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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 29 March 2006, the Company entered into a Subscription Agreement with the Subscriber for an aggregate amount of HK\$200,000,000 nil interest Debentures due 2009. The net proceeds are intended to be used in oilfields at Agusan-Davao province, Philippines. Half of it will be used in the seismic survey and the other half will be used in the test well drilling.

The Conversion Price shall be HK\$0.250. Assuming the conversion rights attached to HK\$200,000,000 Debentures are fully exercised, 800,000,000 New Shares will be issued and allotted, which represent 81.99% of the existing issued share capital of the Company as of the date of the Subscription Agreement, and represent 45.05% of the issued Shares as enlarged by the issue of the New Shares. Pursuant to the Subscription Agreement, 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 under the Listing Rules, will be introduced to the Company as a result of the conversion of the New Shares.

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 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.

Trading in the Shares of the Company has been suspended at the request of the Company with effect from 9:30 a.m. on 30 March 2006 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. 10 April 2006.

SUBSCRIPTION AGREEMENT

Date of Subscription Agreement

29 March 2006

Parties

- The Company
- The Subscriber

Kelton Capital Group Limited, a private investment company involves in investing 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 respective ultimate beneficial owner (who is individual) are third parties independent of the Company and not connected persons (as defined under the Listing Rules) of the Group.

Neither the Subscriber nor its respective ultimate beneficial owner are holding Shares in the Company.

Principal Amount

HK\$200,000,000

Maturity Date

1 April 2009

Interest

Nil

Conditions 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 including, 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 conditions of the Subscription Agreement fulfilled. Pursuant to the Subscription Agreement, no long stop date is set as a condition precedent.

Conversion

Debenture Holders 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 HK\$0.250, which is

- 1) at a premium of approximately 4.40% of the closing price of HK\$0.239 per Share as quoted on the Stock Exchange on 29 March 2006, being the last trading day prior to the suspension of trading of the Company's Shares on 30 March 2006;
- 2) at a premium of approximately 5.66% of the average closing price of HK\$0.236 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 30 March 2006;
- 3) at a premium of approximately 6.38% over the average closing price of HK\$0.235 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 30 March 2006;

- 4) at a premium of approximately 2.88% over the average closing price of HK\$0.243 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 30 March 2006.

Effect of Conversion and Substantial Shareholder

Assuming the conversion rights attached to the HK\$200,000,000 Debentures are fully exercised, 800,000,000 New Shares will be issued and allotted, which represent 81.99% of the existing issued share capital of the Company as of the date of the Subscription Agreement, and represent 45.05% of the issued Shares as enlarged by the issue of the New Shares. Pursuant to the Subscription Agreement, 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. If any Debenture Holders will be holding 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. Existing Shareholders holding 5% or more of the Company's Shares are obliged to sell down their Shares to below 5% of the issued share capital of the Company before they subscribe any Debentures. In each conversion, Debenture Holders are 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\$200,000,000 Debentures are fully exercised	
	Number of Shares	%	Number of Shares	%
Palmsville Equities Inc. (Note)	48,000,000	4.92	48,000,000	2.7
Public:				
1. Debenture Holders	0	0	800,000,000	45.05
2. Other Public	927,688,588	95.08	927,688,588	52.25
Total	975,688,588	100.00	1,775,688,588	100.00

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

DILUTION EFFECT ON SHAREHOLDERS

As the Company foresees the future dilution effect on the Shareholders resulting from the exercise of the conversion rights attached to the Debentures, the Company will keep the Shareholders informed of the level of dilution effect and all relevant details of any conversion in the following manner:

- (i) the Company will make a monthly announcement (the "Monthly Announcement") on the website of the Stock Exchange on or before the fifth business day following the end of each calendar month and will include the following details in a table form:
- whether there is any conversion of the Debentures during the relevant month. If yes, details of the conversions, including the conversion date, number of the New Shares issued and conversion price for each conversion. If there is no conversion during the relevant month, a negative statement to that effect;
 - the outstanding principal amount of the Debentures after the conversion, if any;
 - the total number of New Shares issued pursuant to other transaction, including Shares issued pursuant to exercise of options under any option scheme(s) of the Company; and

