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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.

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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\$600,000,000 CONVERTIBLE DEBENTURES
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 9 November 2018 at 11 a.m. (the "Meeting") is set out on page 19 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.

23 October 2018

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RESPONSIBILITY STATEMENT

This document, for which the directors of the issuer collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the issuer. The directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

DEFINITIONS

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

“Agreement”	the subscription agreement dated 25 April 2018 which was entered into between the Company and the Subscriber for HK\$600,000,000 nil interest 10-year convertible debentures
“Board/Directors”	the board of directors of South Sea Petroleum Holdings Limited
“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
“Conversion Period”	the period commencing from the next business day immediately after the Stock Exchange of Hong Kong Limited granting the listing of and the permission to deal in the New Shares up to 4:00 p.m. (Hong Kong time) on the Maturity Date, i.e. 25 April 2028
“Debentures”	the HK\$600,000,000 nil interest convertible debentures due on 25 April 2028
“Debenture Holder/Debenture Holder(s)”	the Subscriber and/or its subsequent holder(s) of the Debentures
“EGM”	an extraordinary general meeting to be held to seek the Shareholders’ approval of the Agreement and the issue of the New Shares
“Latest Practicable Date”	12 October 2018
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“New Shares”	a maximum number of 10,000,000,000 new shares to be converted under the Agreement
“Share(s)”	ordinary shares in the capital of the Company
“Shareholder(s)”	holder(s) of the existing shares of the Company
“Stock Exchange”	the Stock Exchange of Hong Kong Limited

LETTER FROM THE BOARD

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. Feng Zhong Yun (*Managing Director*)
Ms. Zhang Xue

Independent Non-Executive Directors:

Mr. Han Zhi Jun (*Vice-Chairman*)
Mr. Lu Ren Jie
Mr. Chai Woon Chew
Mr. Ng Lai Po

Registered Office:

Unit 1002, 10/F
Euro Trade Centre
21-23 Des Voeux Road
Central
Hong Kong

23 October 2018

To the Shareholders

Dear Sir or Madam,

Reference is made to the announcement dated 25 April 2018, the Directors announced that the Agreement was entered into between the Company and the Subscriber for the issue of HK\$600,000,000 Debentures to the Subscriber.

The purpose of this circular is to provide you with information in relation the Agreement, and to seek approval from the Shareholders to approve the Agreement and the issue of the New Shares. No Shareholders have a material interest in the issue of Debentures; therefore no Shareholders will be required to abstain from voting at the EGM.

(1) ISSUE OF HK\$600,000,000 CONVERTIBLE DEBENTURES

On 25 April 2018, the Company has entered into a subscription agreement with the Subscriber which subscribes HK\$600,000,000 nil interest convertible debentures due 2028.

Date of the Agreement

25 April 2018

Parties

- The Company
- The Subscriber

LETTER FROM THE BOARD

China Minerals International Limited (the “Subscriber”), the principal business of which is developing and investing in mineral related projects. The ultimate beneficial owner is Mr. Leo Liang Huang, a merchant and investor mainly engaged in mineral related projects. The Subscriber wanted to purchase large-flake graphite from the Company, the Company could not supply due to limitation of the production line. The Subscriber then proposed to buy debentures from the Company to upgrade the Company’s production line.

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 its connected persons (as defined under the Listing Rules) of the Group.

Principal Amount

HK\$600,000,000

Maturity Date

25 April 2028

Interest

Nil

Conditions of the Issue of the Debentures

The issue of the Debentures is subject to the following conditions:

- (a) the Shareholders’ approving the Agreement and the issue of the New Shares at the EGM;
- (b) the Listing Committee of the Hong Kong Stock Exchange granting listing of and permission to deal in the New Shares.

Payment and Conversion Terms

The Debenture Holders shall have the right to make subscription and conversion of the Debentures in whole or in part in multiples of HK\$10,000 within the Conversion Period. The New Shares will rank pari passu in all respects with the existing Shares in issue.

The Debentures will not be listed on the Stock Exchange or any other stock exchanges outside Hong Kong.

The Debenture Holders have no voting rights in Shareholders’ meetings of the Company; priority for redemption and repayment depends only on maturity date.

LETTER FROM THE BOARD

There is neither early redemption nor early termination for the Debentures.

Conversion price is fixed without any adjustment.

