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 2017

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 2017 together with the comparative figures in 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017
(Expressed in US$'000)

	Notes	**2017**	2016 (Restated)
CONTINUING OPERATIONS			
TURNOVER		**62,880**	55,386
Cost of sales		**(52,755)**	(46,506)
		10,125	8,880
Other income		**2,308**	6,524
General and administrative expenses		**(11,618)**	(21,657)
Net loss in fair value of financial assets held for trading		**(1,254)**	(25,504)
Other tax		**(1,039)**	–
LOSS FROM OPERATING ACTIVITIES	*3*	**(1,478)**	(31,757)
Finance costs		**(51)**	(46)
LOSS BEFORE TAX		**(1,529)**	(31,803)
Income tax	*4*	**(498)**	(234)
LOSS FROM CONTINUING OPERATIONS		**(2,027)**	(32,037)
DISCONTINUED OPERATIONS	*5*		
(Loss) gain from discontinued operations		**(3,579)**	145
Loss on disposal of discontinued operations		**(1,302)**	–
		(4,881)	145
LOSS FOR THE YEAR		**(6,908)**	(31,892)

	Notes	2017	2016 (Restated)
ATTRIBUTABLE TO:			
Equity shareholders of the Company			
– Continuing operations		**(7,365)**	(31,676)
– Discontinued operations		**(2,212)**	145
		(9,577)	(31,531)
Non-controlling interests			
– Discontinued operations		**2,669**	(361)
		(6,908)	(31,892)
EARNINGS (LOSS) PER SHARE – BASIC *(US Cents)*	*6*		
From continuing and discontinued operation		**(0.50)**	(1.38)
From continuing operations		**(0.38)**	(1.38)
From discontinued operations		**(0.12)**	0.01

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017
(Expressed in US$'000)

	2017	2016 (Restated)
LOSS FOR THE YEAR	**(6,908)**	(31,892)
OTHER COMPREHENSIVE INCOME (EXPENSE)		
– Items that may be reclassified to profit or loss		
Exchange difference	**1,335**	(5,450)
Revaluation of land and building	**469**	429
TOTAL COMPREHENSIVE INCOME (EXPENSE) FOR THE YEAR	**(5,104)**	(36,913)
ATTRIBUTABLE TO:		
Equity shareholders of the Company		
– Continuing operations	**(5,775)**	(36,572)
– Discontinued operations	**(2,212)**	145
	(7,987)	(36,427)
Non-controlling interests		
– Discontinued operations	**2,883**	(486)
	(5,104)	(36,913)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2017
(Expressed in US$'000)

	Notes	**2017**	2016
NON-CURRENT ASSETS			
Fixed assets	*8*	**23,855**	21,491
Prepaid lease payments		**2,581**	4,563
Available-for-sale investments		**–**	6,293
Interest in an associate		**–**	–
Intangible assets		**4,283**	3,065
Deferred tax assets		**1,238**	1,238
		31,957	36,650
CURRENT ASSETS			
Cash and bank balances		**10,165**	14,117
Assets classified as held-for-sale		**1,367**	–
Financial assets at fair value held for trading	*9*	**3,691**	4,944
Trade and notes receivables	*10*	**17,693**	13,799
Inventories		**338,202**	340,091
Other receivables, deposits and prepayments	*11*	**41,073**	72,221
		412,191	445,172
CURRENT LIABILITIES			
Trade payables	*12*	**46,516**	99,064
Liabilities directly associated with assets classified as held-for-sale		**10,118**	–
Other payables and accruals	*13*	**7,425**	17,052
Due to non-controlling interests		**–**	526
Finance lease-current portion		**210**	192
Taxation		**15,899**	15,676
		80,168	132,510
NET CURRENT ASSETS		**332,023**	312,662
TOTAL ASSETS LESS CURRENT LIABILITIES		**363,980**	349,312
NON-CURRENT LIABILITIES			
Finance lease		**35**	223
Provision		**–**	3,105
		35	3,328
NET ASSETS		**363,945**	345,984
CAPITAL AND RESERVES			
Share capital	*15*	**590,430**	562,721
Revaluation reserve		**4,639**	3,909
Translation reserve		**1,631**	771
Accumulated losses		**(232,761)**	(223,184)
Total equity attributable to equity shareholders of the Company		**363,939**	344,217
Non-controlling interests		**6**	1,767
		363,945	345,984