- (d) the total issued share capital of the Company as at the commencement and the last day of the relevant month;
- (ii) in addition to the Monthly Announcement, if the cumulative amount of New Shares issued pursuant to the conversion of the Debentures reaches 5% of the issued share capital of the Company as disclosed in the then latest announcement made by the Company in respect of the Debentures (and thereafter in a multiple of such 5% threshold), the Company will as soon as practicable but in any event no later than the fifth business day thereafter make an announcement on the website of the Stock Exchange including details as stated in (i) above for the period commencing from the date of the then latest announcement made by the Company in respect of the Debentures, up to the date on which the total amount of Shares issued pursuant to the conversion amount to 5% of the issued share capital of the Company as disclosed in the then latest announcement made by the Company in respect of the Debentures; and
- (iii) if the Company forms the view that any issue of the New Shares under the Debentures will trigger the disclosure requirements under Rule 13.09 of the Listing Rules, the Company is obliged to make such disclosures regardless of the issue of any announcements in relation to the Debentures.

Voting Rights of Debenture Holder(s)

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

Payment Terms of Debentures

The Debentures are redeemable at 100% of the principal amount on the Maturity Date. If there is any outstanding Debentures, Debenture Holders shall give a notice to the Company on or before 1 October 2008, being six months prior to the Maturity Date, regarding their intention to convert or redeem their outstanding Debentures. Pursuant to the Subscription Agreement, if Debenture Holders intend 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 in a period not more than six months after 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. 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 terms of 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 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	Activity	Gross proceeds arising from the activities	Intended use of proceeds	Actual use of proceeds
10 March 2006 (being the date on which the Open Offer became unconditional)	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	To be used 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. US\$1,200,000 (equivalent to HK\$9,300,000) was used in Bula Block Oilfields in Indonesia. The rest of the fund is standby in banks for future operation in Indonesian oilfields.
17 June 2005 (date of the subscription agreement)	Issue of 1% HK\$40,000,000 convertible debentures to Asia Petroleum Investment Limited	HK\$40,000,000	Used for acquisition of oilfields in Indonesia	Has been fully used for acquisition of oilfields in Indonesia

Use of Proceeds

The proceeds of HK\$200,000,000 are intended to be used in oilfields at Agusan-Davao province, Philippines. The Company intends to conduct 2D/3D seismic survey on area approximately 2,000 square kilometers out of 7,500 square kilometers oilfields, the estimated cost will be HK\$100,000,000. In addition, 10-15 wells will be drilled, and the drilling expenses are estimated to be HK\$100,000,000.

Expenses Incurred from the Issue of Debentures

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

Reasons for Entering into the Subscription Agreement and Issue of Debentures

As disclosed in the Company's announcement dated 15 December 2004, a service contract was entered into between the Company and the Government of Philippines which allowed the Company to explore oil and gas over around 7,500 square kilometers area at Agusan-Davao Basin in Davao province, Philippines. The Subscriber is of the view that the oilfields in Philippines have potential to bring good prospect to the Company which might reflect positively in the share price of the Company's Share. The Subscriber expects that by converting and selling the New Shares, the Debentures might become a good investment in the future.

Issue of convertible debentures incurs no financial costs and when the debentures being converted into shares, it turns the liability of the Company into investment. Therefore the Directors consider the issue of HK\$200,000,000 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.

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 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.

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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 conditions of the Subscription Agreements are fulfilled
“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”	HK\$0.25 per Share
“Debentures”	an aggregate of HK\$200,000,000 nil interest convertible debentures due 2009
“Debenture Holder(s)”	the Subscriber or any debenture transferees who hold the Debentures issued pursuant to the Subscription Agreement dated 29 March 2006
“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 April 2009
“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

“Subscriber” Kelton Capital Group Limited, a private company which subscribed an aggregate of HK\$200,000,000 nil interest Debentures on 29 March 2006 pursuant to the Subscription Agreement

“Subscription Agreement” the agreement dated 29 March 2006 entered into between the Company and the Subscriber for an aggregate of HK\$200,000,000 nil interest Debentures due 2009

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

Hong Kong, 7 April 2006

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.

“Please also refer to the published version of this announcement in The Standard”