Conversion Price

The conversion price is fixed at HK\$0.06 per Share, which is:

- (1) a premium of approximately 25% over the closing price of HK\$0.048 per Share as quoted on the Stock Exchange on 25 April 2018, being the date of the Agreement;
- (2) a premium of approximately 30.43% over the average closing price of HK\$0.046 per Share as quoted on the Stock Exchange over the five consecutive trading days immediately prior to the date of the Agreement;
- (3) a premium of approximately 22.45% over the average closing price of HK\$0.049 per Share as quoted on the Stock Exchange over the ten consecutive trading days immediately prior to the date of the Agreement;
- (4) a premium of approximately 76.47% over the closing price of HK\$0.034 per Share as quoted on the Stock Exchange on the Latest Practicable Date;
- (5) a premium of approximately 71.43% over the average closing price of HK\$0.035 per Share as quoted on the Stock Exchange over the five consecutive trading days immediately prior to the Latest Practicable Date;
- (6) a premium of approximately 62.16% over the average closing price of HK\$0.037 per Share as quoted on the Stock Exchange over the ten consecutive trading days immediately prior to the Latest Practicable Date;
- (7) The conversion price HK\$0.06 is a discount of approximately 17.80% over the net asset value per Share HK\$0.073 (according to the audited financial statements as at 31 December 2017).

The production lines of the Company in Madagascar need more capital injection. HK\$0.06 is the maximum conversion price that the Subscriber can accept. The conversion price HK\$0.06 is a discount of approximately 17.80% over the net asset value per Share HK\$0.073. However it is a premium of approximately 62.16% over the average closing price of HK\$0.037 per Share over the ten consecutive trading days immediately prior to the Latest Practicable Date. Furthermore, the Debentures are issued without interest.

Graphite business is of resources production type which can bring long-term and stable revenue to the Company. If the Company is unable to raise fund, opportunity for long term profit gain will be lost and the interest of the Shareholders will be harmed.

Therefore the Directors (including the independent non-executive directors of the Company) consider the issue of HK\$600,000,000 nil interest Debentures and the Agreement is appropriate, fair, reasonable and in the best interest of the Company and its Shareholders as a whole.

LETTER FROM THE BOARD

Dilution Effect of Conversion and Substantial Shareholder

The New Shares will be issued under the special mandate granted by the Shareholders at the EGM of the Company. Pursuant to the Agreement, a maximum number of 10,000,000,000 New Shares will be issued and allotted, which represent 200.69% of the existing shares in issue of the Company as of the Latest Practicable Date, and represent 66.74% of the issued shares as enlarged by the issue of the New Shares.

Pursuant to the Agreement, none of the Debenture Holder shall be allowed to own, directly or indirectly, 5% or more of the 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 being 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 immediately 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.

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

When the Debenture Holders elect to convert the New Shares, the holder is obliged to submit an undertaking to the Company that they will not hold 5% or more of the Company's Shares after conversion. If the Debentures are transferred to any third party, transferor and transferee has to submit respectively an undertaking that the party is not related or being associated with the holder, and such that after conversion of the Debentures, the party will not hold more than 5% Shares of the Company. The Company will strictly comply with Chapter 14A of the Listing Rules and try its best to verify the identity of every transferee of the Debentures. The Company will establish a list of Debenture Holders for conversion of the Debentures. All transferees of the Debentures will be required to confirm that they are not connected or associated with any party in that list. The Company will make it clear to every transferee of the Debentures that their undertaking is of a legally-binding nature, any false declaration will be a criminal offense.

LETTER FROM THE BOARD

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\$600,000,000 Convertible Debentures Elect to Fully Convert their Debentures	
	<i>Number of Shares</i>	<i>%</i>	<i>Number of Shares</i>	<i>%</i>
1. Debenture Holders of the HK\$600,000,000 Convertible Debentures	0	0	10,000,000,000	66.74
2. Other Public	<u>4,982,709,078</u>	<u>100.00</u>	<u>4,982,709,078</u>	<u>33.26</u>
Total	<u><u>4,982,709,078</u></u>	<u><u>100.00</u></u>	<u><u>14,982,709,078</u></u>	<u><u>100.00</u></u>

Voting Rights of Debenture Holder

Debenture Holder does not have any voting rights in Shareholders' meetings of the Company.

Transfer of Debentures

The Debentures will not be listed on the Stock Exchange or any other stock exchanges outside Hong Kong.

