

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\$200,000,000 CONVERTIBLE DEBENTURES
AND
RESUMPTION OF TRADING**

The Directors announce that on 2 June 2007, the Company entered into a Subscription Agreement with the Subscriber for an aggregate amount of US\$200,000,000 nil interest Debentures due 2012. The net proceeds are intended to be used for the increase in production of Indonesian oilfields and for the development of mining in Szechuan, the PRC.

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. If the conversion takes place within nine months after the Stock Exchange granting approval for listing of, and permission to deal in, the New Shares, then the Conversion Price shall be 96% 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 6,000,000,000 Shares, which represent 120.66% of the existing issued share capital of the Company as of the date of the Subscription Agreement, and 54.68% of the issued Shares as enlarged by the issuance of the maximum of 6,000,000,000 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 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 issuance of the Debentures and the issuance and allotment of the New Shares. No Shareholder 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 9:49 a.m. on 4 June 2007 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. 5 June 2007.

SUBSCRIPTION AGREEMENT

Date of Subscription Agreement

2 June 2007

Parties

- The Company
- The Subscriber

Great Wall Street, Inc., a private company, mainly engaged in the business of investing in high-tech and energy industries, securities, government bonds and other financial instruments. Mr. Ethan Chan owns 55% of Great Wall Street, Inc. he is the only major shareholder who owns more than 5% of the equity interest in Great Wall Street, Inc. Great Wall Street, Inc., Mr. Ethan Chan 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, Great Wall Street, Inc., its ultimate beneficial owners and Mr. Ethan Chan are third party independent of the Group and connected persons (as defined under the Listing Rules) of the Group.

Principal amount

US\$200,000,000

Maturity Date

1 June 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

Subject to the approval given by the Shareholders at the extraordinary general meeting, the 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. If the conversion takes place within nine months after the Stock Exchange granting approval for listing of, and permission to deal in, the New Shares, then the Conversion Price shall be 96% of the average closing share price of five trading days immediately prior to the date of the Conversion Notice.

The closing price of the Shares of the Company as of 1 June 2007 is HK\$0.38.

Effect of Conversion and Substantial Shareholder

Under the Subscription Agreement, a maximum of 6,000,000,000 New Shares will be issued and allotted, which represent 120.66% of the existing issued share capital of the Company as of the date of the Subscription Agreement, and 54.68% of the issued Shares as enlarged by the issuance of the maximum of 6,000,000,000

New Shares. Pursuant to the Subscription Agreement, none of the Debenture Holders 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% of the Company's issued share capital as enlarged by the issue of the New Shares after any conversion of New Shares, they are obligated 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 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 US\$200,000,000 Debentures are fully exercised	
	Number of Shares	%	Number of Shares	%
Palmsville Equities Inc. (Note)	32,000,000	0.65	32,000,000	0.29
Public:				
1. Debenture Holders	0	0	6,000,000,000	54.68
2. Other Public	4,940,294,399	99.35	4,940,294,399	45.31
Total	<u>4,972,294,399</u>	<u>100.00</u>	<u>10,972,294,399</u>	<u>100.00</u>

Note:

1. There is no outstanding convertible notes, options, warrants or similar rights to subscribe equity securities of the Company.
2. 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. 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 December 2011, i.e. 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.

If there is still outstanding balance of the principal after 6,000,000,000 New Shares have been fully issued and allotted, the Company will return the outstanding balance to the Debenture Holders in no more than six months at the principal value to the Debenture Holders from the date that 6,000,000,000 New Shares have been fully issued and allotted.

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
28 February 2007	Issue of Convertible Debentures	US\$100,000,000	The net proceeds of US\$55 million are intended to be used in the exploration of crude oil and gas at Agusan-Davao Basin in Davao province, the Philippines, and the US\$45 million to be used for increasing production of crude oil at Bula Block Oilfields in Indonesia.	US\$1,304,500 has been used in exploration of crude oil and gas at Agusan-Davao Basin in Davao province, the Philippines, and around US\$3,630,000 has been used in the increasing production of crude oil at Bula Block Oilfields in Indonesia. The remaining part of the fund will be fully used as intended.
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.	Fully used in increasing production of crude oil in Bula Block Oilfields on the island of Seram in Indonesia.

Use of Net Proceeds

The Company intends to use the net proceed of around US\$170 million for the increase in production of Indonesian oilfields, including acquisition of more oilfield, and US\$30,000,000 for the exploration and mining production in Szechuan, the PRC as disclosed in the announcement of 17 April 2007. The valuation report and the due diligence report of the mines in Szechuan is in progress.

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

The Company intends to increase the production in the Indonesian oilfields, including acquisition of more oilfields. The Company also intends to engage in exploration and mining production in Szechuan, the PRC. The projects will require substantial capital investment.

The Subscription Agreement was reached after arm's length negotiations between the Company and the Subscriber. Although there is dilution effect of the Debentures, the Directors (including the independent non-executive directors of the Company) consider: (A) that the Subscription Agreement provides substantial amount of working capital to the Company without interest cost, and (B) when the Debentures are converted into shares, the liability of the Company is converted into equity investment. Therefore, the Directors (including the independent non-executive directors of the Company) consider the terms of the Subscription Agreement are appropriate, 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 issuance of the Debentures and the issuance 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.

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.

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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. If the conversion takes place within nine months after the Stock Exchange granting approval for listing of, and permission to deal in, the New Shares, then the Conversion Price shall be 96% of the average closing share price of five trading days immediately prior to the date of the Conversion Notice
"Debentures"	an aggregate of US\$200,000,000 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 2 June 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 June 2012
"New Shares"	a maximum of 6,000,000,000 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 2 June 2007 entered into between the Company and the Subscriber for an aggregate of US\$200,000,000 nil interest Debentures due 2012
"Subscriber"	Great Wall Street, Inc., a private company which subscribed an aggregate of US\$200,000,000 nil interest Debentures on 2 June 2007 pursuant to the Subscription Agreement

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

Hong Kong, 4 June 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 directors.