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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)**

#### **PROPOSED CAPITAL REDUCTION**

#### **PROPOSED CHANGE IN BOARD LOT SIZE**

#### **PROPOSED INCREASE IN AUTHORISED CAPITAL**

##### **(1) Proposed Capital Reduction**

The Board proposes that the Company implements the Capital Reduction which will involve a reduction in the nominal value of the issued Shares from US\$0.50 to US\$0.001 each by cancelling the paid-up capital to the extent of US\$0.499 on each of the issued Shares. The credit arising from the Capital Reduction will be transferred to the share premium account of the Company.

##### **(2) Proposed Change in Board Lot size**

The Board also proposes to change the board lot size for trading in the Shares from 2,000 Shares to 4,000 Reduced Shares upon the Capital Reduction becoming effective.

##### **(3) Proposed Increase in Authorised Capital**

Subject to the Capital Reduction becoming effective, the Board proposes to increase the authorised share capital of the Company from US\$1,000,000 (divided into 1,000,000,000 Reduced Shares) to US\$500,000,000 (divided into 500,000,000,000 Reduced Shares) by the creation of an additional 499,000,000,000 Reduced Shares with the par value of US\$0.001 each.

#### **(4) EGM**

An EGM is proposed to be convened for the Shareholders to consider, and if thought fit, to approve the Capital Reduction and increase in authorised share capital. A circular containing, among others, details regarding (i) the proposed Capital Reduction; and (ii) the proposed increase in authorised share capital; (iii) the proposed Change in Board Lot Size; and (iv) a notice convening the EGM, will be despatched to the Shareholders who elected to receive the Corporate Communication of the Company as soon as practicable.

The Board wishes to announce that the Company intends to implement the Capital Reduction. Immediately after the Capital Reduction becomes effective, it is intended to change the board lot size for trading in the Shares and to increase the authorised capital of the Company.

#### **(1) PROPOSED CAPITAL REDUCTION**

The Company proposes to put forward a proposal to the Shareholders for the purpose of effecting the Capital Reduction pursuant to section 58(3) of the Companies Ordinance.

The authorised capital of the Company will be reduced from US\$500,000,000 divided into 1,000,000,000 Shares of US\$0.50 each to US\$1,000,000 divided into 1,000,000,000 Reduced Shares of US\$0.001 each and that such reduction be effected by cancelling the paid-up capital to the extent of US\$0.499 on each of the issued Shares and reducing the nominal value of each unissued Share by US\$0.499.

The Capital Reduction is proposed to take effect under Section 58(3) of the Companies Ordinance pursuant to which no court confirmation will be required.

#### **Conditions of the Capital Reduction**

The Capital Reduction is conditional upon:

- a) the passing of the relevant special resolution(s) by the Shareholders to approve the Capital Reduction at the EGM;
- b) the registration by the Registrar of Companies in Hong Kong of a copy of

resolution passed by the Shareholders, a copy of a minute containing the particulars required under section 61A of the Companies Ordinance and a statement in the prescribed form signed by an officer of the Company certifying that the relevant conditions under the Companies Ordinance have been satisfied; and

- c) the Listing Committee of the Stock Exchange granting listing of, and permission to deal in, the Reduced Shares to be issued following completion of the Capital Reduction.

Assuming all the conditions are fulfilled, the Capital Reduction will become effective upon the registration of the documents required under section 61A of the Companies Ordinance.

### **Effects of the Capital Reduction**

As at the date hereof, the authorised capital of the Company is US\$500,000,000 divided into 1,000,000,000 Shares, of which 315,333,744 Shares have been issued and are fully paid. On the basis of the same number of the Shares in issue and upon the Capital Reduction becoming effective, the authorised share capital of the Company will become US\$1,000,000 comprising 1,000,000,000 Reduced Shares, of which 315,333,744 Reduced Shares will be in issue and the aggregate nominal value of the issued share capital of the Company will become approximately US\$315,333.

The credit approximately of US\$157,351,538 arising from the reduction will be credited to the share premium account of the Company as required under section 58(3) of the Companies Ordinance.

Implementation of the Capital Reduction would not, of itself, alter the underlying assets, liabilities, businesses, management or financial position of the Group and the Company or the rights of the Shareholders, except for payment of the related expenses. The proportionate interests and the voting rights of the Shareholders in the Company will not be affected by the Capital Reduction.

The Board believes that the Capital Reduction will not have any adverse effect on the financial position of the Company and the Board believes that on the date the Capital

Reduction is to be effected, there will be no reasonable grounds for believing that the Company is, or after the Capital Reduction would be, unable to pay its liabilities as they become due. No capital will be lost as a result of the Capital Reduction and, except for the expenses involved in relation to the Capital Reduction which are expected to be insignificant in the context of the net asset value of the Company, the net asset value of the Company will remain unchanged before and after the Capital Reduction becoming effective. The Capital Reduction does not involve any diminution of any liability in respect of any unpaid capital of the Company or the repayment to the Shareholders of any paid-up capital of the Company nor will it result in any change in the relative rights of the Shareholders.