The Subscriber is only allowed to transfer the Debentures to its associates or such other transferees approved in advance by the Company. The Debentures is not allowed to be transferred to the connected persons (as defined under the Listing Rules) of the Group. The Company will establish a list of Debenture Holders for conversion of the Debentures. All transferees of the Debentures will be required to confirm that they are not connected or associated with any party in that list. For every transfer of the Debentures, the transferor(s) and the transferee(s) has/have to submit a legally-binding undertaking letter to the Company that they are not the connected persons of the Group.

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.

LETTER FROM THE BOARD

History of Fund Raising Activity in the Past Twelve Months

During the previous 12 months immediately preceding the date of the Agreement, the Company did not carry out any fund raising activity.

Past and Recent Graphite Business Operation of the Company

The graphite business model of the Company is to produce and trade graphite products to gain profit.

In the past years, the Company's graphite production lines can only operate for a few months out of a year and the production line did not produce enough products due to graphite ore shortage. There is only one company to supply graphite ore to the Company and other 18 companies. The graphite ore resource is limited. The government has set up quotas for mining every year. The supply of ore can meet only a few months' production needs. As mentioned above, the shortage of graphite ore in China is mainly due to high demand but low supply, as well as the limitations imposed by the government. The problem cannot be easily solved in short term. In view of this, the Company has taken action by terminating the production lines in China on one hand, and on the other hand seeking graphite ore supply in Madagascar and building new production lines there. In the future, a task force will be established for seeking and making contact with new graphite ore suppliers all over the world. In Heilongjiang, China, the graphite products of the Company were mainly of category -190, -191, -192, -193, -194, -195, -196, -197 and -198, of which -194 and -195 is the major part. (-194 means 100-mesh of 94% carbon content, and -195 means 100-mesh of 95% carbon content, and likewise for the rest of the categories.) "Mesh" count refers to the number of openings in one square inch of screen. 50 mesh means there are 50 openings per square inch. The lower the count, the bigger the opening, hence the larger the flake size. Positive mesh means those graphite particles that remain on the screen, while minus mesh means those graphite particles go through the screen after the sifting process.

The Company learnt from experiences that, graphite ore is the base and the guarantee of a graphite production line. In 2016, the Company purchased semi-finished graphite from Madagascar Graphite Limited ("MGL") that can be a 10 year supply of material to the production line. MGL and its ultimate beneficial owner are independent third parties of the Company. MGL is a company in graphite business. MGL was introduced by an European customer to the Company about three years ago. MGL owns mining rights in Toamasina, Madagascar. The mine has been producing graphite for over 100 years. The ultimate beneficial owner is Mr. Claude Felix. MGL has supplied semi-finished graphite and graphite ore to the Company. The major terms of the framework agreement between the Company and MGL are: (1) MGL guarantees that the quantities of graphite ore supply will be sufficient to meet the needs of the Company's production lines for 20 years. (2) There is no committed minimum order by the Company. (3) Specific amounts in purchase orders will be decided by the Company at a favorable price lower than the market price. (4) Credit term 60 days after delivery to the Company's production line. Payment 60 days upon delivery is customary for mining companies. The credit term for mining companies in Heilongjiang is 30 to 60 days upon delivery.

LETTER FROM THE BOARD

Graphite is a stable material with molecular structure like diamond. It can be stored for many years. The semi-finished graphite can be produced high-priced graphite products, and can also be traded as commodity for profit. Both semi-finished graphite and graphite ore can be used as raw materials. Semi-finished graphite is of 20-30% carbon content while graphite ore is of 4.7-6.5% carbon content. The semi-finished graphite is the product which falls from the production line, without finishing the whole process. The carbon content of the semi-finished products is comparatively lower and the flake sizes are irregular. Semi-finished graphite can be used as raw materials to be sent to the production line, processed and produced as a general finished products with 90%-95% carbon content. To choose which raw materials between semi-finished graphite and graphite ore depends on what is available to the producer, and whether the price term is more favorable.

If the Company uses the semi-finished graphite as raw materials, they will be put into the production line until the whole production process finished.

If they are to be sold to customers, products will be shipped to customers.

In 2017, the Group's total sales of graphite products amounted US\$9.70 million, of which US\$4,388,000 were semi-finished graphite products from inventory, and US\$5,308,000 were products produced by plants in Heilongjiang Province, China.

