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 2016

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 2016 together with the comparative figures in 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the year ended 31 December 2016
(Expressed in US$'000)

	Notes	**2016**	2015
TURNOVER		**62,520**	83,649
Cost of sales		**(46,505)**	(65,098)
		16,015	18,551
Other income		**6,524**	555
General and administrative expenses		**(25,693)**	(29,503)
Drilling and operating expenses		**(2,955)**	(4,730)
Net (loss) gain in fair value of financial assets held for trading		**(25,504)**	13,420
Impairment of trade receivable		**–**	(6,408)
LOSS FROM OPERATING ACTIVITIES	*3*	**(31,613)**	(8,115)
Finance costs		**(46)**	(128)
LOSS BEFORE TAX		**(31,659)**	(8,243)
Income tax	*4*	**(234)**	35
LOSS FOR THE YEAR		**(31,893)**	(8,208)
Attributable to:			
Equity shareholders of the Company		**(31,532)**	(7,670)
Non-controlling interests		**(361)**	(538)
		(31,893)	(8,208)
LOSS PER SHARE *(US Cents)*	*5*		
– Basic		**(1.38)**	(0.71)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

(Expressed in US$'000)

	2016	2015
LOSS FOR THE YEAR	**(31,892)**	(8,208)
OTHER COMPREHENSIVE (EXPENSE) INCOME		
– Items that may be reclassified to profit or loss		
Exchange difference	**(5,449)**	(2,826)
Revaluation of land and building	**429**	513
TOTAL COMPREHENSIVE (EXPENSE) INCOME FOR THE YEAR	**(36,912)**	(10,521)
Attributable to:		
Equity shareholders of the Company	**(36,427)**	(9,872)
Non-controlling interests	**(485)**	(649)
	(36,912)	(10,521)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2016
(Expressed in US$'000)

	Notes	**2016**	2015
NON-CURRENT ASSETS			
Fixed assets	*7*	**21,491**	25,151
Prepaid lease payments		**4,563**	5,000
Goodwill		**708**	537
Available-for-sale investments		**6,293**	293
Interest in an associate		**–**	–
Intangible assets		**2,357**	–
Deferred tax assets		**1,239**	1,693
		36,650	32,674
CURRENT ASSETS			
Cash and bank balances		**14,117**	20,097
Financial assets at fair value held for trading	*8*	**4,944**	30,448
Trade and notes receivables	*9*	**13,799**	244,907
Inventories		**340,091**	18,966
Prepayments, deposits and other receivables	*10*	**72,221**	53,399
		445,172	367,812
CURRENT LIABILITIES			
Trade payables	*11*	**99,064**	9,470
Other payables and accrued expenses	*12*	**17,052**	13,848
Due to non-controlling interests		**526**	662
Finance lease-current portion		**192**	229
Taxation		**15,676**	15,500
		131,510	39,709
NET CURRENT ASSETS		**312,662**	328,108
TOTAL ASSETS LESS CURRENT LIABILITIES		**349,312**	360,782
NON-CURRENT LIABILITIES			
Finance lease		**223**	497
Provision		**3,105**	3,105
		3,328	3,602
NET ASSETS		**345.984**	357,180
CAPITAL AND RESERVES			
Share capital	*14*	**562,721**	537,004
Revaluation reserve		**3,909**	4,354
Translation reserve		**771**	5,222
Accumulated losses		**(223,184)**	(191,653)
Total equity attributable to equity shareholders of the Company		**344,217**	354,927
Non-controlling interests		**1,767**	2,253
		345,984	357,180

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Years Ended 31 December	
	2016	2015
	US$'000	*US$'000*
NET CASH USED IN OPERATING ACTIVITIES	**(19,308)**	(38,673)
NET CASH USED IN INVESTING ACTIVITIES	**(9,754)**	(563)
CASH FLOW FROM FINANCING ACTIVITIES	**25,406**	31,811
DECREASE IN CASH AND CASH EQUIVALENTS	**(3,656)**	(7,425)
Cash and cash equivalents at beginning of year	**20,097**	28,743
Effect of foreign exchange rates	**(2,324)**	(1,221)
CASH AND CASH EQUIVALENTS AT END OF YEAR	**14,117**	20,097
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**14,117**	20,097

NOTES TO THE ACCOUNTS

1. Basis of preparation and significant accounting policies

The financial information relating to the financial years ended 31 December 2016 and 2015 included in this announcement of annual results does not constitute the Company's statutory annual financial statements for those financial years but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2015 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance and will deliver the financial statements for the year ended 31 December 2016 in due course. The Company's auditor has reported on those financial statements for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

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 2016.

