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**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)**

**ISSUE OF US\$250,000,000 CONVERTIBLE DEBENTURES**

The Directors announce that on 4 April 2011, the Company entered into a Subscription Agreement with the Subscriber for US\$250,000,000 3% interest 10-year Debentures due 2021.

The Conversion Price shall be the higher of (i) 90% of the average closing price of the Shares of any five (5) consecutive trading days (as selected by the Debenture Holder) within the sixty (60) trading days immediately prior to the Conversion Date and (ii) the current par value of the Shares at US\$0.50 (equivalent to HK\$3.90), or the then effective par value at the time of conversion.

The Company has agreed to use its best efforts to increase the authorized share capital and reduce the par value of its ordinary shares. The maximum number of the New Shares that can be issued and allotted shall be 500,000,000.

The net proceeds are intended to be used as funding for potential acquisitions of graphite mineral resources and capital reserve to increase oil production in Bula Oilfields, Indonesia, and to develop or acquire hi-technology to support and complement its existing electronics hardware business in the UK. However, the Directors confirm that currently no agreement relating to intended acquisitions has been reached. The Company will inform the market by making formal announcements should any discloseable transactions as defined under the Listing Rules arise.

Pursuant to the Subscription Agreement, none of the Debenture Holder shall be allowed to own, directly or indirectly, 5% or more of Shares in the Company's issued share capital from time to time under any circumstances. Therefore no substantial shareholder, as defined under the Listing Rules, will be introduced to the Company as a result of the conversion of the New Shares. An application for the listing of, and permission to deal in, the New Shares will be made to the Stock Exchange.

The New Shares will be issued and allotted under the Special Mandate to be sought at the EGM of the Company. A circular containing, among other matters, further details of the Subscription Agreement together with a notice convening the EGM for the Shareholders to consider and (if thought fit) approve, among other matters, the Subscription Agreement and the transactions contemplated thereunder will be despatched to the Shareholders who elected to receive the printed version of the corporate communication, and be published on Stock Exchange's and the Company's website as soon as practicable.

## **ISSUE OF US\$250,000,000 CONVERTIBLE DEBENTURES**

### **Date of Subscription Agreement**

4 April 2011

### **Parties**

- The Company
- The Subscriber

RTM Financial Corp., a USA company involved in investing in securities, debentures, government bonds and other financial instruments.

The Company confirms that, to the best of the directors' knowledge, information and belief, having made all reasonable enquiry, the Subscriber and its ultimate beneficial owner are third parties independent of the Group and connected persons (as defined under the Listing Rules) of the Group.

### **Principal amount**

US\$250,000,000

### **Maturity Date**

4 April 2021

### **Interest**

3% per annum

### **Completion of the Subscription Agreement**

Completion of the Subscription Agreement is subject to:

1. the Shareholders granting their Special Mandate to the Directors to issue the New Shares;

2. the Listing Committee of the Stock Exchange granting approval for listing of, and permission to deal in, the New Shares.

Pursuant to the Subscription Agreement, no long stop date is set as a condition precedent.

### **Conversion**

Debenture Holder shall have the right to convert the principal amount of the Debentures in whole or in part in multiples of HK\$10,000 into the New Shares at the prescribed Conversion Price within the Conversion Period. The New Shares will rank pari passu in all respects with the existing Shares in issue.

### **Conversion Price**

The Conversion shall be the higher of (i) 90% of the average closing price of the Shares of any five (5) consecutive trading days (as selected by the Debenture Holder) within the sixty (60) trading days immediately prior to the Conversion Date and (ii) the current par value of the Shares at US\$0.50 (equivalent to HK\$3.90), or the then effective par value of the Shares at the time of conversion.

Suppose the Debenture Holder elects from March 28 to April 1, 2011 as the five consecutive trading days to convert the New Shares and 90% of the average of the closing price of the Shares of the five consecutive trading days will be HK\$0.79,

- 1) the current par value per Share is higher than HK\$0.79 and the Conversion Price should be \$3.90,
  - (i) a premium of approximately 323.91% over the closing price of HK\$ 0.92 per Share as quoted on the Stock Exchange on 4 April 2011, being the date of the Subscription Agreement;
  - (ii) a premium of approximately 338% over the average closing price of HK\$ 0.89 per Share as quoted on the Stock Exchange over the five consecutive trading days immediately

prior to 4 April 2011;

(iii) a premium of approximately 338% over the average closing price of HK\$ 0.89 per Share as quoted on the Stock Exchange over the ten consecutive trading days immediately prior to 4 April 2011.

2) if the par value per Share, after capital reduction, is lower than HK\$0.79 on the Conversion Date, the Conversion Price should be HK\$0.79,

(i) a discount of approximately 16.46% over the closing price of HK\$0.92 per Share as quoted on the Stock Exchange on 4 April 2011, being the date of the Subscription Agreement;

(ii) a discount of approximately 11.29% over the average closing price of HK\$0.89 per Share as quoted on the Stock Exchange over the five consecutive trading days immediately prior to 4 April 2011;

(iii) a discount of approximately 11.29 % over the average closing price of HK\$ 0.89 per Share as quoted on the Stock Exchange over the ten consecutive trading days immediately prior to 4 April 2011.