In 2017, the Company started establishing a production line in Toamasina, Madagascar. The existing production line is purchased and assembled by the Company which copied the previously self-designed productions line in China, and all equipment and parts were purchased from China and shipped to Madagascar in containers. The Company was assisted by Aspect Group Limited ("AGL") to direct and train local workers to assemble and operate the production line. AGL and its ultimate beneficial owners are independent third parties of the Company.

The entire production line consists of: 1 crushing and grinding line, 6 floatation refining line, 1 drying line, 1 sifting and grading line, and 1 packaging line. In the current stage, the production line of the Company in Madagascar includes production plants, rough production lines, refined production lines, sifting-dehydrating-drying lines, sorting and packing lines, transportation tools, pipelines and hydraulic nozzle, store house for raw materials and finished products.

LETTER FROM THE BOARD

In 2018, the production line in Madagascar is beginning to operate at trial production phase with a monthly capacity of 1,000 tons. The production line was financed by working capital of the Company. The assets value of main assets of the production line is about US\$8 million. Currently the production cost breakdown of the Madagascar production line is set out below:

ITEM	UNIT COST/ Per Ton (US\$)
Graphite Ore	300
Fuel	111
Labour	89
Chemicals and grinding medium	85
Floating agent, packing	21
	<hr/>
Total	<u>606</u>

For per ton graphite product, the average cost of graphite ore is US\$300, and it will be US\$260 if we use semi-finished graphite to replace graphite ore. Currently, there are approximately 3 million tons of semi-finished graphite on inventory, which cost approximately US\$300 million.

For the first six months of 2018, the production quantity is around 5,056 tons. The revenue from selling the graphite products is approximately US\$4.2 million.

The Company intends to manage and operate the production lines by itself in the near future. However, the Company has not yet recruited management personnel with knowledge of both Madagascar's official language (French) and graphite business. Therefore, the Company has outsourced to a contractor AGL. AGL was established in 2007, is a small-to-medium size private company with around 1000 employees. AGL has investments in Madagascar, Europe and Asia. AGL was introduced by a customer of the Company several years ago. AGL is a company principally engaged in resources and technology projects, focusing in Asia, Europe and Madagascar. AGL has business relationship in Madagascar and is familiar with the local organizations and people. AGL has about 10 year experience in Madagascar regarding exploration, production, delivery, communication with the local government and local people. AGL has several major customers in business of graphite and oil in Madagascar, such as Etablissements Gallois S.A (graphite business) and Galana Distribution Petroliere S.A (oil business). AGL's ultimate beneficial owner is Mr. Laichi Tat. There are no related parties among Laichi Tat, Claude Felix, AGL, MGL and the Company. Currently, AGL has over 90 employees working on the graphite project in Madagascar. AGL has its ultimate beneficial owner are independant third parties of the Company. Laichi Tat, Claude Felix, AGL, MGL are all independent third parties of the Company and unrelated to the Company.

LETTER FROM THE BOARD

The main rights and obligations of the contractor are:

- (1) Coordinate with the local government, relevant local authorities and local residents regarding production line and facilities, security, water and electricity, environmental protection, transportation, custom clearance, hiring, taxation, etc.
- (2) assist the Company to produce products according to the Company's requirements;
- (3) keep the production cost low;
- (4) buy exclusively semi-finished graphite from the Company at US\$130 per ton;
- (5) get a handling fee of US\$1.00 per ton from the Company.

The Company's main rights and obligations are:

- (1) pay production costs;
- (2) pay handling charge of US\$1.00 per ton;
- (3) issue production orders and monitor quality and production costs;
- (4) take title to all the products produced on the production line;
- (5) when the Company's own needs are met, sell the semi-finished graphite inventory exclusively to the contractor at US\$130 per ton.

The US\$130 per ton price is determined on the basis of (1) the current market price about US\$130 per ton, and (2) negotiation between the parties.

No matter how the market price may fluctuate, the US\$130 per ton price is fixed without any price adjustment. If the market price exceeds US\$130, the Company will gain less by selling the product at the fixed price of US\$130. But if the market price is lower than US\$130, the Company will gain more by selling at US\$130. This is a business practice to lock in profit.

