginning of year	**33,122**	21,591
Effect of foreign exchange rates	**957**	983
CASH AND CASH EQUIVALENTS AT END OF YEAR	**26,161**	33,122
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**26,161**	33,122

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 2012.

HKFRS 1 (Amendments)	Limited Exemption from Comparative HKFRS 7 Disclosure for First-time Adopters
HKFRS 7 (Amendments)	Disclosures – Transfers of Financial Assets
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets

The effect of the adoption of the above amendments to standards beginning 1 January 2012 is not material to the Group's results of operations or financial position and on the disclosures set out 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 2012:

	Oil	**Sale of minerals**	**Contract Electronic manufacturing**	**Trading securities**	**Trading of gold**	**Others**	**Total**
Revenue from external customers	**12,384**	**41,093**	**47,495**	**–**	**10,968**	**3**	**111,943**
Segment results	**(3,020)**	**(269)**	**3,033**	**(13,890)**	**554**	**–**	**(13,592)**
Unallocated income and expenses							**1,030**
Profit from operating activities							**(12,562)**
Finance costs			**(282)**				**(282)**
Taxation		**(150)**	**184**				**34**
Profit for the year							**(12,810)**

For the year ended 31 December 2011:

	Oil	Sale of minerals	Contract Electronic manufacturing	Trading securities	Others	Total
Revenue from external customers	15,901	45,413	30,741	–	107	92,162
Segment results	(2,301)	18,514	1,383	42,301	–	59,888
Unallocated income and expenses						(6,816)
Profit from operating activities						53,072
Finance costs			(277)		(472)	(749)
Taxation		(4,228)	749			(3,479)
Profit for the year						48,844

3. Profit (loss) from operating activities

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

	2012	2011
	US$'000	*US$'000*
Depreciation:		
– owned fixed assets	**3,641**	2,619
– leased fixed assets	**171**	194
Operating lease rentals on		
– land and buildings	**2,601**	1,401
– plant and machinery	**207**	1,763
Costs of inventories sold	**70,642**	60,170
Fixed assets written off	**149**	365
Staff costs, including directors' remuneration	**16,290**	13,502
Auditors' remuneration		
– Audit fee	**186**	191
– other services	**48**	44
Net loss (gain) in fair value of financial assets at held for trading		
– realized	**8,668**	760
– unrealized	**4,754**	(4,311)
Provision for plug and abandonment	**–**	696
Foreign exchange losses, net	**(25)**	(1)

4. Tax

Income tax in the consolidated income statement represents:

	2012	2011
	US$'000	*US$'000*
Overseas tax charge		
– current year	**155**	4,101
Deferred tax credited	**(189)**	(622)
Tax charge for the year	**(34)**	3,479

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 (2011: 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. (Loss) earnings per share

The calculation of basic (loss) earnings per share is based on the net loss attributable to equity shareholders for the year of US$12,919,000 (2011: US$46,601,000) and weighted average of 2,275,578,889 (2011: 328,425,171) ordinary shares in issue during the year.

In 2011 the diluted earnings per share for the year is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential ordinary shares arising from the convertible debentures at the date of issuing the potential ordinary shares to 328,763,108; and the adjusted profit attributable to equity shareholders of the Company of US$46,603,000, being the profit attributable to the shareholders of the Company of US$46,601,000 adjusted to eliminate the interest expense of US$2,000.

6. Dividend

The Directors have decided not to declare any dividend for the year ended 31 December 2012 (2011: Nil).

7. Fixed assets

During the year ended 31 December 2012, the Group acquired approximately US$11,235,000 (2011: US$7,788,000) of fixed assets.

8. Financial assets at fair value held for trading

	2012	2011
	US$'000	*US$'000*
Hong Kong listed shares	**521**	13,525
Shares traded on the OTC Bulletin Board in United States	**30,000**	45,000
	30,521	58,525

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

9. Trade and note receivables

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

	2012	2011
	US$'000	*US$'000*
0-30 days	**7,424**	8,921
31-60 days	**3,180**	11,827
61-90 days	**3,331**	3,244
Over 90 days	**4,847**	2,779
	18,781	26,771

Included in trade and note receivables an amount of US$Nil (2011: US$1,148,000) which was due from non-controlling interest.

