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**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 HK\$171,000,000 CONVERTIBLE DEBENTURES**

The Directors announce that on 4 August 2009, the Company entered into a Subscription Agreement with the Subscriber for an aggregate amount of HK\$171,000,000 6% interest Debentures due 2012. The net proceeds are intended to be used as working capital reserve to increase oil and graphite production.

The Conversion Price shall be HK\$0.0775 (par value of the Company's 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 3 June 2009. In this case, the maximum number of New Shares to be issued will not exceed 2,194,447,871 Shares, which represent 20% of the existing issued share capital of the Company as of the date of the Subscription Agreement, and represent 16.66% 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.

**Date of Subscription Agreement**

4 August 2009

**Parties**

- The Company
- The Subscriber

Megabucks International Limited, a company incorporated in the British Virgin Islands which is mainly engaged in the business of investing securities, 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 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\$171,000,000

**Maturity Date**

3 August 2012

**Interest**

6% per annum

**Completion of the Subscription Agreement**

Completion of the Subscription Agreement is subject to the Listing Committee of the Stock Exchange granting approval for listing of, and permission to deal in, the New Shares.

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. The New Shares will rank pari passu in all respects with the existing Shares in issue.

### **Conversion Price**

The Conversion Price shall be HK\$0.0775 (par value of the Company's Shares).

### **Effect of Conversion and Substantial Shareholder**

The New Shares will be issued under the general mandate granted by the Shareholders at the annual general meeting of the Company held on 3 June 2009, in this connection, the maximum number of New Shares to be issued will not exceed 2,194,447,871 Shares, which represent 20% of the existing issued share capital of the Company as of the date of the Subscription Agreement, and represent 16.66% 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 Debentures into additional 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 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 2,194,447,871 New Shares are issued	
	Number of Shares	%	Number of Shares	%
Palmsville Equities Inc. (Note)	32,000,000	0.29	32,000,000	0.24
Public:				
1. Debenture Holders	0	0	2,194,447,871	16.66
2. Other Public	10,940,239,359	99.71	10,940,239,359	83.10
<b>Total</b>	<b>10,972,239,359</b>	<b>100.00</b>	<b>13,166,687,230</b>	<b>100.00</b>

Note: Palmsville Equities Inc. is a company beneficially owned by Mr. Zhou Ling, the Chairman 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. The Company shall pay back the principal amount to the Debenture Holder within ten (10) days 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. 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**

The Company did not have any fund raising activities for the past twelve months. There are no outstanding convertible debentures as of the date of the Subscription Agreement.

### **Use of Net Proceeds**

The Company intends to use the net proceed of around HK\$162,400,000 as working capital reserve to increase oil and graphite production.

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

Except the customary finder's fee and 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**

The Company intends to increase oil and graphite production .The Company intends to use the net proceeds as working capital reserve to increase oil and graphite production.

Therefore, the Directors ( including the independent non-executive directors of the Company ) consider the issue of HK\$171,000,000 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.

**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 minerals, and provides electronics manufacturing services.

## 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”	HK\$0.0775 (par value of the Company’s Shares)
“Debentures”	an aggregate of HK\$171,000,000 6% interest convertible debentures due 2012
“Debenture Holder”	the Subscriber or any debenture transferees who hold the Debentures issued pursuant to the Subscription Agreement dated 4 August 2009
“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”	3 August 2012
“New Shares”	a maximum of 2,194,447,871 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 4 August 2009 entered into between the Company and the Subscriber for an aggregate of HK\$171,000,000 6% interest Debentures due 2012
“Subscriber”	Megabucks International Limited., a BVI company which subscribed an aggregate of HK\$171,000,000 6% interest Debentures on 4 August 2009 pursuant to the Subscription Agreement

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

Hong Kong, 4 August 2009

*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.*