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Years Ended 31 December	
	2017	2016
	US$'000	*US$'000*
NET CASH USED IN OPERATING ACTIVITIES	**(32,665)**	(19,308)
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**1,619**	(9,754)
CASH FLOW FROM FINANCING ACTIVITIES	**27,539**	25,406
DECREASE IN CASH AND CASH EQUIVALENTS	**(3,497)**	(3,656)
Cash and cash equivalents at beginning of year	**14,117**	20,097
Effect of foreign exchange rates	**(455)**	(2,324)
CASH AND CASH EQUIVALENTS AT END OF YEAR	**10,165**	14,117
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**10,165**	14,117

NOTES TO THE ACCOUNTS

1. Basis of preparation and significant accounting policies

The financial information relating to the financial years ended 31 December 2017 and 2016 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.

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 2017.

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12 included in Annual Improvements to HKFRSs 2014 – 2016 Cycle	Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12

The effect of the adoption of the above amendments to standards beginning 1 January 2017 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 new standards or interpretation that is not yet effective for the current accounting year.

2. Turnover and segment information

Turnover represents oil revenue from the 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 2017:

	Sale of minerals	**Contract electronic manufacturing**	**Trading securities**	**Sales of mobile phones**	**Others**	**Total**
Continuing operations						
Revenue from external customers	**9,696**	**52,928**	**–**	**–**	**256**	**62,880**
Segment results	**412**	**2,834**	**(1,767)**	**(851)**	**–**	**628**
Unallocated income and expenses						**(2,106)**
Loss from operating activities						**(1,478)**
Finance costs	**(26)**	**(25)**	**–**	**–**	**–**	**(51)**
Taxation	**(385)**	**(130)**	**–**	**–**	**–**	**(498)**
Loss for the year						**(2,027)**

For the year ended 31 December 2016 (restated):

	Sale of minerals	Contract electronic manufacturing	Trading securities	Sales of mobile phones	Others	Total
Revenue from external customers	8,026	47,213	–	–	147	55,386
Segment results	3,864	1,345	(26,017)	(8,317)	–	(29,125)
Unallocated income and expenses						(2,632)
Loss from operating activities						(31,757)
Finance costs	(21)	(25)	–	–	–	(46)
Taxation	(166)	(68)	–	–	–	(234)
Loss for the year						(32,037)

3. Loss from operating activities

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

	2017	2016
	US$'000	*US$'000*
		(Restated)
Continuing operations		
Depreciation:		
– owned fixed assets	**883**	950
– leased fixed assets	**159**	166
Operating lease rentals on		
– land and buildings	**627**	639
– plant and machinery	**33**	52
Costs of inventories sold	**49,847**	46,307
Fixed assets written off	**–**	5
Staff costs, including directors' remuneration	**11,673**	11,282
Auditors' remuneration		
– Audit fee	**152**	128
– other service	**18**	19
Impairment of inventories	**319**	332
Impairment of account receivable written back	**–**	(6,255)
Foreign exchange loss (gain), net	**(873)**	1,334

4. Tax

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

	2017	2016
	US$'000	*US$'000*
Overseas tax charge		
– Current	**385**	166
– Deferred tax	**113**	68
Tax charge for the year	**498**	234

Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries. Deferred tax charge for the year represents deferred tax 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. Discontinued operations

On 14 September 2017, the Group disposed the entire interests in its subsidiary, Luo Bei Xin Long Yuan Graphite Production Co. Limited, at a consideration of USD4,042,000 and the entire production assets of its subsidiary, South Sea Graphite (Luobei) Co., Limited at a consideration of USD3,701,000. The Group's business in leasing of production assets were discontinued.

Subsequent to the year-end date on 5 March 2018, the Group entered into an agreement to dispose the entire interest of its subsidiary, Kalrez Petroleum (Seram) Limited, at a consideration of USD600,000. The results of the oil business segment operated by this subsidiary and the results of the lease of production assets segments together with the related loss on disposal of Luo Bei Xin Long Yuan Graphite Production Co. Limited have been presented as discontinued operations in the consolidated financial statements.