10. Trade payables

The ageing analysis of the trade payables is as follows:

	2012	2011
	US$'000	*US$'000*
0-30 days	**2,942**	1,595
31-60 days	**4,839**	2,442
61-90 days	**2,509**	805
Over 90 days	**2,141**	501
	12,434	5,343

11. Convertible debentures

During the year, the Company issued the convertible debentures for approximately US$51,218,000. Finder's fee of US$5,303,000 was paid or payable to the debenture holders. Conversion right was exercised to convert US$51,351,000 of the convertible debentures for 3,109,641,800 shares of US$0.001 each.

12. Share capital

	2012	2011
	US$'000	*US$'000*
Authorised:		
500,000,000,000 ordinary shares of US$0.001 each (31.12.2011: 500,000,000,000 ordinary shares of US$0.001 each)	**500,000**	500,000
Issued and fully paid:		
3,711,176,530 ordinary shares of US$0.001 each (31.12.2011: 601,534,730 ordinary shares of US$0.001 each)	**3,711**	602

Pursuant to an special resolution passed on 8 November 2011, the authorised share capital of the Company be reduced from US$500,000,000 divided into 1,000,000,000 existing shares of US$0.500 each to US$1,000,000 divided into 1,000,000,000 reduced shares of US$0.001 each and that such reduction be effective on 9 November 2011 by cancelling share capital paid up or credited as paid up to the extent of US$0.499 per Existing Share upon each of the shares in issue and by reducing the nominal value of all the issued and unissued Existing Shares in the share capital of the Company from US$0.500 to US$0.001 per Reduced Share.

Pursuant to an ordinary resolution passed on 8 November 2011,the authorised share capital of the Company be increased from US$1,000,000 (divided into 1,000,000,000 Reduced Shares of US$0.001 each) to US$500,000,000 (divided into 500,000,000,000 Reduced Shares of US$0.001 each) by the creation of 499,000,000,000 unissued Reduced Shares of US$0.001 each effective on 9 November 2011 and that each such Reduced Share, upon issue, shall rank pari passu in all respects with the existing Reduced Shares.

13. Related party transactions

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

	2012	2011
	US$'000	*US$'000*
Sales to non-controlling interest	**1,321**	8,374
Purchases from non-controlling interest	**–**	800

14. Approval of the Annual Audited Accounts

The Board of Directors of the Company approved the Annual Audited Accounts on 28 March 2013.

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

For the year ended 31 December 2012, the turnover of the Group was $111.943 million, representing an increase of $19.781 million, or 21.46%, as compared to $92.162 million for the prior year. The net loss attributable to shareholders was $12.919 million, or 0.57 cents per share, as compared to net profit of $46.601 million, or 14.19 cent per share, for the same period of 2011. On the balance sheet, at 31 December 2012 the total assets of the Group were $295.182 million, as compared $245.022 million at 31 December 2011, and the net assets of the Group were $258.415 million at 31 December 2012, as compared $220.780 million at 31 December 2011.

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 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 wholly owned subsidiary, Axiom Manufacturing Services Ltd. in the United Kingdom, 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.

Results of Operations

For the year ended 31 December 2012, the Group's turnover was $111.943 million, an increase of $19.781 million, or 21.46%, as compared to $92.162 million for the prior year. Specifically, for the year ended 31 December 2012, the turnover of the Group's crude oil operation was $12.384 million as compared to $15.901 million for the year of 2011, representing a decrease of 28.40%. The increase in oil revenue was primarily due to increased production and increased average sales price of crude oil. For the same period, the Group's graphite operation generated revenues of $41.093 million, or a decrease of 10.51%, as compared to $45.413 million for the year ended 31 December 2011. The revenue increase of the Group's graphite operation was due primarily to the increase in customer orders, solicitation of additional new customers as well as general income in mineral selling price. For the year ended 31 December 2012, the turnover of the Group's electronics manufacturing service operation was $47.495 million, representing an increase of $16.754 million, or 35.28%, as compared to $30.741 million for the prior year. The turnover increase in the Group's electronics manufacturing service operation was largely due to an increase in sales orders and new customers.

