

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)

ISSUE OF CONVERTIBLE DEBENTURES

The Directors announce that on 22 November 2004, the Company entered into a Subscription Agreement with the Subscriber for an aggregate amount of HK\$80,000,000 1% interest Debentures due 2007. 50% of the net proceeds is intended to be used as working capital of the production and development in Limau Oilfields in South Sumatra, Indonesia; the other 50% of the proceeds is intended to be used as initial capital for exploration and development in oilfields other than in Indonesia.

Debenture Holders may elect to convert their Debentures with either Fixed Conversion Price or Floating Conversion Price:

- (1) Fixed Conversion Price:
130% of the 30-day average closing price of the shares on the 30 consecutive trading days immediately preceding the issue day of Debentures.
- (2) Floating Conversion Price:
the average of any 5 closing prices per share as selected by Debenture Holder during the 30 consecutive trading days immediately prior to the date on which a conversion notice of Debenture Holder is received by the Company and such price shall not be less than the par value per share (currently US\$0.01) on the date of conversion.

Pursuant to the Subscription Agreement, Debenture Holder(s) shall exercise the conversion rights attached to the Debentures to convert, in aggregate, not exceeding 140,000,000 New Shares of the Company. Based on HK\$0.53 per Share, being the closing price on 22 November 2004, the day immediate prior to the suspension of trading of Shares on 23 November 2004, the total value of 140,000,000 New Shares equals to HK\$74,200,000. Assuming 140,000,000 New Shares, which was suggested by the Subscriber and be fully converted, the aggregate number of the New Shares will represent 29.27% of the existing issued share capital of the Company and 22.64% of the issued Shares as enlarged by the issue of the New Shares. However, pursuant to the Subscription Agreement, the Subscriber and any of the Debenture Holders shall not own 5% or more of Shares in the Company's issued share capital from time to time, directly or indirectly, under any circumstances. Therefore no substantial shareholder, as defined in the Listing Rules, will be introduced to the Company as a result of the conversion of the New Shares.

The completion of the Subscription Agreement is subject to Shareholders' approval and the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the New Shares.

An EGM will be convened as soon as practicable to obtain Shareholders' approval to, inter alia, issue the New Shares.

A circular containing, among other matters, information of the Subscription Agreement and the notice of EGM will be dispatched to Shareholders as soon as practicable.

Trading in the Shares of the Company has been suspended at the request of the Company with effect from 9:30 a.m. on 23 November 2004 pending the release of this announcement. An application has been made to the Stock Exchange for resumption in trading of the Shares with effect from 9:30 a.m. on 26 November 2004.

This announcement appears for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the Shares of the Company.

BACKGROUND INFORMATION

The Subscriber, China Nuclear Assets Management Ltd, a company incorporated in the British Virgin Islands, controlled by China Nuclear Investments Management Ltd. and China Nuclear Investments Ltd. (Mr. Zhang Jingmin, a PRC resident, is the legal representative of these two companies) has been in negotiation for a certain period of time with the government authority of The State of Mongolia ("Mongolia") to establish a joint-venture company which will be owned by the Subscriber in majority (60% or above) for the exploration of oil within the boundaries of Mongolia (the "Mongolian Business").

The Subscriber agrees that, after the establishment of the joint-venture company, the Company will replace the Subscriber in the negotiation and investments of the Mongolian Business.

The negotiation of the Mongolian Business is at its early stage, the Subscriber and the Company has mutual intention and understanding on the matter but none of official documents are signed. The establishment of the joint-venture company is subject to various commercial factors and consideration, it may not be consolidated. Details will be disclosed as required by the Listing Rules in a timely manner.