HKFRS 14	Regulatory Deferral Accounts
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle

The effect of the adoption of the above amendments to standards beginning 1 January 2016 is not material to the Group's results of operations or financial position and on the disclosures set out in these financial statements.

The Group has not applied any news standard or interpretation that is not yet effective for the current accounting year.

2. Turnover and segment information

Turnover represents oil revenue from the sale of crude oil, assembly of electronic components for the contract electronics manufacturer 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 2016:

	Oil	Sale of minerals	Contract electronic manufacturing	Trading securities	Sales of mobile phones	Lease of production assets	Others	Total
Revenue from external customers	**4,560**	**8,025**	**47,213**	**–**	**–**	**2,575**	**147**	**62,520**
Segment results	**(775)**	**3,819**	**1,345**	**(26,017)**	**(8,317)**	**964**	**–**	**(28,981)**
Unallocated income and expenses								**(2,632)**
Loss from operating activities								**(31,613)**
Finance costs		**(21)**	**(25)**	**–**	**–**	**–**	**–**	**(46)**
Taxation		**(166)**	**(68)**	**–**	**–**	**–**	**–**	**(234)**
Loss for the year								**(31,893)**

For the year ended 31 December 2015:

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

3. (Loss) profit from operating activities

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

	2016	2015
	US$'000	*US$'000*
Depreciation:		
– owned fixed assets	**2,896**	3,186
– leased fixed assets	**167**	344
Operating lease rentals on		
– land and buildings	**709**	723
– plant and machinery	**182**	581
Costs of inventories sold	**47,037**	65,098
Fixed assets written off	**5**	32
Staff costs, including directors' remuneration	**12,074**	16,852
Auditors' remuneration		
– Audit fee	**157**	156
– other service	**19**	38
Impairment of due from associate	**–**	1,853
Impairment of inventories	**332**	173
Impairment of account receivable written back	**(6,255)**	–
Foreign exchange loss (gain), net	**1,558**	501

4. Tax

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

	2016	2015
	US$'000	*US$'000*
Overseas tax charge		
– Current	**166**	–
Deferred tax credited	**68**	(35)
Tax (credit) charge for the year	**234**	(35)

Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries. Deferred tax credit for the year represents deferred tax assets provided in an England subsidiary.

No provision for Hong Kong profits tax has been made as, in the opinion of the Company's directors, the Group did not have any estimated assessable profits or have tax losses to set off current year's profits in Hong Kong for the year.

5. (Loss) 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$31,532,000 (2015: US$7,670,000) and weighted average of 2,289,721,318 (2015: 1,083,557,556) ordinary shares in issue during the year.

6. Dividend

The Directors have decided not to declare any dividend for the year ended 31 December 2016 (2015: Nil).

7. Fixed assets

During the year ended 31 December 2016, the Group acquired approximately US$1,482,000 (2015: US$606,000) of fixed assets.

8. Financial assets at fair value held for trading

	2016	2015
	US$'000	*US$'000*
Hong Kong listed shares	**444**	448
Shares traded on the OTC Bulletin Board in United States	**4,500**	30,000
	4,944	30,448

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:

	2016	2015
	US$'000	*US$'000*
0-30 days	**5,156**	6,125
31-60 days	**4,727**	7,943
61-90 days	**2,126**	4,828
Over 90 days	**1,790**	232,266
	13,799	251,162
Less: Impairment	**–**	6,255
	13,799	244,907

Included in trade and note receivables an amount of US$Nil (2015: US$724,000) which was due from non-controlling interest.