The Conversion Price and the number of the New Shares will be subject to adjustment (as the case may be) for capitalization issue, rights issue, sub-division or consolidation of Shares or reduction of capital, in such case, the Company shall issue further announcement regarding the adjustments as when and where necessary and appropriate. In the event the par value of the Company's Shares is reduced, the conversion limit will remain the same at 500,000,000 Shares. Pursuant to the Subscription Agreement, the Company has agreed to use its best efforts to increase the authorized share capital and reduce the par value of its ordinary Shares (the "Capital Reorganization"). After the Company decides the details of the Capital Reorganization, approval will be sought from the Shareholders and the relevant authorities.

### **Effect of Conversion and Substantial Shareholder**

The New Shares will be issued under the Special Mandate granted by the Shareholders at the EGM of the Company. Assuming the Debentures are fully exercised and converted, a maximum number of 500,000,000 New Shares will be issued and allotted, which represent 189.87% of the existing issued share capital of the Company as of the date of the Subscription Agreement, and represent 65.50% of the issued shares as enlarged by the issue of the New Shares. Pursuant to the Subscription Agreement, none of the Debenture Holder shall be allowed to own, directly or indirectly, 5% or more of Shares in the Company's issued share capital from time to time under any circumstances. If any Debenture Holder's Shares in the Company shall have exceeded 5% or more of the Company's issued share capital as enlarged by the issue of the New Shares after any conversion of New Shares, they are obliged to sell their Shares to independent third parties or sell the Shares in the open market before they convert any Debentures into additional New Shares, to maintain their shareholding level always below 5% in the Shares of the Company after conversion. In each conversion, Debenture Holder is required to provide an undertaking letter to the Company informing the Company of their shareholding immediate before and after such conversion, and undertaking that they will be holding less than 5% of the Company's Shares after such conversion. Therefore no substantial shareholder, as defined under the Listing Rules, will be introduced to the Company as a result of the conversion of the New Shares.

An application for the listing of and permission to deal in the New Shares will be made to the Stock Exchange.

### **History of Fund Raising Activities for the Past Twelve Months**

There was no fund raising activity held by the Company in the past twelve months.

## Shareholding Structure of the Company Before and After the Exercise of Conversion Rights Attached to the Debentures

|  | Immediately before the Debentures are converted into any New Shares |               | Assuming Debenture Holders of US\$100,000,000 and US\$250,000,000 Convertible Debentures Elect to Fully Convert their Debentures |               |
|--|---|---------------|--|---------------|
|  | Number of Shares  | %             | Number of Shares   | %             |
| Palmsville Equities Inc. (Note)  | 640,0000  | 0.24          | 640,000  | 0.07          |
| Public:  |   |               |  |               |
| 1. Debenture Holders of the outstanding US\$100,000,000 Convertible Debentures | 0   | 0             | 200,000,000  | 20.76         |
| 2. Debenture Holders of US\$250,000,000 Convertible Debentures                 | 0   | 0             | 500,000,000  | 51.90         |
| 2. Other Public  | 262,693,744   | 99.76         | 262,693,744  | 27.27         |
| <b>Total</b>   | <b>263,333,744</b>  | <b>100.00</b> | <b>963,333,744</b>   | <b>100.00</b> |

Note: Palmsville Equities Inc. is a company beneficially owned by Mr. Zhou Ling, the Chairman of the Company.

### Voting Rights of Debenture Holder

Debenture Holder does not have any voting rights in Shareholders' meetings of the Company.

### Payment Terms of Debentures

The Company may at any time between the issue date of the Debentures and the Maturity Date to redeem whole or any part of debenture. The amount to be paid by the Company shall be 112% of the outstanding principal amount of the Debentures.

### Transfer of Debentures

The Debentures will not be listed on the Stock Exchange or any other stock exchanges outside Hong Kong. It may only be assigned or transferred to associates of the Subscriber or such other transferees approved in advance by the Company. The Company will disclose to the Stock

Exchange should any Debentures be transferred to any connected persons (as defined under the Listing Rules) of the Group immediately upon the Company becoming aware of such transfer.

### **Undertaking of the Directors**

The Directors have undertaken to the Stock Exchange that the Company will disclose to the Stock Exchange any dealings in the Debentures made by any connected persons of the Group (as defined under the Listing Rules) immediately upon the Company becoming aware of such dealing.

### **Reasons for Issue of Debentures**

The Company believes that mineral resources are strategically valuable and worth investment over the long term. During 2010, the price of graphite products doubled in the global market. As a result, the Company's revenue generated from its graphite business increased significantly. The Company deems it strategically important to procure a steady supply of graphite raw materials to ensure sustainable operation and growth of its graphite business. The net proceeds are intended to be used as funding for potential acquisitions of graphite mineral resources and capital reserve to increase oil production in Bula Oilfields, Indonesia, and to develop or acquire hi-technology to support and complement its existing electronics hardware business in the UK, thereby enhancing high-tech contents in its electronics products. Therefore, the Directors (including the independent non-executive directors of the Company) consider the issue of US\$250,000,000 10-year Debentures at 3% appropriate, fair, reasonable and in the best interest of the Company. The Subscription Agreement was reached after arm's length negotiations between the Company and the Subscriber. The Directors consider that the Subscription Agreement provides a substantial amount of capital reserve to the Company and the terms of the Subscription Agreement are fair and reasonable as far as the Company and its Shareholders are concerned, and the Subscription Agreement is in the best interest of the Company and its Shareholders as a whole.