SUBSCRIPTION AGREEMENT

Date of Subscription Agreement

22 November 2004

Parties

- The Company
- Subscriber

China Nuclear Assets Management Ltd, a company incorporated in the British Virgin Islands, controlled by China Nuclear Investments Management Ltd. and China Nuclear Investments Ltd. (Mr. Zhang Jingmin, a PRC resident, is the legal representative of these two companies). The Company confirms that, to the best of the directors' knowledge, information and belief having made all reasonable enquiry, the Subscriber, China Nuclear Investments and Management Ltd. and China Nuclear Investments Ltd. and their respective beneficial owners are third parties independent of the Group and connected person of the Group.

China Nuclear Assets Management Ltd is engaging in assets management and financial investments.

Principal amount

HK\$80,000,000

Maturity Date

31 December 2007

Interest

1% per annum

Conditions of the Subscription Agreements

The Subscription Agreement is conditional upon:

- (1) the Directors' (including the independent non-executive directors) approving and authorizing the execution and completion of the Subscription Agreement that has been fulfilled by the written board resolution dated 22 November 2004;
- (2) the Shareholders' approval of issue of New Shares at the EGM;
- (3) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the New Shares.

Completion of the Subscription Agreement

Completion of the Subscription Agreement shall take place one business day after the conditions of the Subscription Agreement fulfilled. Pursuant to the Subscription Agreement, no long stop date is set as a condition precedent.

Conversion

Debenture Holder(s) shall have the right to convert the amount of the Debentures in whole or in part in amounts not less than multiples of HK\$10,000 of the Shares at the prescribed conversion price within the Conversion Period when the conditions of the Subscription Agreement fulfilled.

Conversion price

The Debenture Holders may elect to convert their Debentures with either Fixed Conversion Price or Floating Conversion Price:

- (1) Fixed Conversion Price:
130% of the 30-day average closing price of the shares on the 30 consecutive trading days immediately preceding the issue day of Debentures.
- (2) Floating Conversion Price:
the average of any 5 closing prices per share as selected by Debenture Holder during the 30 consecutive trading days immediately prior to the date on which a conversion notice of Debenture Holder is received by the Company and such price shall not be less than the par value per share (currently US\$0.01) on the date of conversion.

Redemption

- (1) By the Company:

The Company shall have the right at any time to redeem the whole or part of the outstanding Debentures which equals to 120 percent (early redemption only) of the principal amount provided that:

- (a) the Company shall have given to the Debenture Holder(s) not less than 10 nor more than 20 days' notice of its intention to make such redemption, specifying the amount to be redeemed and the date of such redemption; and
- (b) any redemption shall be made in amounts of not less than a whole multiple of HK\$10,000.

- (2) By Debenture Holder(s):

Debenture Holder(s) shall have the right at any time after twelve months from the Completion Date to require the Company to redeem the whole or part of the outstanding Debentures at face value and such principal amount shall be paid to the Debenture Holder(s) on the date of redemption provided that:

- (a) Debenture Holder(s) shall have given to the Company not less than 60 days' notice specifying the amount required to be redeemed and the date of such redemption; and
- (b) any redemption shall be made in amounts of not less than a whole multiple of HK\$10,000.

Effect of Conversion and Substantial Holders

Pursuant to the Subscription Agreement, Debenture Holder(s) shall exercise the conversion rights attached to the Debentures to convert, in aggregate, not exceeding 140,000,000 New Shares of the Company. Based on HK\$0.53 per Share, being the closing price on 22 November 2004, the day immediate prior to the suspension of trading of Shares on 23 November 2004, the total value of 140,000,000 New Shares equals to HK\$74,200,000. The maximum number of New Shares was suggested by the Subscriber which represents 29.27% of the existing issued share capital of the Company and 22.64% of the issued Shares as enlarged by the issue of the New Shares. In consideration of the interests of the Company and the Shareholders, the Directors and the Company are of the view that the issue of the maximum number of 140,000,000 Shares is acceptable.