10. Other receivables, deposits and prepayments

The analysis of the other receivables, deposits and prepayments is as follows:

	2016	2015
	US$'000	*US$'000*
Purchase deposits	**34,216**	30,205
Film production expenses	**28,961**	18,378
Other deposits and prepayments	**3,436**	3,581
Other receivables	**4,701**	1,235
Due from non-controlling interest	**907**	–
	72,221	53,399

11. Trade payables

The ageing analysis of the trade payables is as follows:

	2016	2015
	US$'000	*US$'000*
0-30 days	**1,804**	2,708
31-60 days	**3,081**	3,232
61-90 days	**93,101**	1,684
Over 90 days	**1,078**	1,846
	99,064	9,470

12. Other payables and accruals

The analysis of other payables and accruals is as follows:

	2016	2015
	US$'000	*US$'000*
Other payables	**562**	216
Accruals and deferred income	**5,491**	9,326
Deposits received	**6,304**	–
Other tax payable	**4,695**	4,306
	17,052	13,848

13. Convertible debentures

During the year, the Company issued the convertible debentures for approximately US$27,071,000. Finder's fee of approximately US$1,354,000 was paid or payable to the debenture holders.

14. Share capital

	2016	2015
	US$'000	*US$'000*
Issued and fully paid: 3,162,629,078 ordinary shares with no par value (31.12.2015: 1,473,429,078 ordinary shares)	**562,721**	537,004

15. Related party transactions

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

	2016	2015
	US$'000	*US$'000*
Sales to non-controlling interest	**259**	296
Rental income from non-controlling interest	**2,575**	2,363

16. Fair value measurement of financial instrument

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into level 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair values measurement are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair values measurement are those derived from inputs other than quoted prices include within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair values measurement are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

	Level 1	**Level 2**	**Level 3**	**31 December 2016 Total**
	US$'000	***US$'000***	***US$'000***	***US$'000***
Financial assets at fair value held for trading	**4,944**	**–**	**–**	**4,944**

	Level 1	Level 2	Level 3	31 December 2015 Total
	US$'000	*US$'000*	*US$'000*	*US$'000*
Financial assets at fair value held for trading	30,448	–	–	30,448

17. Approval of the Annual Audited Accounts

The Board of Directors of the Company approved the Annual Audited Accounts on 31 March 2017.

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

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

For the year ended 31 December 2016, the turnover of the Group was $62.520 million, representing a decrease of $21.13 million, or 25.26%, as compared to $83.945 million for the prior year. The net loss attributable to shareholders was $31.532 million, or 1.38 cents per share, as compared to net loss of $7.670 million, or 0.71 cent per share, for the same period of 2015. On the balance sheet, at 31 December 2016 the total assets of the Group were $481.822 million, as compared to $400.491 million at 31 December 2015, and the net assets of the Group were $345.984 million at 31 December 2016, as compared to $357.180 million at 31 December 2015.

Business Review

The Group's businesses consist of (i) development and production of crude oil in Indonesia, (ii) production and trading of minerals, primarily graphite, worldwide, (iii) provision of electronic manufacturing services in the United Kingdom, and (iv) development of multi-media production and movie making.

Through its wholly owned subsidiary, Kalrez Petroleum (Seram) Limited, the Company operates oilfields in Indonesia under a 20-year Bula Petroleum Production Sharing Contract ("Bula PSC"), which the Group entered into with BPMIGAS, Department of Petroleum of Indonesia, in May 2000. The Bula PSC will expire in 2019, and there is little chance for contract renewal. The crude oil produced are all underwritten by the Indonesia government rather than sold by the Company itself. The outlook of the Company's crude oil operations is gloomy because of low oil price and the soon-to-be expired production contract with the Indonesian government. As a result, in recent years, the Company has been actively seeking for new revenue sources.

The Company has been involved in graphite industry for over 10 years. Through its wholly owned subsidiaries, Global Select Limited, South Sea Graphite (Luobei) Co., Ltd. ("SSG"), Liaoning Sinorth Resources Co., Ltd., and majority-owned subsidiary, Luo Bei Xin Long Yuan Graphite Productions Co., Ltd ("XLY"), the Company is engaged in the business of production and trading of graphite products worldwide. The customers of graphite span from steel companies, lithium-ion battery companies and refractory material companies in China to the several largest and top-ranked refractory companies in the world.

