



# 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 5 October 2004, the Company entered into a Subscription Agreement with the Subscriber for an aggregate amount of HK\$63,840,000 1% interest Debentures due 2007. Half of the net proceeds of HK\$63,840,000 is intended to be used as production and operation capital for Limau oilfields at South Sumatra, Indonesia, for increasing the number of oilfields and oil production. The other half of the proceed will be used as working capital for the Company's subsidiary in the United Kingdom to purchase materials for manufacturing of electronics products.

Assuming the Subscriber exercise the conversion rights attached to the Debentures in full at HK\$0.76 as fixed in the Subscription Agreement, the maximum number of New Shares to be issued would be 84,000,000, representing 17.56% of the existing issued share capital of the Company and 14.93% of the issued Shares as enlarged by the issue of the New Shares.

The conversion price of HK\$0.76 per Share is:

- 1) at a premium of approximately 24% of the closing price of HK\$0.58 per Share as quoted on the Stock Exchange on 5 October 2004, being the last day prior to the suspension of trading of the Company's Shares on 6 October 2004.
- 2) at a premium of approximately 26% of the average closing price of HK\$0.56 per Share as quoted on the Stock Exchange for the last five trading days immediately prior to the suspension of trading of the Company's Shares on 6 October 2004.
- 3) at a premium of approximately 29% over the average closing price of HK\$0.55 per Share as quoted on the Stock Exchange over 10 consecutive trading days immediately prior to the suspension of trading of the Company's Shares on 6 October 2004.
- 4) at a premium of approximately 20% over the average closing price of HK\$0.61 per Share as quoted on the Stock Exchange over 20 consecutive trading days immediately prior to the suspension of trading of the Company's Shares on 6 October 2004.

The completion of the Subscription Agreement is subject to the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the New Shares. The New Shares will be issued under the general mandate granted by the Shareholders at the annual general meeting held on 28 May 2004.

Trading in the shares of the Company has been suspended at the request of the Company with effect from 9:30 a.m. on 6 October 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 7 October 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.

#### SUBSCRIPTION AGREEMENT

##### Date of Subscription Agreement

5 October 2004

##### Parties

- The Company
- Subscriber
- Asia Petroleum Investment Co. Ltd, a company incorporated in the British Virgin Islands, beneficially and wholly owned by Mr. Qian Chao. The Company confirms that, to the best of the directors' knowledge, information and belief having made all reasonable enquiry, the Subscriber and Mr. Qian Chao are third parties independent of the Group and connected person of the Group. Asia Petroleum Investment Co. Ltd is engaging in energy exploration in Asia and focuses on international investing activities. As at the date of this announcement, both Asia Petroleum Investment Co. Ltd and Mr. Qian Chao do not hold any shares of the Company.

##### Principal amount

HK\$63,840,000

##### Maturity Date

4 October 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 4 October 2004;
- 2) 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 Agreements 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

The 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

HK\$0.76 per Share

- 1) at a premium of approximately 24% of the closing price of HK\$0.58 per Share as quoted on the Stock Exchange on 5 October 2004, being the last day prior to the suspension of trading of the Company's Shares on 6 October 2004.
- 2) at a premium of approximately 26% of the average closing price of HK\$0.56 per Share as quoted on the Stock Exchange for the last five trading days immediately prior to the suspension of trading of the Company's Shares on 6 October 2004.
- 3) at a premium of approximately 29% over the average closing price of HK\$0.55 per Share as quoted on the Stock Exchange over 10 consecutive trading days immediately prior to the suspension of trading of the Company's Shares on 6 October 2004.
- 4) at a premium of approximately 20% over the average closing price of HK\$0.61 per Share as quoted on the Stock Exchange over 20 consecutive trading days immediately prior to the suspension of trading of the Company's Shares on 6 October 2004.

The conversion price is not subject to any adjustment provision in the Subscription Agreement.

##### 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 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 the Debenture Holder(s):

The 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) the Debenture Holder(s) shall have given to the Company not less than 60 days' notice (which cannot in any event be given at any time before the expiry of three months from the Completion Date), 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.

##### Issue of New Shares under General Mandate

New Shares will be issued under the general mandate granted by the Shareholders at the annual general meeting held on 28 May 2004.

##### Effect of Conversion

Assuming the Debentures are converted in full, a maximum number of 84,000,000 New Shares will be issued, representing 17.56% of the existing issued share capital of the Company, and 14.93% of the issued shares of the Company as enlarged by the issue of New Shares.

##### Substantial Shareholder

Pursuant to the Subscription Agreement, the Subscriber shall not own 5% or more of the Company's Shares, directly or indirectly, under any circumstances. If the Subscriber 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 will be introduced to the Company as a result of the subscription of the New Shares.

##### 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.

##### 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 dealings.

##### Use of Proceeds

Half of the net proceeds of HK\$63,840,000 is intended to be used as production and operation capital for Limau oilfields at South Sumatra, Indonesia, for increasing the number of oilfields and oil production. The other half of the proceed will be used as working capital for the Company's subsidiary in the United Kingdom to purchase materials for manufacturing of electronics products.

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, and it is good for the Company to reserve capital for business opportunities in the future.

##### The Fund Raising Activity in the Past Twelve Month

Description	Agreement Date	Announcement Date	Subscriber	Principal	Interest	Maturity Date
Convertible Debentures	8 January 2004	8 January 2004	1) Rising International Investment Limited 2) Ms. Jiang Miao Juan	HK\$72,000,000	Nil	2007

Conversion Price per Share	Net Proceed	Intended Use of Proceeds as Announced	Actual Use proceed
HK\$1.00	HK\$72,000,000	General working capital	11 million: loan to Weston Technologies Corp., a non-wholly owned subsidiary of the Company, as operation capital 59 million: for Great Admirer Limited, a wholly owned subsidiary of the Company, for purchasing electronics parts for production 2 million: reserved in the Company's account for general cash flow

##### Reasons for Issue of Debentures

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.

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.

##### General Information

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

Trading in the Shares of the Company has been suspended at the request of the Company with effect from 9:30 a.m. on 6 October 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 7 October 2004.

##### 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 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\$63,840,000 1% interest convertible debentures due 2007
"Debenture Holder(s)"	the holder(s) of the Debentures issued pursuant to the Subscription Agreement dated 5 October 2004
"Directors"	the board of directors of the Company
"Group"	the Company and its subsidiaries
"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange
"Maturity Date"	4 October 2007
"New Shares"	Shares to be converted upon the exercise of the conversion rights attached to the Debentures
"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 5 October 2004 entered into between the Company and the Subscriber for an aggregate of HK\$63,840,000 1% interest Debentures due 2007
"Subscriber"	Asia Petroleum Investment Co. Ltd, a company incorporated in the British Virgin Islands, which subscribed an aggregate of HK\$63,840,000 Debentures on 5 October 2004 pursuant to the Subscription Agreement

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

Hong Kong, 6 October 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 director.