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If you are in any doubt as to any aspect of this circular or as to the action to be taken you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in South Sea Petroleum Holdings Limited or both, you should at once hand this circular together with the enclosed form of proxy (for Shareholders only) to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the securities of South Sea Petroleum Holdings Limited.

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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)

PROPOSALS INVOLVING

- (1) ISSUE OF US\$100,000,000 CONVERTIBLE DEBENTURES**
(2) INCREASE IN AUTHORIZED CAPITAL

AND

NOTICE OF EXTRAORDINARY GENERAL MEETING

A notice convening an Extraordinary General Meeting of South Sea Petroleum Holdings Limited to be held at Unit 1, G/F., The Center, 99 Queen's Road Central, Hong Kong on 8 January 2010 at 11:00 a.m. (the "Meeting") is set out on pages 10 to 11 of this circular. Whether or not you are able to attend the Meeting, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return it to the share registrar of the Company, Computershare Hong Kong Investor Services Limited, 46/F., Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and, in any event, not less than 48 hours before the time appointed for the holding of the Meeting or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the Meeting or any adjourned meeting if you so desire.

18 December 2009

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RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement contained herein misleading.

DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

“Capital Increase”	increase the authorized share capital of the Company from US\$140,000,000 to US\$500,000,000
“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 (or US\$0.01, the par value of the Company’s Shares)
“CRD”	China Resources Development Group Limited, the joint venture established under the joint venture agreement dated 25 July 2007
“Debentures”	an aggregate of US\$100,000,000 6% interest convertible debentures due 2015
“Debenture Holder”	the Subscriber or any debenture transferees who hold the Debentures issued pursuant to the Subscription Agreement dated 9 December 2009
“Directors”	the board of directors of the Company
“EGM”	an extraordinary general meeting to be held and convened on 8 January 2010 to obtain the Shareholders’ approval of the Special Mandate and the Capital Increase
“Group”	the Company and its subsidiaries

DEFINITIONS

“Latest Practicable Date”	11 December 2009
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Maturity Date”	9 December 2015
“New Shares”	a maximum of 10,000,000,000 Shares issuable upon the exercise of the conversion rights attached to the Debentures
“Share(s)”	the ordinary shares of the Company, with par value US\$0.01 each
“Shareholder(s)”	holder(s) of the existing shares of the Company
“Special Mandate”	the Shareholders granting their approval to the Directors to issue and allot a maximum of 10,000,000,000 New Shares
“Stock Exchange”	the Stock Exchange of Hong Kong Limited
“Subscriber”	Kelton Capital Group Limited, a private company which subscribed an aggregate of US\$100,000,000 6% interest Debentures on 9 December 2009 pursuant to the Subscription Agreement
“Subscription Agreement”	the agreement dated 9 December 2009 entered into between the Company and the Subscriber for an aggregate of US\$100,000,000 6% interest Debentures due 2015

LETTER FROM THE DIRECTORS

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)

Executive Directors:

Mr. Zhou Ling (*Chairman*)
Ms. Lee Sin Pyung (*Managing Director*)
Ms. Zhang Xue

Registered Office:

Unit 6605, 66/F.
The Center
99 Queen's Road Central
Hong Kong

Independent Non-Executive Directors:

Mr. Lu Ren Jie
Mr. Chai Woon Chew
Mr. Ho Choi Chiu

18 December 2009

To the Shareholders

Dear Sir or Madam,

I. INTRODUCTION

Reference is made to the announcement dated 9 December 2009 that the Directors announced that the Company had entered into a Subscription Agreement with the Subscriber for an aggregate of US\$100,000,000 6% interest Debentures due 2015. And to facilitate the issue of the New Shares, the authorized capital is proposed to be increased from US\$140,000,000 to US\$500,000,000.

The purpose of this circular is to provide you with information relating to the Subscription Agreement and the Capital Increase (together, the "Proposals"), and to seek approval from the Shareholders for the Proposals.

II. ISSUE OF US\$100,000,000 CONVERTIBLE DEBENTURES

Date of Subscription Agreement

9 December 2009

Parties

- The Company
- The Subscriber

Kelton Capital Group Limited, a private investment company involves in investing securities, debentures, government bonds and other financial instruments.

LETTER FROM THE DIRECTORS

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 parties independent of the Group and connected persons (as defined under the Listing Rules) of the Group.