Since the Nobel Prize awarded to the scientists who performed the first experiments on graphene (which is the thinnest among the known materials with extraordinary high conductivity of heat and electricity), there is a great demand for graphite as a kind of strategic industrial material in recent years. Graphite is named one of 14 critical materials along with the rare earth elements. Graphite is used extensively in aeronautics, iron and steel industry, automobile, electric motors, batteries, lubricants, etc. It is estimated that there will be an increasing great demand for graphite.

Given the promising prospect and because graphite is a non-renewable mineral, the Company will use its best efforts to allocate its available resources to the trading of finished graphite products and reserving semi-processed mixed grade graphite so as to achieve profit margin growth higher than the Company's crude oil and electronic manufacturing lines of business.

The Company has been involved in electronics manufacturing and designing services for more than 15 years. Through its wholly-owned subsidiary, Axiom Manufacturing Services Ltd. in the United Kingdom ("Axiom"), the Company provides outsourced electronics manufacturing services to customers in the following industrial market sectors:

- Medical
- Defense
- Transport
- Aerospace
- Security
- Marine
- Oil and Gas, and
- Other industrial sector

Generally, Axiom provides outsourced electronics manufacturing and product designing services that carry the brand names of its customers. Substantially all of Axiom's manufacturing services are provided on a turnkey basis. Most of Axiom's customers are located in the United Kingdom and North America.

Although the Company's second generation of Piece of Cake mobile phones have already been launched, in order to catch up with the development speed of mobile phone industry that updates very fast, the Company has been waiting for the completion of research and development of the third generation of the mobile phones and will launch them until they can compete with high-end mobile phones in the market. As a result, the mobile phone operation of the Company is currently suspended. The electronics industry steadily develops mainly depending on customers' orders and gradually produces its own brand products when conditions permit. The Company is of the view that the prospect of the Company's electronics business is steady.

In addition to its traditional business operations, since 2015, the Company, through its wholly owned subsidiary Unicorn Arts Limited ("UAL"), has started to develop a cultural industry business and multi-media products, including making movies, TV shows and Internet programs. UAL started production of a film by the name of Pegasus in 2015. The Company and its cooperation partner, Sinocreative Limited, which has undertaken to invest HK$1 billion in the Company for cultural projects, will work closely together on post production, distribution and promotion of the film, which is scheduled to be released and exhibited worldwide, including Mainland China, in early 2018, and produce a Pegasus movie series, as well as to cooperate in other cultural media businesses.

Termination of Proposed Acquisition of Madagascar Graphite Mines

In April 2016, the Company entered into a memorandum of understanding with Madagascar Graphite Limited ("MGL"), an independent third party, for the possible acquisition of MGL's large flake graphite mines. The proposed transaction constituted a very substantial acquisition for the Company under the Listing Rules. With a view that the sizable amount of the very substantial acquisition required time for the transaction, it was unlikely to hold and convene the Company's shareholder's meeting as scheduled. As a result, at the request of MGL, the Company agreed to terminate this very substantial acquisition, and both parties agreed to release each other from any and all liabilities and claims. To continue maintaining the friendly relationship the parties formed a joint venture company for the exploration, development, producing and marketing of graphite products in Madagascar.

Results of Operations

For the year ended 31 December 2016, the Group's turnover was $62.520 million, a decrease of $21.13 million, or 25.26%, as compared to $83.649 million for the same period of the prior year. Specifically, for the year ended 31 December 2016, the turnover of the Group's crude oil operation was $4.560 million as compared to $5.656 million for the same period of 2015, representing a decrease of 19.38%. The decrease in oil revenue was primarily due to (1) significant drop in oil price on the international markets, and (2) a portion of the crude oil produced has not been shipped out; and (3) the amount of oil production was decreased approximately 7% during the period under review.