5. Discontinued operations (continued)

(a) The results of the discontinued operations were as follows:

	2017	2016
	US$'000	*US$'000*
Revenue	**4,110**	7,134
General and administration expenses	**(4,009)**	(4,034)
Drilling and operating expenses	**(3,680)**	(2,955)
Loss for the year from discontinued operations	**(3,579)**	145
Loss on disposal of a subsidiary	**(1,302)**	–
	(4,881)	145

(b) Disposal of subsidiary

	US$'000
Fixed assets	3,845
Goodwill	537
Prepaid lease payments	2,184
Cash and bank balances	3
Accounts receivable	1,138
Other receivables, deposits and prepayments	2,755
Other payable and accruals	(86)
Due to non-controlling interest	(376)
Exchange reserve	(19)
Non-controlling interest	(4,637)
Net assets disposed	5,344
Cash consideration	4,042
Loss on disposal	1,302

6. Earnings (Loss) per share

The calculation of basic earnings (loss) per share is based on the net loss attributable to equity shareholders for the year of US$9,577,000 (2016: US$31,531,000) and weighted average of 1,914,448,786 (2016: 2,289,721,318) ordinary shares in issue during the year.

7. Dividend

The Directors have decided not to declare any dividend for the year ended 31 December 2017 (2016: Nil).

8. Fixed assets

During the year ended 31 December 2017, the Group acquired approximately US$10,363,000 (2016: US$1,482,000) of fixed assets.

9. Financial assets at fair value held for trading

	2017	2016
	US$'000	*US$'000*
Hong Kong listed shares	**541**	444
Shares traded on the OTC Markets in United States	**3,150**	4,500
	3,691	4,944

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

10. Trade and note receivables

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

	2017	2016
	US$'000	*US$'000*
0-30 days	**5,252**	5,156
31-60 days	**7,007**	4,727
61-90 days	**3,356**	2,126
Over 90 days	**2,078**	1,790
	17,693	13,799

11. Other receivables, deposits and prepayments

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

	2017	2016
	US$'000	*US$'000*
Purchase deposits	**5,039**	34,216
Film production expenses	**15,116**	28,961
Other deposits and prepayments	**1,588**	3,436
Other receivables	**19,330**	4,701
Due from non-controlling interest	**–**	907
	41,073	72,221

12. Trade payables

The ageing analysis of the trade payables is as follows:

	2017	2016
	US$'000	*US$'000*
0-30 days	**2,403**	1,804
31-60 days	**1,212**	3,081
61-90 days	**3,962**	93,101
Over 90 days	**38,939**	1,078
	46,516	99,064

13. Other payables and accruals

The analysis of other payables and accruals is as follows:

	2017	2016
	US$'000	*US$'000*
Other payables	**376**	562
Accruals and deferred income	**4,878**	5,491
Deposits received	**–**	6,304
Other tax payable	**2,171**	4,695
	7,425	17,052

14. Convertible debentures

During the year, the Company issued the convertible debentures for approximately US$29,168,000. Finder's fee of approximately US$1,458,000 was paid or payable to the debenture holders.

15. Share capital

	2017	2016
	US$'000	*US$'000*
Issued and fully paid:		
4,982,709,078 ordinary shares with no par value (31.12.2016: 3,162,629,078 ordinary shares)	**590,430**	562,721

16. Related party transactions

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

	2017	2016
	US$'000	*US$'000*
Sales to non-controlling interest	**–**	259
Rental income from non-controlling interest	**964**	2,575

17. **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 2017 Total**
	US$'000	***US$'000***	***US$'000***	***US$'000***
Financial assets at fair value held for trading	**3,691**	**–**	**–**	**3,691**

	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

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

The Board of Directors of the Company approved the Annual Audited Accounts on 29 March 2018.

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

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

For the year ended 31 December 2017, the turnover of the Group was $62.880 million, representing an increase of $7.394 million, or 13.53%, as compared to $55.386 million for the prior year. The net loss attributable to shareholders was $9.577 million, or 0.50 cents per share, as compared to net loss of $31.531 million, or 1.38 cent per share, for the same period of 2016. On the balance sheets, at 31 December 2017 the total assets of the Group were $444,148 million, as compared to $481.822 million at 31 December 2016, and the net assets of the Group were $363,945 million at 31 December 2017, as compared to $345.984 million at 31 December 2016.

Business Review

For the year under 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) multi-media development and motion picture production.