Principal amount

US\$100,000,000

Maturity Date

9 December 2015

Interest

6% per annum

Completion of the Subscription Agreement

Completion of the Subscription Agreement is subject to:

1. the Shareholders granting their Special Mandate to the Directors to issue the New Shares;
2. 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 (or equivalent to US\$0.01, being the par value of the Company's Shares), which is

- (i) a premium of approximately 64.89% over the closing price of HK\$0.047 per Share as quoted on the Stock Exchange on 9 December 2009, being the date of the Subscription Agreement;

LETTER FROM THE DIRECTORS

- (ii) a premium of approximately 58.16% over the average closing price of HK\$0.049 per Share as quoted on the Stock Exchange over the five consecutive trading days immediately prior to the Latest Practicable Date;
- (iii) a premium of approximately 61.45% over the average closing price of HK\$0.048 per Share as quoted on the Stock Exchange for ten consecutive trading days immediately prior to the Latest Practicable Date;
- (iv) a premium of approximately 51.96% over the average closing price of HK\$0.051 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The total gross proceeds from the issue of the Debentures amount to US\$100,000,000. After deducting related expenses, the net proceeds amount to approximately US\$94,900,000 and the net Conversion Price per New Share is approximately HK\$0.0728 (or US\$0.0094).

The Conversion Price and the number of the New Shares will be subject to adjustment (as the case may be) for capitalization issue, rights issue, sub-division or consolidation of Shares or reduction of capital, in such case, the Company shall issue further announcement regarding the adjustments as when and where necessary and appropriate.

If the number of the New Shares to be issued, as a result of the relevant adjustment, exceeds the Special Mandate limit, the Company will seek for its Shareholders' approval, and a new application will be made to the Stock Exchange of the listing of, and permission to deal in, any extra Shares.

Effect of Conversion and Substantial Shareholder

Assuming the Debentures are fully exercised and converted, a maximum number of 10,000,000,000 New Shares will be issued and allotted, which represent 91.13% of the existing issued share capital of the Company as of the Latest Practicable Date, and represent 47.68% 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.

LETTER FROM THE DIRECTORS

An application for the listing of and permission to deal in the New Shares will be made to the Stock Exchange.

History of Fund Raising Activities for the Past Twelve Months

On 4 August 2009, the Company entered into a subscription agreement to issue HK\$171,000,000 convertible debentures. As of the date of this circular, none of the convertible debentures are converted into the Company's Shares and the proceeds have not been spent.

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 Debenture Holders of HK\$171,000,000 and US\$100,000,000 Convertible Debentures Elect to Fully Convert their Debentures	
	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>
Palmsville Equities Inc. <i>(Note)</i>	32,000,000	0.29	32,000,000	0.13
Public:				
1. Debenture Holders of the outstanding HK\$171,000,000 Convertible Debentures	0	0	2,194,447,871	9.47
2. Debenture Holders of US\$100,000,000 Convertible Debentures	0	0	10,000,000,000	43.16
2. Other Public	<u>10,940,239,359</u>	<u>99.71</u>	<u>10,940,239,359</u>	<u>47.24</u>
Total	<u><u>10,972,239,359</u></u>	<u><u>100.00</u></u>	<u><u>23,166,687,230</u></u>	<u><u>100.00</u></u>

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

LETTER FROM THE DIRECTORS

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 remaining principal amount after conversion to the Debenture Holder within ten (10) days 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.

Reasons for Issue of Debentures

Since the second half of 2009, the increasing demand for graphite products has far exceeded the Company's existing production capacity. To keep up with this new market trend, the Company has decided to add more production lines and expand its production capacity. China has the richest graphite reserves in the world, while Luobei County in Heilongjiang Province, is number one in China. Since 2007, the Company, through its 85%-owned subsidiary, China Resources Development Group Limited (hereinafter "CRD"), has set up a graphite factory with three production lines in Lobei, China. Due to the impact of the recent financial crisis, the 15% shareholder withdrew its investment in CRD, and, as a result, CRD now is a wholly-owned subsidiary of the Company. It is the Company's current intention to add more production lines and increase its graphite production capacity in Luobei, China. At this point, the Company is raising funds as capital reserve needed for the expansion. Once the funds are available, the Company will increase its graphite ore reserve and expand its production capacity to enhance its position in the global market according to worldwide demand for graphite.

LETTER FROM THE DIRECTORS

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 best interest of the Company. Despite the issue of convertible debentures accrues financial cost to the Company, when the convertible debentures be converted into shares, it turns the liability of the Company into shareholders' fund. The Subscription Agreement was reached after arm's length negotiations between the Company and the Subscriber. The Directors consider that the Subscription Agreement provides a substantial amount of capital reserve 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 best interest of the Company and its Shareholders as a whole.