However, pursuant to the Subscription Agreement, the Subscriber and each of the Debenture Holders shall not own 5% or more of the Company's Shares, directly or indirectly, under any circumstances. If the Subscriber and each of the Debenture Holders wish to exercise the conversion rights attached to the Debentures, they must, in order to maintain their shareholding of the Shares of the Company will not exceed 5% of the issued shares of the Company from time to time, sell out part of their Shares, before they subscribe any New Shares. Therefore no substantial shareholder, as defined in the Listing Rules, will be introduced to the Company as a result of the conversion of the New Shares.

Shareholding structure of the Company upon conversion of New Shares

Shareholders	Shareholding percentage of the existing issued share capital before any shares conversion	Shareholding percentage of the issued share capital after full conversion of the Debentures into 5 October 2004	Shareholding percentage of the issued share capital after full conversion of the Debentures into 5 October 2004 and the New Shares	Shareholding percentage of the issued share capital as enlarged after full conversion of the Debentures pursuant to the subscription agreement dated 22 November 2004 into 140,000,000 New Shares
Seashine Holdings Ltd (Note 1)	5.69%	3.90%	3.55%	3.13%
Palmville Equities, Inc. (Note 1)	15.40%	10.30%	9.37%	8.25%
Asia Petro (Note 2)	0%	4.90%	0%	4.90%
Asia Petro's debenture transferees (in aggregate) (Note 2)	0%	10.04%	0%	7.06%
Subscriber (Note 3)	0%	0%	4.90%	4.90%
Subscriber's debenture transferees (in aggregate) (Note 3)	0%	0%	17.74%	15.03%
Public	78.91%	70.86%	64.44%	56.73%
Total:	100%	100%	100%	100%

Note 1: Seashine Holdings Ltd and Palmville Equities, Inc. are beneficially owned by Mr. Zhou Ling, the Chairman of the Company.

Note 2: On 5 October 2004 Asia Petro subscribed for HK\$63,840,000 1% interest debentures due 2007. Asia Petro and each of their debenture transferees shall not hold 5% or more in the Company's issued share capital from time to time.

Note 3: The Subscriber and each of their debenture transferees shall not hold 5% or more in the Company's issued share capital from time to time.

Voting Rights of Debenture Holder(s)

The Debenture Holder(s) do not have any voting rights in Shareholders' meetings of the Company.

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 an associate of the Subscriber or such other transferee approved in advance by the Company.

The Company will disclose to the Stock Exchange should any Debentures transferred to any of the substantial shareholders, directors and chief executives of the Group or their respective associates 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 made by any of the substantial shareholders, directors and chief executives of the Group or their respective associates immediately upon the Company becoming aware of such dealing.

Use of Proceeds

50% of the net proceeds of HK\$80,000,000 is intended to be used as working capital of the production and development in Limau Oilfields in South Sumatra, Indonesia; the other 50% of the proceeds is intended to use as the initial capital for exploration and development in oilfields other than in Indonesia, such as Mongolia.

The Fund Raising Activity in the Past Twelve Months

Description	Agreement Date	Subscriber	Principal	Interest	Maturity Date	Conversion Price per Share	Net Proceed	Intended Use of Proceeds as Announced	Actual Use of Proceed
Convertible Debentures	8 Jan 2004	1) Rising International Investment Limited 2) Ms. Jiang Miao Juan	HK\$72,000,000	Nil	7 Jan 2007	HK\$1.00	HK\$72,000,000	General working capital	11 million: loan to Weston Technologies Corp. ⁽¹⁾ , a subsidiary of the Company, as operation capital 59 million: is used as working capital for Great Admirer Limited, a wholly owned subsidiary of the Company, for purchasing electronics parts for production 2 million: is still reserved in the Company's account for general cash flow
Convertible Debentures	5 Oct 2004	Asia Petroleum Investment Co., Limited	HK\$63,840,000	1%	4 Oct 2007	HK\$0.76	HK\$63,840,000	50% for operation capital in Limau Oilfields in Indonesia; 50% for working capital of subsidiary in the UK ⁽²⁾	Not yet spent

(1) Loan to Weston Technologies Corp., as well as its business copes, has been disclosed, being connected transaction of financial assistance to a non-wholly owned subsidiary, in the announcement dated 28 January 2004.

