

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 2 February 2007, the Company entered into a Subscription Agreement with the Subscriber for an aggregate amount of HK \$40,000,000 nil interest Debentures due 2010. The net proceeds are intended to be used in increasing production of crude oil in Bula Block Oilfields on the island of Seram in Indonesia.

The Conversion Price shall be 105% of the average share price of five trading days immediately prior to the date of the Conversion Notice. Under the Subscription Agreement, the maximum number of New Shares to be issued is 214,000,000 Shares, which represent 12.05% of the exiting issued share capital of the Company as of the date of the Subscription Agreement, and represent 10.75% of the issued Shares as enlarged by the issue of the New Shares. Pursuant to the Subscription Agreement, any of the Debenture Holder 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 under the Listing Rules, will be introduced to the Company as a result of the conversion of the New Shares.

The New Shares will be issued under the general mandate granted by the Shareholders at the annual general meeting of the Company held on 30 May 2006. An application for the listing of, and permission to deal in, the New Shares will be made to the Stock Exchange.

SUBSCRIPTION AGREEMENT

Date of Subscription Agreement

2 February 2007

Parties

- The Company
- The Subscriber

Avant Capital Inc., a U.S. private company with main business in investing high technology products and energy industry. 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 party independent of the Group and connected persons (as defined under the Listing Rules) of the Group.

Principal amount

HK\$40,000,000

Maturity Date

1 February 2010

Interest

Nil

Condition of the Subscription Agreements

The Subscription Agreement is conditional upon the Listing Committee of the Stock Exchange granting approval for 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 Stock Exchange has granted the listing approval to the Company. 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 amount of the Debentures in whole or in part in multiples of HK\$10,000 into New Shares at the prescribed Conversion Price within the Conversion Period when the conditions of the Subscription Agreement fulfilled. The New Shares will rank pari passu in all respects with the existing Shares in issue.

Conversion Price

The Conversion Price shall be 105% of the average share price of five trading days immediately prior to the date of the Conversion Notice. There is no minimum Conversion Price. The Conversion Price can be as low as per value of the Shares, i.e. US\$0.01 (or HK\$0.078). The closing price of the Shares of the Company as of 2 February 2007 is HK\$0.152.

Effect of Conversion and Substantial Shareholder

Under the Subscription Agreement, a maximum of 214,000,000 New Shares will be issued and allotted, which represent 12.05% of the exiting issued share capital of the Company as of the date of the Subscription Agreement, and represent 10.75% of the issued Shares as enlarged by the issue of the New Shares. Pursuant to the Subscription Agreement, any of the Debenture Holder 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. If any Debenture Holder's Shares in the Company will be 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 New Shares, to maintain their shareholding level always below 5% in the Shares of the Company after conversion. In each conversion, Debenture Holder is requested 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.

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

	Immediately before the Debentures be converted into any New Shares		Assuming the conversion rights attached to HK\$40,000,000 Debentures are fully exercised	
	Number of Shares	%	Number of Shares	%
Palmsville Equities Inc. (Note)	32,000,000	1.8	32,000,000	1.6
Public:				
1. Debenture Holders	0	0	214,000,000	10.75
2. Other Public	1,743,688,588	98.18	1,743,688,588	87.63
Total	1,743,688,588	100.00	1,989,688,588	100.00

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

New Shares to be issued Under General Mandate

The New Shares will be issued under the general mandate granted by the Shareholders at the annual general meeting of the Company held on 30 May 2006. The general mandate granted the pre-emptive right to the Directors to issue and allot 214,337,717 Shares which has not been issued and allotted.

Voting Rights of Debenture Holder

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

Payment Terms of Debentures

Pursuant to Subscription Agreement, no early redemption is allowed. The Debentures are redeemable at 100% of the principal amount on the Maturity Date. Should Debenture Holder intend to redeem the Debentures, Debenture Holder shall give a notice to the Company on or before 1 August 2009, being six months prior to the Maturity Date, regarding their intention to convert or redeem their outstanding Debentures. If Debenture Holder intends to redeem their outstanding Debentures but fail to give such notice to the Company, the Company reserves the right to pay back the principal amount after the Maturity Date, in a period not more than six months from the day the Debenture Holder informs the Company of their redemption intention.

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. To the best knowledge of the directors, The Subscriber may hold the Debentures in long term or transfer them to transferees when they consider appropriate under the Subscription Agreement.

The Company will disclose to the Stock Exchange should any Debentures 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.

History of Fund Raising Activities for the Past Twelve Months

Date of Announcement	Activity	Gross proceeds arising from the activities	Intended use of proceeds	Actual Use of proceeds
7 April 2006	Issue of Convertible Debentures	HK\$200,000,000	Used to conduct seismic survey and well drilling in the oilfields in Philippines and the operation expense and other related activities	HK\$82,830,000 has been used to conduct seismic survey and well drilling in the oilfields in Philippines and the operation expense and other related activities. The remaining fund HK\$117,170,000 will be fully used in conducting seismic survey and well drilling in the oilfields in Philippines in 2007.
27 January 2006 and 13 March 2006	Open Offer of 325,223,525 offer shares on the basis of one offer share for every two existing shares held on the record date and payable in full on acceptance	HK\$65.04 million	To finance the exploitation and production of crude oil in Bula Block Oilfields on the island of Seram in Indonesia and the operation expense and other relevant and related activities	Has been fully used for the exploitation and production of crude oil in Bula Block Oilfields on the island of Seram in Indonesia and the operation expense and other relevant and related activities.

Use of Net Proceeds

The net proceeds of around HK\$40 million are intended to be used in increasing production of crude oil in Bula Block Oilfields on the island of Seram in Indonesia.

Expenses Incurred from the Issue of Debentures

Except the necessary printing cost and administrative cost around HK\$100,000, no other expenses will be incurred from the issue of the Debentures.

Reasons for Issue of Debentures

The production of oil needs constant fund injection. Issue of convertible debentures incurs no extra financial costs and when the debentures being converted into shares, it turns the liability of the Company into investment. Therefore the Directors (including the independent non-executive directors of the Company) consider the issue of HK\$40,000,000 Debentures is appropriate, fair, reasonable and in the interest of the Company. The Subscription Agreement was agreed after arm's length negotiations between the Company and the Subscriber. The Directors consider that the Subscription Agreement provides working capital to the Company and the New Shares are issued at a premium price, therefore 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 interest of the Company and its Shareholders as a whole.

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

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 provides electronics manufacturing services in the 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 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"	being 105% of the average share price of five trading days immediately prior to the date of the Conversion Notice
"Debentures"	an aggregate of HK\$40,000,000 nil interest convertible debentures due 2010
"Debenture Holder"	the Subscriber or any debenture transferees who hold the Debentures issued pursuant to the Subscription Agreement dated 2 February 2007
"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"	1 February 2010
"New Shares"	a maximum of 214,000,000 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 2 February 2007 entered into between the Company and the Subscriber for an aggregate of HK\$40,000,000 nil interest Debentures due 2010
"Subscriber"	Avant Capital Inc., a U.S. private company which subscribed an aggregate of HK\$40,000,000 nil interest Debentures on 2 February 2007 pursuant to the Subscription Agreement

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

Hong Kong, 2 February 2007

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.