In order to alleviate the difficulties arising from the existence of odd lots of Reduced Shares arising from the Capital Reduction, the Company will appoint an agent, Kingston Securities Limited, to stand in the market to provide matching services for the odd lots of Reduced Shares on a best effort basis. Further details in respect of the odd lots arrangement and the free exchange of new share certificates will be set out in the circular to be despatched by the Company to the Shareholders.

Save for the conversion rights attaching to the Outstanding Convertible Debentures, the Company has no outstanding options, warrants or other securities convertible into or giving rights to subscribe for the Shares. The Capital Reduction may give rise to an adjustment to the conversion price and/or number of Shares to be issued upon exercise of conversion rights of the Outstanding Convertible Debentures. Details of the adjustment will be announced in due course.

The Reduced Shares will rank *pari passu* in all respects with each other and the Capital Reduction will not result in any change in the relative rights of the Shareholders.

### **Free exchange of share certificates**

Subject to the Capital Reduction, the Shareholders may, during a period specified in the timetable below, submit the existing share certificates for exchange to the Company's share registrar, Computershare Hong Kong Investor Services Limited, Shops 1712-1716, 17<sup>th</sup> Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, during the business hours, at the expense of the Company, for new share certificates in board lots of 4,000 Reduced Shares.

Thereafter, share certificates for the Shares will be accepted for exchange only on payment of a fee of HK\$2.50 (or such other amount as may from time to time be allowed by the Stock Exchange) for each share certificate issued or cancelled, whichever is higher. Certificates for the Shares will continue to be good evidence of legal title and will be valid for dealings, trading and settlement purposes after the Capital reduction and may be exchanged for certificates for Reduced Shares at any time at the expense of the Shareholders after such period. Further details about the arrangement for the exchange of share certificates will be set out in the circular of the Company to be despatched to the Shareholders.

### **Reasons**

The Shares have been trading below their par value of US\$0.50 (equivalent to HK\$3.9 per Share) lately and under the Companies Ordinance, it is not permissible for a company to issue shares at a discount to the nominal value of its share unless, among other things, it is authorised by the Shareholders and sanctioned by the court. Therefore, unless the par value of each Share is reduced, it will be very difficult for the Company to raise new capital by issuing new Shares. In order to provide the Company with greater flexibility for raising capital by issuing of new shares in the future, the Board proposed the Capital Reduction. Therefore, the Directors consider that the Capital Reduction is in the interests of the Company and the Shareholders as a whole.

### **(2) PROPOSED CHANGE IN BOARD LOT SIZE**

Subject to the Capital Reduction becoming effective, the Board also proposes to change the board lot size for trading in the Shares from 2,000 Shares to 4,000 Reduced Shares. It is believed that the enlarged board lot size will reduce the overall transaction costs in dealing with the Reduced Shares. The Board is of the opinion that the Change in Board Lot Size is in the best interests of the Company and the Shareholders as a whole. The Change in Board Lot Size will not affect any of the Shareholders' rights.

### **Arrangement on odd lot trading**

In order to facilitate the trading of odd lots (if any) of the Reduced Shares, the Company will appoint Kingston Securities Limited to provide matching service, on a best effort basis, to those Shareholders who wish to acquire odd lots of the Reduced

Shares to make up a full board lot, or to dispose of their holding of odd lots of the Reduced Shares. Details of such arrangements for Reduced Shares will be set out in the circular of the Company to be despatched to the Shareholders.

### **(3) PROPOSED INCREASE IN AUTHORISED CAPITAL**

Subject to the Capital Reduction becoming effective, the Board proposes to increase the authorised share capital of the Company from US\$1,000,000 (divided into 1,000,000,000 Reduced Shares) to US\$500,000,000 (divided into 500,000,000,000 Reduced Shares) by the creation of an additional 499,000,000,000 Reduced Shares of par value US\$0.001 each in order to facilitate any future expansion in the share capital of the Company.

The proposed increase in authorized capital of the Company is conditional upon the passing by the Shareholders of the relevant ordinary resolution at the EGM.

### **(4) EGM**

An EGM is proposed to be convened for the Shareholders to consider, and if thought fit, to approve the Capital Reduction and increase in authorised share capital. A circular containing, among others, details regarding (i) the proposed Capital Reduction; (ii) the proposed increase in authorised share capital; (iii) the proposed Change in Board Lot Size; and (iv) a notice convening the EGM, will be despatched to the Shareholders who elected to receive the Corporate Communication of the Company as soon as practicable.