Through its wholly-owned subsidiary Kalrez Petroleum (Seram) Limited, the Company has been engaged in the operation of the Bula oilfield in Indonesia pursuant to the Production Sharing Contract ("Bula PSC") entered into with BPMIGAS, Department of Petroleum of Indonesia, since May 2000. The Bula PSC has not been extended and will expire in 2019. The crude oil produced by the Company is sold exclusively to the Indonesian government. The Company is not optimistic about the future of its crude oil business due to low oil price and the upcoming expiration of the Bula PSC. As a result, the Company is actively seeking other sources of income and growth opportunities.

Through its wholly-owned subsidiary Global Select Limited, the Company has been engaged in the production and sale of graphite products worldwide for more than 10 years. The customers include steel mills in China, lithium battery companies, refractory material companies and users of graphite products in the US and Europe.

Through its wholly-owned subsidiary in the UK, Axiom Manufacturing Services Ltd. ("Axiom"), the Company has been engaging in the manufacturing and design of electronic products for over 15 years. Axiom offers contract manufacturing services to the medical, national defense, transportation, aerospace, security, maritime and natural gas industries and other sectors. The electronic products of contract manufacturing and design are usually labeled with customers' brand names. Axiom offers comprehensive services to customers mainly in the UK and North America.

Graphite Operations and New Production Lines

Currently the Company is actively expanding its graphite operations as its main profit growth area. The Company has been engaged in graphite business for many years. Since Andre Geim and Konstantin Novoselov received their Nobel Prize in 2010 for their discovery of the unique properties of graphene, the demand for graphite as a strategic material has been surging. 14 materials including graphite and rare earth elements are viewed as key materials.

Graphite is widely used in aerospace, steel, automobile, electric vehicle, battery and lubricant industries. As a nonrenewable mineral resource, graphite deposits are limited and diminishing. On the one hand, the graphite business is of high growth potential, and, on the other hand, the Company has gained rich experience and cultivated good customer relationships over the years. To that end, last year the Company seized an opportunity of purchasing a large amount of semi-processed mixed-grade graphite as strategic reserve, just like land reserves for real estate developers. The purchased graphite reserve can be used as raw material for high-grade graphite products, or resold for profit, which laid the foundation for the Company to further grow its graphite business.

In 2017, the Company's wholly-owned subsidiary Global Select Limited, built two graphite production lines and a warehouse in Madagascar, Africa (the "Production Facilities"). To simplify management, reduce costs and maximize production efficiency, the Group engaged a professional contractor to handle the construction and installation of the Production Facilities, as well as graphite production and custom clearance. The production lines are now in operation and sale of products has begun.

Multi-media business and Motion Picture Production

In addition to its traditional businesses, through its wholly-owned subsidiary Unicorn Arts Limited ("Unicorn"), the Company began to develop cultural and multi-media businesses, including motion picture production, television and online programming, and introduction of valuable foreign movies to Mainland China, etc. Unicorn has already completed the shooting of "Pegasus", a black-humor feature film with an anti-war and anti-nuclear weapons theme. Now that post production and special effects are under way, "Pegasus" is scheduled for worldwide release in 2018.

Establishment of a New High-tech Joint Venture

In January 2018, Cityhill Limited, a wholly-owned subsidiary of the Company, signed an agreement with a US company, which is listed on the OTC markets of the United States, to form a joint venture company. The name of the joint venture company is Gold Gold Gold Limited ("3G"), in which each party holds 50% of equity interest. The Group hopes that 3G will become another new venture with profit growth potential.

3G uses the blockchain technology to provide physical gold purchase, safekeeping, circulation and liquidation services to customers worldwide. The US company will help to develop North American and European markets, while Cityhill will help to develop Asian markets.

The main business of 3G is to accept purchase/sales orders from customers all over the world. Customers can purchase or sell physical gold stored at the Industrial and Commercial Bank of China at market prices. Customers can choose to take possession of the gold, or deposit the gold with 3G or in bank vaults in exchange for electronic receipts of gold generated by the blockchain technology. Customers can tender their electronic receipts to withdraw gold from collaborative bank treasuries worldwide or sell gold at market price at any time.

Customers can also exchange their electronic receipts online for gold-backed US dollars, British pounds, Euros, RMB, Hong Kong dollars and Japanese yen for their use at any location all over the world.

The main assets of 3G are physical gold deposited by its customers, and 3G derives profit mainly from handling fees.