Currently, the production line of the Company is using part of graphite ore and part of the semi-finished graphite in stock as raw materials in varied proportions, which can be adjusted by the company from time to time. The graphite ore is purchased from MGL; the cost of the graphite ore is approximately US\$300 for each ton of finished product. If using semi-finished graphite to replace graphite ore, the cost is approximately US\$260 for each ton of finished product. The semi-finished graphite used both for production line and for sale is from the inventory stock of the Company. The semi-finished graphite on inventory was purchased at US\$100/ton, and now the selling price is US\$130/ton.

LETTER FROM THE BOARD

With changes in consumer prices, wages and the cost for mining, the purchase price for graphite ore may increase. In that event, the Company may use semi-finished graphite in stock, which was purchased at US\$100/ton, to replace graphite ore. On the other hand, since the Company sells the semi-finished graphite without further processing, the increase in cost for mining and purchasing graphite ore will not affect the cost of the semi-finished graphite. However, if the market price for the semi-finished graphite exceeds US\$130/ton, the Company will still honor the contract terms by selling the semi-finished graphite at US\$130/ton. In that case, the Company will not incur a loss, but will make less profit.

With changes of various situations, the purchase price/production cost of processing graphite ore and the semi-finished graphite into finished products may increase. But such increases will not affect the cost of the semi-finished graphite on inventory. Therefore, the Company will not incur a loss resulting from selling of the semi-finished graphite from inventory without further processing at the fixed price of US\$130/ton. Only when the market price of the semi-finished graphite exceeds US\$130/ton and the Company sells the semi-finished graphite at the fixed price of US\$130, there will be less profit.

As at 30 June 2018, the semi-finished graphite on inventory was approximately 3 million tons, which can be used for the Company's production lines for 10 years, and is sufficient for production under the contractor agreement.

The contract term of the contractor agreement is 3 year, i.e. from 1 January 2018 to 31 December 2020. The titles of the finished products are owned by the Company under the contractor agreement.

Business plan of Graphite

1. Build production lines in Madagascar

The manufacturing activities carried out by the Company is to build production lines and to produce graphite products.

The operations flow and each of the production procedures set out below is from raw material to receipt of payment for the goods:

- (1) Purchase of raw material and transport them to the production line.
- (2) At the first stage of the rough production line, the raw material is first crushed and ground by different size ceramic balls inside a grinder to a size of roughly 2mm. This process can be thought of as a washing machine, where the crashing of the ceramic balls will break down the graphite ore to smaller pieces for processing.
- (3) Once the material has been grounded, it enters the refined production line. The now crushed material is flown down to tanks filled with floatation agents. Graphite is a very light substance and it is more buoyant than the sediments and other materials attached to it when it first enters the rough production line. This means any graphite material will float on the surface of these tanks while other elements or graphite still not pure enough will sink to the bottom. A fan/brush system will push over the pure graphite over the tanks into containers for further processing.

LETTER FROM THE BOARD

- (4) The containers holding these graphite materials will now enter the sifting and drying lines. The material is conveyed into a heater/dryer to return it into its powder form after being soaked in the floatation agent. The process is rather slow to make sure the material is dried thoroughly. Once dried, it is dropped in sieves/meshes so the material can be separated based on mesh size, the size of the actual material. Different size sieves are placed on top of each other, so the material will run down the sifting process once.
- (5) Based on client's request, refining for higher carbon content will also repeat the production process many times until carbon content is reached.
- (6) After the material has been sorted, material of the same mesh size are gathered and backed in to one metric ton bags, or unless otherwise specified by specific clients.
- (7) These then are transported by trucks into the storage warehouse pending shipment.
- (8) Acknowledge the receipt of payments.

Functions of production lines linked to the operation flow:

Step 1: crushing production lines linked to crushing and grinding of raw material ore.

Step 2: flotation and chemical circulation lines linked to physical and chemical purification.

Step 3: dehydration and drying lines linked to the dehydration and drying.

Step 4: sifting and sorting lines link to sifting and sorting.

Step 5: packaging lines linked to packaging.

The Company's plan is to follow its own successful projects in the past with fine tuning to adapt to Madagascar's conditions. The Company will purchase equipment and parts from China and ship them to Madagascar in container. The Company will then direct and train local workers to assemble and operate the production line.

From 2019 to 2022, the Company is planning to build its production line from annual output of 20,000 tons to 30,000 tons; then gradually to target a production line which can yearly produce 100,000 tons graphite products with sales amounted US\$80 million.