### **Closure of Register of Members**

For the purpose of determining the entitlement to vote at the meeting, the register of members of the Company will be closed from Friday, 4 November, 2011 to Tuesday, 8 November, 2011, both dates inclusive, during which period no transfer of shares will be effected. In order to attend and vote at the meeting, all completed transfer forms of shares (together with the relevant share certificates) must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong for registration by no later than 4:30 p.m. on Thursday, 3 November, 2011.

## 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 graphite in Indonesia and China respectively, and provides electronics manufacturing services in the United Kingdom.

## EXPECTED TIMETABLE

Set out below is the expected timetable for the implementation of the Capital Reduction, the Change in Board Lot Size and increase in authorised capital :

	<b>Hong Kong Time</b>
Expected date of despatch of the circular and notice of the EGM .....	12 October 2011
Latest time for lodging transfer of securities .....	4:30 p.m. on 3 November 2011
Book Closure Period .....	4 to 8 November 2011(both dates inclusive)
Latest time for lodging proxy forms for the EGM .....	11 a.m. on 6 November 2011
Record Date .....	8 November 2011
Expected time and date of the EGM .....	11 a.m. on 8 November 2011
Announcement of results of EGM .....	8 November 2011

Effective date of the Capital Reduction subject to the registration of documents under Company Ordinance .....	9 November 2011
Effective date of the increase in authorised capital .....	9 November 2011
Commencement of dealings in the Reduced Shares .....	9 November 2011
Effective date of Change in Board Lot Size from 2,000 to 4,000 .....	9 November 2011
First day for free exchange of existing share certificates for new share certificates for the Reduced Shares .....	9 November 2011
Designated broker starts to stand in the market to provide matching services for the sale and purchase of odd lots of Reduced Shares .....	9 November 2011
Designated broker ceases to stand in the market to provide matching services for the sale and purchase of odd lots of Reduced Shares .....	1 December 2011
Last day for free exchange of existing share certificates for new share certificates for Reduced shares .....	3 December 2011

## DEFINITIONS

In this announcement, the following terms shall have the meanings respectively set opposite them unless the context requires otherwise:

“Board”	the board of Directors
“Capital Reduction”	the proposed reduction of the capital of the Company including the cancellation of the paid up capital to the extent of US\$0.499 of each Share in issue from US\$0.50 to US\$0.001 and the reduction of the nominal value of all the issued and unissued Shares
“Change in Board Lot Size”	the change in board lot size for trading on the Stock Exchange will be changed from 2,000 Shares to 4,000 Reduced Shares
“Companies Ordinance”	the Companies Ordinance, Chapter 32 of the Laws of Hong Kong
“Company”	South Sea Petroleum Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange
“Corporate Communication”	any document issued or to be issued by an issuer for the information or action of holders of any of its securities, including but not limited to: (a) the directors’ report, its annual accounts together with a copy of the auditors’ report and, where applicable, its summary

financial report; (b) the interim report and, where applicable, its summary interim report; (c) a notice of meeting; (d) a listing document; (e) a circular; and (f) a proxy form

“Outstanding Convertible Debentures”

including:

- 1) an aggregate of US\$74,000,000 6% interest convertible debentures due 2015; and
- 2) an aggregate of US\$250,000,000 3% interest convertible debentures due 2021

“Director(s)”

the director(s) of the Company

“EGM”

the extraordinary general meeting of the Company to be convened for the Shareholders to consider, and if thought fit, pass the resolutions to approve among other things, the Capital Reduction and the increase in authorized share capital

“Group”

the Company and its subsidiaries

“Hong Kong”

the Hong Kong Special Administrative Region of the PRC

“Listing Rules”

the Rules Governing the Listing of Securities on the Stock Exchange

“PRC”

the People’s Republic of China

“Reduced Share(s)”

new ordinary shares of US\$0.001 each in the share capital of the Company immediately after the Capital Reduction becoming

	effective
“Share(s)”	ordinary share(s) of US\$0.50 each in the share capital of the Company prior to the Capital Reduction becoming effective
“Shareholder(s)”	registered holder(s) of the Share(s) or Reduced Share(s) of the Company (as the case may be)
“Share Registrar”	Computershare Hong Kong Investor Services Limited
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

On behalf of the Board

**Guan Xinmin**

*Chairman*

Hong Kong, 23 September 2011

*As at the date of this announcement, the board of directors comprises of Mr. Guan Xinmin, Ms. Lee Sin Pyung and Ms. Zhang Xue being executive directors, Mr. Lu Ren Jie, Mr. Chai Woon Chew and Mr. Ho Choi Chiu being independent non-executive directors.*