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 2012, the Group's cash and cash equivalents were $26,161 million as compared to $33.122 million as at 31 December 2011. For the year ended 31 December 2012, the Group's operating activities used net cash of $50.922 million. By comparison, net cash used in operating activities was $33.972 million for the year of 2011. During the same period, the Group's investing activities used net cash of $5.718 million, primarily due to purchase of property and equipment. By comparison, net cash used by the Group's investing activities in 2011 was $2.895 million. For the year ended 31 December 2012, the Group's financing activities generated net cash of $48.722 million, primarily from issuance of convertible debentures of the Company. By comparison, net cash provided in financing activities was $47.415 million for the year of 2011.

At 31 December 2012, 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.

Prospects

Long-term supply of graphite ore at a reasonable price is critical to the development of the Company's graphite business. In 2012, the Company, through its subsidiary, entered into a ten-year long-term graphite ore supply agreement with a graphite ore supplier. The Company wishes it is able to not only build an adequate graphite ore reserve for its own subsidiaries, but also sell graphite ore to other companies for a profit.

In order to service all customers worldwide, the Company plans to build an electronic trading platform. The Company believes that the platform will facilitate the online trading of the Group's products, including graphite products, and will strengthen the Group's earnings. The website is currently under testing at a trial stage for further improvement. It is expected to be finished by the end of 2013.

Off Balance Sheet Arrangements

At 31 December 2012, the Group had no off balance sheet arrangements.

Employees and Remuneration Policies

At 31 December 2012, the Group had approximately 895 employees in Indonesia, the United Kingdom, China and Hong Kong. The Group believes that its relationship with its employees is satisfactory.

From time to time, the Group may also use the services of independent consultants and contractors to perform various professional services. Salaries of employees are maintained at competitive levels while bonuses may be granted on a discretionary basis with reference to the performance of the Group as well as the individual's performance. Other employee benefits include mandatory provident fund, insurance, and medical cover.

Material Uncertainties

There are no material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

Foreign Exchange Exposure

The Group's principal operating subsidiaries earn revenues and incur costs in US dollars, Chinese Renminbi and British pounds, respectively. For the year ended 31 December 2012, the Group has not engaged in any hedging activities. The Group will continue to monitor the risk of foreign exchange fluctuation on the Group's results of operations, financial conditions and cash flows.

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

During the year ended 31 December 2012, the Company had complied with all the applicable code provisions as set forth in Appendix 14 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited (Code on Corporate Governance Practices and Corporate Governance Code with the exception of the following deviations:

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 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. Lu Ren Jie and Mr. Chai Woon Chew, both non-executive directors, were not able to attend the annual general meeting of the Company held on 23rd May, 2012 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 2012.

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

During the year ended 31 December 2012, neither the Company, nor any of its subsidiaries, has purchased, sold, or redeemed any of the Company's securities.

Legal Proceedings

The Group is not aware of any pending or threatened legal proceeding that, if determined in a manner adverse to us, could have a material adverse effect on the business and operations of the Group.

Review by the Audit Committee

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Company and discussed auditing, internal controls and financial reporting matters, including a review of the audited financial statements for the year ended 31 December 2012.

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

Publication of Results

This announcement of results containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published in due course on website of The Stock Exchange of Hong Kong Limited (http://www.hkex.com.hk) and website of the Company (http://www.southseapetro.com.hk) (together, the "Websites"). The Company's Annual Report 2012 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 12 April 2013.

BOARD OF DIRECTORS

As at the date of this announcement, the board of directors comprised of Mr. Guan Xinmin, Mr. Feng Zhong Yun and Ms. Zhang Xue being executive directors, Mr. Lu Ren Jie, Mr. Chai Woon Chew and Mr. Ng Lai Po being independent non-executive directors.

On behalf of the Board
Feng Zhong Yun
Managing Director

Hong Kong, 28 March 2013