Compared to the last year, for the year ended 31 December 2016, the Group's graphite operation and facilities generated revenues of $8.025 million, or an increase of 39.52%, as compared to $5.752 million for the same period of last year. The increase in the Group's sale of graphite was primarily due to an increase of purchase orders. Since June 2015, SSG and XLY have leased out all of their production assets and, in return, will receive an aggregate of RMB23.40 million of rental income each year. The lease of the group's graphite production line was mainly in consideration of economic benefits due to the fact that the local graphite ore was in short supply, leading to surplus capacity in the production line, and that it will generate more stable and guaranteed net income for the Group.

For the year ended 31 December 2016, the turnover of the Group's electronics manufacturing service operation was $47.213 million, representing a decrease of $14.337 million, or 23.29%, as compared to $61.550 million for the same period of the prior year. The decrease in electronics manufacturing service revenue was primarily due to a decrease in exchange rates between British pound to US dollar.

For the year ended 31 December 2016, the Company's cultural industrial operations have not generated any revenue. All film production costs were recorded as prepayments in the Group's consolidated financial statements. Those film production costs will be recognized as revenue from theatrical distribution of motion pictures upon exhibition.

The Company owns 15 million shares of a public company traded on the OTC Markets in the United States with cost at approximately $450,000. Its share price often varies greatly from time to time and results in large fluctuation in the Company's financial position and profit or loss. During the year, its share price decreased from $2.00 to $0.30 per share. Because of that, the Company lost appropriately approximately $25.504 million in fair value of financial assets held for trading.

Liquidity and Financial Resources

The Group's operations are primarily funded by cash flows from its operations and from issuance of the Company's convertible debentures. At 31 December 2016, the Group's cash and cash equivalents were $14.117 million as compared to $20.097 million as at 31 December 2015. For the year ended 31 December 2016, the Group's operating activities used net cash of $19.308 million. By comparison, net cash used in operating activities was $38.673 million for the same period of 2015.

During the year ended 31 December 2016, the Group's investing activities used net cash of $9.754 million, primarily for the purchase of property and equipment. By comparison, net cash used by the Group's investing activities in 2015 was $0.563 million. For the year ended 31 December 2016, the Group's financing activities generated net cash of $25.406 million, primarily from issuance of convertible debentures of the Company. By comparison, net cash provided in financing activities was $31.811 million for the same period of 2015.

As at 31 December 2016, the Group's gearing ratio, calculated as the aggregate of bank overdraft and finance lease divided by the amount of total equity, was 0.12% (2015: 0.20%).

At 31 December 2016, the Group had no contingent liabilities.

Convertible Debentures

In November 2015, the Company entered into a subscription agreement with an investor for HK$45,980,000 nil interest convertible one-year debentures due 3 November 2016. The conversion price was HK$0.22. The net proceeds of approximately HK$43,600,000 was used, through UAL, a wholly owned subsidiary of the Company, to develop the cultural industry business and multi-media products, including making movies, TV shows and Internet programs. The debentures were fully issued and converted into the ordinary shares of the Company by the end of 2015.

In December 2015, the Company entered into a subscription agreement with an investor for an aggregate of HK$1.0 billion nil interest convertible debentures due 31 December 2021. The conversion price is HK$0.125. The net proceeds of approximately HK$950 million were intended to be used, through UAL, in the development of cultural and multi-media business.

In August 2014, the Company entered into a subscription agreement with an investor for an aggregate of HK$1,660 million 0% interest convertible debentures due 31 December 2018. The conversion was HK$0.83 per share (after the 10:1 share consolidation), the net proceeds amount to approximately HK$1,577,000,000. 80% of the net proceeds were intended to be used as working capital for the manufacturing and selling of the "Piece of Cake" mobile devices; the rest will be reserved for the Company as working capital. Regarding completion of the investment, the Company and investor are discussing matters relating to the suspension of the "Piece of Cake" line of business and substantial differential between the conversion and market price of the Company's shares.

During the year ended 31 December 2016, the Company issued debentures for approximately US$27,071,000 (HK$211.150 million), which were fully converted to 1,689,200,000 ordinary shares of the Company (2015: US$12,298,000 and 169,480,560 shares, respectively).