### **Expenses Incurred from the Issue of Debentures and the Use of Net Proceeds**

The total gross proceeds from the issue of the Convertible Debentures amount to US\$250,000,000. After deducting related expenses (finder's fee, printing, legal and administrative) the net proceeds amount to approximately US\$ 237,400,000.



Out of the remaining net proceed of around US\$ TBA, the Company intends to allocate:

1. US\$115,000,000 to acquire graphite mineral resources in and outside of China;
2. US\$115,000,000 to increase the Company's oil production capacity in Bula Oilfields, Indonesia, and to develop or acquire hi-technology to support and complement its existing electronics hardware business in the UK, thereby enhancing high-tech contents in its electronics products.
3. Remaining funds will be reserved as working capital.

However, the Directors confirm that no agreement relating to the intended acquisitions has been reached. The Company will inform the market by making formal announcements should any discloseable transactions as defined under the Listing Rules arise.

## **EGM**

An EGM will be convened to obtain Shareholders' approval of the Special Mandate. A circular together with an EGM notice will be published on the websites of the Stock Exchange of Hong Kong Limited (<http://www.hkex.com.hk>) and the Company ([www.southseapetro.com.hk](http://www.southseapetro.com.hk)) and will be despatched to the Shareholders who elected to receive printed version of corporate communication as soon as practicable.

## **Information of the Company**

The principal activities of the Company are investment holding, and through its subsidiaries, the Company develops, explores and produces crude oil and graphite in Indonesia and China, and provides electronics manufacturing services in United Kingdom.

## **DEFINITIONS**

|                   |   |
|-------------------|---|
| “Company”         | South Sea Petroleum Holdings Limited, a company incorporated in Hong Kong with limited liability and the securities of which are listed on the Stock Exchange |
| “Completion Date” | one business day following the date on which the Stock Exchange has granted the listing approval for the New Shares   |

|                     |   |
|---------------------|---|
| “Conversion Date”   | the date on which the Debenture Holder delivers the Conversion Notice to the Company  |
| “Conversion Notice” | a notice given by the Debenture Holder to the Company for exercise their conversion rights as per attached to the Debentures  |
| “Conversion Period” | the period commencing from the day immediate after the Completion Date to 4:00 p.m. (Hong Kong time) on the Maturity Date   |
| “Conversion Price”  | The Conversion shall be the higher of (i) 90% of the average of the closing price of the Shares of any five (5) consecutive Trading Days (as selected by the Debenture Holder) within the sixty (60) Trading Days immediately prior to the Conversion Date and (ii) the current par value of the Shares at US\$0.50 (equivalent to HK\$3.90), or the then effective par value at the time of conversion |
| “Debentures”        | an aggregate of US\$250,000,000 3% interest convertible debentures due 2021   |
| “Debenture Holder”  | the Subscriber or any debenture transferees who hold the Debentures issued pursuant to the Subscription Agreement dated 4 April 2011  |
| “Directors”         | the board of directors of the Company   |
| “EGM”               | an extraordinary general meeting to be held and convene to obtain the Shareholders’ approval of the Special Mandate   |
| “Group”             | the Company and its subsidiaries  |
| “Listing Rules”     | Rules Governing the Listing of Securities on the Stock Exchange   |
| “Maturity Date”     | 4 April 2021  |
| “New Shares”        | a maximum of 500,000,000 New Shares issuable upon the exercise of the conversion rights attached to the Debentures  |
| “Share(s)”          | the ordinary shares of the Company, with par value US\$0.50 each  |
| “Shareholder(s)”    | holder(s) of the existing shares of the Company   |
| “Special Mandate”   | the Shareholders granting their approval to the Directors to issue and allot a maximum of 500,000,000 New Shares  |
| “Stock Exchange”    | the Stock Exchange of Hong Kong Limited   |
| “Subscriber”        | RTM Financial Corp., a private company which subscribed an aggregate of US\$250,000,000 3% interest Debentures on 4 April 2011 pursuant to the Subscription Agreement   |

“Subscription  
Agreement”

the agreement dated 4 April 2011 entered into between the Company  
and the Subscriber for an aggregate of US\$250,000,000 3% interest  
Debentures due 2021

By Order of the Board  
**South Sea Petroleum Holdings Limited**  
Vivian Lam  
*Company Secretary*

Hong Kong, 4 April 2011

*As at the date of this announcement, the board of directors comprises of Mr. Zhou Ling, Ms. Lee Sin Pyung and Ms. Zhang Xue being executive directors, Mr. Lu Ren Jie, Mr. Chai Woon Chew and Mr. Ho Choi Chiu being independent non-executive director.*