

# 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 US\$100,000,000 CONVERTIBLE DEBENTURES

The Directors announce that on 28 February 2007 around 4:30 p.m., the Company entered into a Subscription Agreement with the Subscriber for an aggregate amount of US\$100,000,000 nil interest Debentures due 2012. The net proceeds are intended to be used in the exploration of crude oil and gas at Agusan-Davao Basin in Davao province, the Philippines, and increasing production of crude oil at Bula Block Oilfields in Indonesia.

The Conversion Price shall be 98% of the average closing 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 3,000,000,000 Shares, which represent 152.10% of the average closing share price of the Company as of the date of the Subscription Agreement, and represent 60.33% 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. 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.

An extraordinary general meeting will be held for the Shareholders to consider and, if thought fit, approve the resolution(s) in respect of the Subscription Agreement and the transactions contemplated thereunder including, inter alia, the issue of the Debentures and the issue and allotment of the New Shares. No Shareholders will be required to abstain from voting at the extraordinary general meeting. A circular containing details of the Subscription Agreement and the notice convening the extraordinary general meeting will be dispatched to Shareholders as soon as practicable. The completion of the Subscription Agreement is subject to the Shareholders' approval obtained at the extraordinary general meeting and the Listing Committee of the Stock Exchange granting approval for listing of, and permission to deal in, the New Shares.

#### SUBSCRIPTION AGREEMENT

##### Date of Subscription Agreement

28 February 2007

##### Parties

- The Company
  - The Subscriber
- CFI Financial Corp., a U.S. company, beneficially and wholly owned by Mr. James Burke, engaged mainly in the business of investing in securities, debentures, government bonds and other financial instruments. CFI Financial Corp., Mr. James Burke and their respective associates do not hold any Shares of the Company.
- 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

US\$100,000,000

##### Maturity Date

1 March 2012

##### Interest

Nil

##### Condition of the Subscription Agreements

The Subscription Agreement is conditional upon:

- (1) the Shareholders' approval obtained from the extraordinary general meeting regarding the Subscription Agreement and the transaction contemplated thereunder, inter alia, the issue of the Debentures and the issue and allotment of the New Shares;
- (2) 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 shall have 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 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 when the conditions of the Subscription Agreement are fulfilled. The New Shares will rank pari passu in all respects with the existing Shares in issue.

##### Conversion Price

The Conversion Price shall be 98% of the average closing 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 28 February 2007 is HK\$0.30.

##### Effect of Conversion and Substantial Shareholder

Under the Subscription Agreement, a maximum of 3,000,000,000 New Shares will be issued and allotted, which represent 152.10% of the existing issued share capital of the Company as of the date of the Subscription Agreement, and represent 60.33% 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 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 immediately 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 US\$100,000,000 Debentures are fully exercised	
	Number of Shares	%	Number of Shares	%
Palmville Equities Inc. (Note 1)	32,000,000	1.68	32,000,000	0.64
Public:				
1. Debenture Holders	0	0	3,000,000,000	60.34
2. Other Public	1,940,307,636	98.32	1,940,307,636	(Note 2) 39.02
<b>Total</b>	<b>1,972,307,636</b>	<b>100.00</b>	<b>4,972,307,636</b>	<b>100.00</b>

Note 1: Palmville Equities Inc. is a company beneficially owned by Mr. Zhou Ling, the Chairman of the Company.

Note 2: 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.

Note 3: There is no outstanding convertible notes, options, warrants or similar rights to subscribe equity securities 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

Pursuant to the Subscription Agreement, no early redemption is allowed. Should Debenture Holder intend to have the Debentures redeemed by the Company on the Maturity Date, Debenture Holder shall give a notice to the Company on or before 1 September 2011, i.e. being six months prior to the Maturity Date, regarding their intention to convert or redeem their outstanding Debentures. If Debenture Holder intends to redeem the outstanding Debentures but fails to give such notice to the Company, the Company reserves the right to pay back the principal amount after the Maturity Date within a period not more than six months from the Maturity Date.

##### 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 are 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
2 February 2007	Issue of Convertible Debentures	HK\$40,000,000	To be used in increasing production of crude oil in Bula Block Oilfields on the island of Seram in Indonesia	To be used in increasing production of crude oil in Bula Block Oilfields on the island of Seram in Indonesia.

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 the 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 the 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 the Philippines.
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.

There is no outstanding convertible notes, options, warrants or similar rights to subscribe equity securities of the Company.

##### Use of Net Proceeds

The Company intends to use the net proceed of around US\$55 million in the exploration of crude oil and gas at Agusan-Davao Basin in Davao province, the Philippines and the other related operation expense and the remaining proceeds of around US\$45 million in increasing production of crude oil at Bula Block Oilfields in Indonesia and the other related operation expense.

##### Expenses Incurred from the Issue of Debentures

Except the necessary printing cost, administrative cost and legal expenses, no other expenses will be incurred from the issue of the Debentures.

##### Reasons for Issue of Debentures

In Bula Block Oilfields in Indonesia, the Company intends to increase daily oil production. The Company plans to carry out more seismic surveys and drill more wells. In Agusan-Davao Basin Oilfield in the Philippines, the Company needs to conduct further seismic survey work and drill more test wells. All these work commitments require substantial amount of working capital.

Issue of the Debentures incurs no interest cost and when the Debentures are converted into shares, they convert the liability of the Company into equity investment. Therefore, the Directors (including the independent non-executive directors of the Company) consider the issue of US\$100,000,000 Debentures is appropriate, fair, reasonable and in the 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 substantial amount of working capital 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 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.

##### Extraordinary General Meeting

An extraordinary general meeting will be held for Shareholders to consider and, if thought fit, approve the resolution(s) in respect of the Subscription Agreement and the transaction contemplated thereunder, inter alia, the issue of the Debentures and the issue and allotment of the New Shares. No Shareholders will be required to abstain from voting at the extraordinary general meeting. A circular containing details of the Subscription Agreement and the notice convening the extraordinary general meeting will be dispatched to Shareholders as soon as practicable.

##### Increase in price and trading volume of Shares

We have noted the recent increase in price and trading volume of the shares of the Company and wish to state that we are not aware of any reasons for such increase.

Save as the Subscription Agreement, the Board confirms that there are no negotiations or agreements relating to intended acquisitions or realisations which are discloseable under rule 13.23 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), neither is the Board aware of any matter discloseable under the general obligation imposed by rule 13.09 of the Listing Rules, which is or may be of a price-sensitive nature.

##### 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 98% of the average closing share price of five trading days immediately prior to the date of the Conversion Notice.
"Debentures"	an aggregate of US\$100,000,000 nil interest convertible debentures due 2012
"Debenture Holder"	the Subscriber or any debenture transferees who hold the Debentures issued pursuant to the Subscription Agreement dated 28 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 March 2012
"New Shares"	a maximum of 3,000,000,000 Shares issuable upon the exercise of the conversion rights attached to the Debentures
"Share(s)"	the ordinary shares 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 28 February 2007 entered into between the Company and the Subscriber for an aggregate of US\$100,000,000 nil interest Debentures due 2012
"Subscriber"	CFI Financial Corp., a U.S. company which subscribed an aggregate of US\$100,000,000 nil interest Debentures on 28 February 2007 pursuant to the Subscription Agreement

Hong Kong, 28 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.

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