As at 31 December 2016, the Group had no contingent liabilities. The Group believes that its cash balance and the cash generated from operations and from financing activities are adequate to meet its operating expenses and capital expenditure for the next twelve months. However, the Group's continuing operating and investing activities may require it to obtain additional sources of financing. In that case, the Group may seek financing from institutional investors, banks, or other sources of financing. There can be no assurance that any necessary additional financing will be available to the Group at that time.

Trade and Notes Receivables

At 31 December 2015, the Company had a total of $244.907 million of trade and notes receivables, and during the year, a large portion of the Company's trade and notes receivables were collected, and at 31 December 2016, this amount was reduced to $13,799 million. The receivables collected have been allocated to the development of the Company's graphite business, including the trading of finished graphite products and reserving semi-processed mixed grade graphite so as to achieve profit margin growth higher than the company's crude oil and electronic manufacturing lines of business.

Indebtedness

As at 31 December 2016:

- The Company did not have any bank borrowings or committed bank facilities;

- The Company did not have any borrowing from any related parties; and

- The Company did not have any bank overdrafts.

Since 31 December 2016, being the latest date of our audited financial statements, there has been no material adverse change to our indebtedness.

Off Balance Sheet Arrangements

As at 31 December 2016, the Group had no off balance sheet arrangements.

Principal Risks and Uncertainties

One of the Group's businesses is development and production of crude oil in Indonesia under a 20-year production contract with Indonesian government. In addition to the low price of crude oil on the world market, the production contract will expire in 2019. There is no guarantee that the contract will be renewed.

Other risks and uncertainties will be set out in the consolidated financial statements of the Group to be included in the 2016 annual report of the Company.

Employees and Remuneration Policies

As at 31 December 2016, the Group had approximately 406 employees in Indonesia, the United Kingdom, China and Hong Kong. The Group believes that its relationship with its employees is satisfactory.

The total remuneration costs incurred by the Group for the year 2016 were approximately US$11,109,000 (2015: approximately US$15,661,000).

The remuneration policy of the Group employees is set by the Remuneration Committee on the basis of the employees' merit, qualifications and competence. The emoluments of the Directors of the Company are decided by the Remuneration Committee. No share option scheme is in operation.

Customer and supplier relationships

Throughout the years, the Group maintained uninterrupted communications and a good relationship with its customers and suppliers without any major disputes.

During the year, the Group's purchases from the five largest suppliers accounted for approximately 38.88% of the Group's total purchases and purchases from the largest supplier included therein accounted for approximately 17.60% of the Group's total purchases.

During the year, the Group's sales to the five largest customers accounted for approximately 54.69% of the Group's total turnover and sales to the largest customer included therein accounted for approximately 24.56% of the Group's total sales.

None of the directors of the Company, their associates, nor any shareholders which to the best knowledge of the directors own more than 5% of the Company's issued share capital, had any beneficial interests in the Group's five largest customers and suppliers in 2016 and 2015.

Environmental Policies

In addition to financial performance, the Company believes that high standard of corporate social responsibility is critical in establishing good corporate and social relations, motivating employees and creating sustainable returns for the Company. The Company is committed to active contributions to the environment and the development of community sustainability in the regions where the Company operates and the Company's stakeholders reside.

The Company also strives to maintain the sustainable development for the environment as well as for the human race, and commits to its responsibilities in improving the energy structure, mitigating air pollution and reducing greenhouse gas emissions and haze. The Company requires its operating subsidiaries to operate in strict compliance with the relevant environmental regulations and rules and possess all necessary permission and approval from the relevant governmental regulators.

Foreign Exchange Exposure

The Company's principal operating subsidiaries earn revenues and incur costs in US dollars, Chinese Renminbi and British pounds, respectively. During the six month period ended 30 June 2016, the Group did not engaged in any hedging activities. The Company will continue to monitor the risk of foreign exchange fluctuation on the Company's results of operations, financial conditions and cash flows.

Legal Proceedings

The Company 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 Company.