Disposal of Certain Fixed Assets of Subsidiaries

In June 2017, the Company entered into agreements to sell certain fixed assets of its subsidiaries for an aggregate consideration of RMB50,000,000, including all fixed assets of its wholly-owned subsidiary, South Sea Graphite (Luobei) Co., Ltd. ("SSG"), and all fixed assets of its 51%-owned subsidiary, Luo Bei Xin Long Yuan Graphite Productions Co., Ltd. ("Xin Long Yuan") Based on the unaudited accounts as at 31 May 2017, the total book value of the above-mentioned fixed assets amounted to US$6,746,809 (approximately equivalent to RMB45,974,051). As a result of the disposal, the Company would realize a pre-tax gain of appropriately RMB4,025,949.

The reasons for the disposal were based on an assessment of our graphite operations that, since the establishment of those subsidiaries in Luobei, China, the supply of graphite ore to the production lines had been seriously inadequate to keep pace with their production capacities, and the value of the rundown production lines had been depreciated year by year. It became apparent that new production lines should be built in Madagascar where the quantity and quality of graphite ore are far superior to that in Luobei, China. The disposal of those fixed assets enables the Company to focus on more productive business operations and achieve better use of its resources.

Events after Reporting Period – Disposal of Oil Production Subsidiary

In March 2018, the Company's wholly-owned subsidiary Global Select Limited entered into a sale and purchase agreement with PT Hana Mandiri Global, an energy investment company in Indonesia, whereby PT Hana Mandiri Global agreed to purchase from Global Select 100% of equity interest in its wholly-owned subsidiary Kalrez Petroleum (Seram) Limited ("Kalrez") for US$600,000.

In May 2000, Kalrez entered into a 20-year term Production Sharing Contract with Indonesia's Ministry of Petroleum for the operation of the Bula oilfield in Indonesia ("Bula PSC"). Because of low oil price, the performance of Kalrez has negatively affected the Group's results of operations. As of 31 December 2017 and for the year ended 31 December 2017, both Kalrez's profit and net assets were negative, i.e. -US$1,500,000 and -US$4,860,000, respectively.

Besides its oil business and assets in Indonesia, Kalrez does not have any other business or assets. When the Bula PSC expires in 2019, all Kalrez's assets will belong to the Indonesian government pursuant to the Bula PSC. In addition, Kalrez will be liable for the severance payment to its employees and the plug and abandon liabilities. For the aforesaid reasons, the Board of Directors of the Company believes that it is in the best interest of all shareholders of the Company to sell Kalrez to end continuing losses.

Events after Reporting Period – Investing into 上海國雄

On March 22, 2018, Liaoning Sinorth Resources Co., Ltd. ("Liaoning Sinorth"), a wholly-owned subsidiary of the Company, entered into an agreement with 上海國雄投資發展有限公司 ("上海國雄"). Pursuant to the agreement, Liaoning Sinorth will invest RMB10.10 million for 25% of interest equity of 上海國雄, the total registration capital of which is RMB40.40 million. The main business of 上海國雄 is investing real estate properties, which are largely located in Shandong Province, China.

Establishment of a Real Estate Company

The crude oil Production Sharing Contract signed in May 2000 between the Company and Indonesian government will expire in 2019. To fill the revenue void of its oil business, the Company formed a subsidiary, South Sea Properties (Global) Limited, to develop real estate business. Currently the Company is actively seeking good programs and cooperation partners.

Results of Operations

Continuing operation

For the year ended 31 December 2017, the Group's turnover was $62.880 million, an increase of $7.494 million, or 13.5%, as compared to $55.386 million for the prior year. For the year ended 31 December, the Group's turnover of graphite operation was $9.696 million, an increase of 21% as compared to $8.025 million in 2016.

For the year ended 31 December 2017, the turnover of the Group's electronics manufacturing service operation was $52.928 million, representing an increase of $5.715 million, or 12%, as compared to $47.213 million for the prior year. The increase in electronics manufacturing service revenue was primarily due to an increase in sales.

For the year ended 31 December 2017, the Company's cultural operations generated no revenues. All film project costs were recorded as current assets in the Group's consolidated financial statements. Those film project costs will be recognized with the theatrical distribution of the motion picture for exhibition.

As mentioned above, during the reporting period, the Company contracted to dispose of certain fixed assets for RMB50 million in cash, by which the Company would realize a pre-tax gain of approximately RMB4,025,949.