(2) The subsidiary in the UK, Axiom Manufacturing Services Ltd., produces and manufactures electronic products.

Reasons for Issue of Debentures

The exploration and development of oilfields is a long term investments which requires large amount of funds injection. As such, the Company welcomes funds from investors with comparative low financial cost. Therefore the Directors consider the issue of convertible debentures is in the interest of the Company, and it is appropriate to issue HK\$80,000,000 Debentures to the Subscriber despite the fact that HK\$63,840,000 1% convertible debentures were issued on 5 October 2004.

The issue of the 1% interest Debentures enables the Company to attract the inflow of capital. When the Debenture Holder(s) elect to exercise the conversion rights attached to the Debentures, the capital base of the Company can be enlarged.

Despite the issue of convertible debentures accrues financial cost to the Company, the Directors consider the interest rate to be paid to the Subscriber or Debenture Holders is relatively low, when compared to the current prime rate (around 5%), and it is good for the Company to reserve capital for business opportunities in the future.

The Subscription Agreement was agreed after arm's length negotiations between the Company and the Subscriber. The Directors (including the independent non-executive directors) consider that the Subscription Agreement provides working capital to the Company and the New Shares are issued at a premium price, therefore it is fair and reasonable as far as the Company and its Shareholders are concerned.

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

EGM

An EGM will be convened as soon as practicable to obtain Shareholders' approval to, inter alia, issue the New Shares.

A circular containing, among other matters, information of the Subscription Agreement and the notice of EGM will be dispatched to Shareholders 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 in South Sumatra, Indonesia, and provides electronics manufacturing services in the United Kingdom.

Suspension and Resumption of Trading in Shares

Trading in the Shares of the Company has been suspended at the request of the Company with effect from 9:30 a.m. on 23 November 2004 pending the release of this announcement. An application has been made to the Stock Exchange for resumption in trading of the Shares with effect from 9:30 a.m. on 26 November 2004.

DEFINITIONS

"Asia Petro"	Asia Petroleum Investment Co. Ltd, a subscriber of HK\$63,840,000 1% debentures of the Company on 5 October 2004
"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 conditions of the Subscription Agreements are fulfilled
"Conversion Period"	the period commencing from the day after six months from the Completion Date to 4:00 p.m. (Hong Kong time) on the Maturity Date.
"Debentures"	an aggregate of HK\$80,000,000 1% interest convertible debentures due 2007
"Debenture Holder(s)"	the holder(s) of the Debentures issued pursuant to the Subscription Agreement dated 22 November 2004
"Directors"	the board of directors of the Company
"EGM"	the extraordinary general meeting to be held for Shareholders of the Company to approve the issue of New Shares
"Group"	the Company and its subsidiaries
"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange
"Maturity Date"	31 December 2007
"New Shares"	Shares to be converted upon the exercise of the conversion rights attached to the Debentures
"PRC"	the People's Republic of China
"Share(s)"	the ordinary shares of US\$0.01 each of the Company
"Shareholder(s)"	holder(s) of the existing shares of the Company
"Stock Exchange"	the Stock Exchange of Hong Kong Limited
"Subscription Agreement"	the agreement dated 18 November 2004 entered into between the Company and the Subscriber for an aggregate of HK\$80,000,000 1% interest Debentures due 2007
"Subscriber"	China Nuclear Assets Management Ltd, a company incorporated in the British Virgin Islands, controlled by China Nuclear Investments Management Ltd. and China Nuclear Investments Ltd., which subscribed an aggregate of HK\$80,000,000 1% Debentures on 22 November 2004 pursuant to the Subscription Agreement

By Order of the Board
South Sea Petroleum Holdings Limited
Lam Lee Yu
 Company Secretary

Hong Kong, 25 November 2004

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