Compliance with the Code of 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 throughout the accounting period covered by the annual report, except for three deviations as below:

Code provision A.2.1: The roles of chairman and chief executive should be separate

Code provision A.2.1 provides that the roles of chairman and chief executive should be separate and should not be performed by the same person. The Company deviates from this provision because Mr. Feng Zhong Yun performs both the roles of chairman and chief executive since Mr. Guan Xinmin, the former Chairman of the Company, passed away in May 2014. The Board believes that the current arrangement would provide the Company with strong and consistent leadership and facilitates the implementation and execution of the Company's business strategies. The Board shall nevertheless review the structure from time to time in light of the prevailing circumstances.

Code Provision A.4.1: Non-executive directors should be appointed for a specific term

Under the code provision A.4.1 of the Code, non-executive Directors (including independent non-executive directors) shall be appointed for a specific term and subject to re-election. None of the Company's existing independent non-executive Directors was appointed for a specific term. This constitutes a deviation from code provision A.4.1 of the Code. However, the Company's Articles of Association stipulate that all independent non-executive directors shall retire and be re-elected at least once every three years, which is an adequate measure to ensure that the Company's corporate governance complies with the same level to that required under the Code on Governance Practices and Corporate Governance Code.

On 30 June 2016, Mr. Han Zhi Jun and Ms. Zhang Xue were re-elected as executive directors; and Mr. Lu Ren Jie was re-elected as an independent non-executive director, respectively.

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

Mr. Lu Ren Jie, Mr. Chai Woon Chew, being non-executive directors, were not able to attend the annual general meeting of the Company held on 30 June 2016 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 its own code of conduct regarding securities transactions by the Directors of the Company. All Directors have confirmed that, following specific enquiry by the Company, they fully complied with Mode Code throughout the year ended 31 December 2016.

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

During the year ended 31 December 2016, neither the Company, nor any of its subsidiaries, purchased, sold, or redeemed any of the Company's securities.

Director's and Chief Executives' Interests in Shares

At 31 December 2016, none of the Directors and executive officers of the Company and their respective associates had any interests or short positions 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 (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.

Directors' Interests in Contracts

During the year ended 31 December 2016, none of the Company's Directors had a material interest, either direct or indirect, in any contract of significance to the business of the Company to which the Company or any of its subsidiaries was a party.

At no time during the period under the review was the Company or any of the Company's subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares, or debentures of, the Company or any other body corporate.

Substantial Shareholders and Other Person's Interest in Shares

At 31 December 2016, 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" above, had registered an interest, short position, or lending pool 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.

Dividend

The Directors did not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: Nil).

Subsequent Events

There is no subsequent event after the reporting period which has material impact to the consolidated financial statements of the Group.

Audit Committee

The Audit Committee consists of the following independent non-executive directors: Mr. Ng Lai Po (Chairman), Mr. Lu Ren Jie, and Mr. Chai Woon Chew. The Audit Committee has adopted the terms of reference which are in line with Corporate Governance as set forth in Appendix 14 to the Listing Rules.

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Company and discussed auditing, internal controls and financial reporting matters, including a review of the audited financial statements for the year ended 31 December 2016.

Scope of Work of UC CPA (Practising) Limited

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2016 as set out in the preliminary announcement have been agreed by the Group's auditor, UC CPA (Practising) Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by UC CPA (Practising) Limited in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by UC CPA (Practising) Limited on the preliminary announcement.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company has maintained at all times during the year sufficient public float as prescribed by the Listing Rules.

Publication of 2016 Final Results and Annual Report

This announcement of results containing all the information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published in due course on website of the Stock Exchange of Hong Kong Limited (http://www.hkex.com.hk) and website of the Company (http://www.southseapetro.com.hk) (together, the "Websites"). The Company's Annual Report 2016 will also be published on the Websites and dispatched to shareholders who elected to receive the printed version of the corporate communication of the Company in due course.

The 2016 annual financial information set out above does not constitute the Group's statutory financial statements for the year ended 31 December 2016. Instead, it has been derived from the Group's audited consolidated financial statements for the year ended 31 December 2016, which will be included in the Company's 2016 annual report.

BOARD OF DIRECTORS

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

On behalf of the Board
Feng Zhong Yun
Managing Director

Hong Kong, 31 March 2017