Discontinued operation

The turnover of the Group's crude oil operation was $3.146 million as compared to $4.560 million for the year 2016, representing a decrease of 31%. The decrease in oil revenue was primarily due to the aging oil fields, which results in reduced production by approximately 15%.

Compared to the last year, for the year ended 31 December 2017, the Group's graphite facilities generated revenues of $964 million, or a decrease of 63%, as compared to $2,575 million in 2016. Since June 2014, Xin Long Yuan has leased out all of its production assets followed by SSG in 2015 and, in return, the Group 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 idle capacity in production lines, and that it will generate more stable and guaranteed net income for the Group. In June 2017, as discussed above, all fixed assets and facilities were contracted to be disposed.

Liquidity and Financial Resources

The Group's operations are primarily funded by cash flows from its operations and from issuance of convertible debentures of the Company. At 31 December 2017, the Group's cash and cash equivalents were $10.165 million as compared to $14.117 million as at 31 December 2016. For the year ended 31 December 2017, the Group's operating activities used net cash of $32.655 million. By comparison, net cash used in operating activities was $19.308 million in 2016.

During the year ended 31 December 2017, the Group's investing activities generated net cash of $1.619 million, primarily from sales proceeds from disposal of subsidiary, fixed assets and available-for-sale investment. By comparison, net cash used by the Group's investing activities in 2016 was $9.754 million. For the year ended 31 December 2017, the Group's financing activities generated net cash of $27.539 million, primarily from issuance of convertible debentures of the Company. By comparison, net cash provided in financing activities was $25.406 million for the prior year.

As at 31 December 2017, the Group's gearing ratio, calculated as the aggregate of bank overdraft and finance lease divided by the amount of total equity, was 0.07% (2016: 0.12%).

At 31 December 2017, the Group had no contingent liabilities.

Convertible Debentures

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, for the development of cultural and multi-media businesses.

For the year ended 31 December 2017, the Company issued debentures of approximately US$29.168 million (HK$227.510 million), which were fully converted to 1,820,080,000 ordinary shares of the Company (2016: US$27,071,000 for 1,689,200,000 shares).

As at 31 December 2017, 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.

Intangible Assets

At 31 December 2017, the Company had $4,283 million of intangible assets, which consist of the fair value of customer contract acquired through acquisition of subsidiary amounting to $596,000, $708,000 of goodwill, and addition of film right of $896,000.

Indebtedness

As at 31 December 2017:

- 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 2017, being the latest date of our reported financial statements, there has been no material adverse change to our indebtedness.

Off Balance Sheet Arrangements

As at 31 December 2017, 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 the Indonesian government. In addition to the low price of crude oil on the world market, the production contract will expire in 2019. As a result, in recent years the Company has been actively seeking new revenue sources and business growth opportunities, as discussed in more details in the above sections.

Employees and Remuneration Policies

As at 31 December 2017, 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 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.

Foreign Exchange Exposure

The Company's principal operating subsidiaries earn revenues and incur costs in US dollars, Chinese Renminbi and British pounds, respectively. For the year ended 31 December 2017, 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.

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 2017, 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.

Dividends

The Directors have decided not to declare any interim dividend for the year ended 31 December 2017 (2016: Nil).

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.

Events after the reporting period

Apart discussed above in the section, "Events after Reporting Period – Disposal of Kalrez Subsidiary", there is no subsequent event after the reporting period which has an material impact on the consolidated financial statements of the Group.

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 2 June 2017, Mr. Feng Zhong Yun re-elected as executive director; and Mr. Ng Lai Po and Mr. Chai Woon Chew were re-elected as an independent non-executive directors, 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 2 June 2017 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. Upon specific enquiries of all the Directors, each of them has confirmed that he/she complied with the required standards set out in the Model Code during the year under review.

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

During the year ended 31 December 2017, 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 2017, 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 2017, 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 2017, 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 2017 (2016: Nil).

Audit Committee and Review of Consolidated Financial Information

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 annual results of the Group for the year ended 31 December 2017.

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 2017 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 2017 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 2017 annual report 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 2017 annual financial information set out above does not constitute the Group's statutory financial statements for the year ended 31 December 2017. Instead, it has been derived from the Group's audited consolidated financial statements for the year ended 31 December 2017, which will be included in the Company's 2017 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, 29 March 2018