Expenses Incurred from the Issue of Debentures and the Use of Net Proceeds

Except the customary finder's fee and necessary printing cost, administrative cost and legal expenses which is estimated around US\$5,100,000, no other expenses will be incurred from the issue of the Debentures. Out of the remaining net proceed of around US\$94,900,000 and half of the fund raised in August 2009 for increase graphite production by issuing HK\$171,000,000 convertible debentures, the Company intends to use: (i) approximately HK\$200,000,000 to shore up its graphite ore reserve, (ii) approximately HK\$230,000,000 to expand its graphite production capacity by adding five more production lines to the existing three production lines, including purchase of production facilities, (iii) HK\$150,000,000 as working capital for graphite production and sales, and (iv) the remaining HK\$240,000,000 as capital reserve for further development.

III. INCREASE IN AUTHORIZED CAPITAL

As of the Latest Practicable Date, the authorized capital of the Company is US\$140,000,000 divided into 14,000,000,000 Shares, of which 10,972,239,359 Shares have been issued and allotted as fully paid.

In order to facilitate the issue of the New Shares and provide for future expansion in the share capital of the Company, the Directors propose that the authorized share capital of the Company be increased from US\$140,000,000 to US\$500,000,000 (divided into 50,000,000,000 Shares) by the creation of an additional 36,000,000,000 Shares. Other than the New Shares, the Directors have no present intention of issuing any part of that capital.

The Capital Increase will be subject to the approval granted by the Shareholders at the EGM.

IV. INFORMATION OF THE GROUP

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, and provides electronics manufacturing services in United Kingdom.

LETTER FROM THE DIRECTORS

V. EGM

The notice of EGM is set out on pages 10 to 11 of this circular. There is a form of proxy for use at the EGM accompanying this circular. Whether or not you are able to attend the EGM, you are requested to complete the accompanying form of proxy in accordance with the instructions printed thereon and return the same to the Company's share registrar, Computershare Hong Kong Investor Services Limited, at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting. Completion and delivery of the form of proxy will not preclude you from attending and voting in person at the EGM if you so wish.

To the best of the Directors' knowledge, information and belief having made reasonable enquiries, no Shareholders would be required to abstain from voting at the EGM pursuant to the Listing Rules. The resolutions proposed to be approved at the EGM will be taken by poll and an announcement will be made by the Company on the results of the EGM.

VI. RECOMMENDATION

The Directors consider that the terms of the Subscription Agreement are fair and reasonable and together with the Capital Increase are in the interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolutions as set out in the notice of EGM.

By order of the board of directors
South Sea Petroleum Holdings Limited
Zhou Ling
Chairman

NOTICE OF EGM

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(Incorporated in Hong Kong with limited liability)
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NOTICE IS HEREBY GIVEN that an extraordinary general meeting of South Sea Petroleum Holdings Limited (the “Company”) will be held at 11 a.m. on 8 January 2010 at Unit 1, G/F., The Center, 99 Queen’s Road Central, Hong Kong for the purpose of considering and if thought fit, passing, with or without modifications, the following resolutions which will be proposed as ordinary resolutions:

ORDINARY RESOLUTIONS

1. **“THAT**

- (a) the Subscription Agreement (as defined in the circular of the Company dated 18 December 2009 (the “Circular”) dispatched to shareholders of the Company) dated 9 December 2009 in relation to the issue of US\$100,000,000 6% interest convertible debentures due 9 December 2015 be and is hereby approved, confirmed and ratified; and
- (b) the directors of the Company be and are hereby authorized to take all steps necessary or expedient in their opinion to implement and/or give effect to the terms of the Subscription Agreement including (but not limited to) the issue of the maximum of 10,000,000,000 New Shares (as defined in the Circular).”

2. **“THAT** the authorized capital of the Company be increased from US\$140,000,000 to US\$500,000,000 by creation of 36,000,000,000 new ordinary shares of US\$0.01 each, such shares to rank pari passu in all respects with the existing ordinary shares of US\$0.01 each in the issued share capital of the Company.”

By Order of the Board
Vivian Lam
Company Secretary

Hong Kong, 18 December 2009

NOTICE OF EGM

Notes:

- (i) A member entitled to attend and vote at the above Meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
- (ii) Where there are joint holders of any share of the Company, any one of such joint holders may vote at the Meeting, either personally or by proxy, in respect of such share as if he was solely entitled thereto, but if more than one of such joint holders be present at the Meeting personally or by proxy, that one of the said persons so present whose name stands first on the Register of Members of the Company in respect of such share shall alone be entitled to vote in respect thereof.
- (iii) The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power of attorney or authority, must be lodged with the Company's Share Registrar, Computershare Hong Kong Investor Services Limited at 46/F., Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not less than 48 hours before the time appointed for holding the Meeting.