The total cost for building a production line is approximately US\$80 million. In 2019, it is estimated US\$24 million is needed; in 2020 US\$24 million; in 2021 US\$16 million, and in 2022 US\$16 million.

LETTER FROM THE BOARD

The detailed breakdown on the proposed use of proceed in the graphite production lines in Madagascar:

Plant and Warehouse	US\$12 million
Production line	US\$29 million
Pipeline, transport and loading tools	US\$18.5 million
Road building	US\$4 million
Wages	US\$4.5 million
Other	US\$4 million
TOTAL	<u>US\$72 million</u>

The Company does not have sufficient internal resource to finance the expected capex of the production lines in Madagascar. Currently, the Company does not have financing plans other than the proposed issuance of convertible debentures.

2. Build a professional management team

The Company has accumulated the following experiences and expertise during the past 10 years: building and operating several graphite production lines in Heilongjiang, China, from design to equipment purchasing, civil engineering, trial production, operation and maintenance.

The Company is actively recruiting managerial personnel with Madagascar language background and experience in graphite. At the same time, the Company is training college educated locals to learn graphite related technology and gain experience to build a professional management team.

The Company sent an experienced team to focus on quality and cost control. The team of the Company in Madagascar consists of three persons:

Hu Qingmin, Senior Engineer, was born in 1964, obtained Bachelor of Science from Harbin Institute of Technology. He joined the Company in 2017 and was the general manager for the Madagascar graphite project.

Work experience: 1986 – 2016

- Technician at design department of capital construction command center of Harbin Railway Coach Factory under the Ministry of Railway.
- Engineer at capital construction command center of Suibao Thermo-electricity Co. Ltd. of Heilongjiang Province.
- Deputy Commander in Chief, Municipal Waste Water Treatment Project of Harbin's Acheng District.
- General Manager, Luobei Yunshan Graphite Mining Company.

LETTER FROM THE BOARD

Gu Yumao, was born in 1962. With Junior college qualification, majoring in Economics and Management at Shandong Provincial Party School. He joined the Company in 2009 as Factory Head of Luobei South Sea Graphite Company Ltd. Production Manager of the Madagascar graphite project since 2017.

Graphite related Experience: 1978 – 2009

- Maintenance worker, foreman and supervisor, Shandong Nanshu Graphite Mine.
- Factory Head and General Manager of Luobei Sinorth Graphite Co. Ltd.

Ma Xiaohua, was born in 1979. He studied accounting in Shandong Yantai Grain School. He joined the Company in 2009, in charge of accounting of various subsidiaries in China as well as the accounting work on Madagascar graphite project. From 2017 he is responsible for the financial work of the Madagascar project.

Experience: 1998 – 2009

- Clerk, Xiaoyi Maotai Mineral Co. Ltd.
- Cashier, North Mineral Co. Ltd.
- Accounting, Aoyu Graphite Co. Ltd.

Also, the Managing Director of the Company Mr. Feng Zhong Yun graduated from China Central Academy of Fine Arts and obtained his Bachelor of Arts degree in 1991. Mr. Feng is a freelance artist. Mr. Feng was appointed as executive director on 31 December 2012, and Mr. Feng has over 5 year experience in leading the Company's graphite business.

3. Prospect of Graphite Industry

Since the Nobel Prizes were awarded to the scientists who discovered graphene, which is regarded as the most revolutionary material in the 21st century for its unique properties in optics, electricity and mechanics. Recent years the increasing demand for graphene and graphene battery brings an optimistic development to the graphite business. According to Roskill Report in 2017, Roskill forecasts total global graphite demand in battery applications to rise by 16-26% per year, up to 2026. Roskill Information Services is a consulting service provider of natural resources in London, the United Kingdom. They are experienced consultants, analysts and associates having a diverse background and leverage their experience in commodity research and industry to provide strategic insights to clients. Roskill offer a wide range of consulting skills and solutions from detailed, practical knowledge of the metals and minerals business today. Building on Roskill's multi-client reports, the consulting team has built up an extensive database of relevant contacts, including both producers and consumers. All their consultants are skilled interviewers, able to obtain, analyze and interpret high quality information. They subscribe to a range of on-line resources, including comprehensive business

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information services and trade databases, so that they can pass on developments in metals and minerals markets as they happen. Roskill Information Services regularly publishes market analysis report of natural resources, like graphite. Roskill Report published in 2017 was one of the analysis report about the market and future of graphite business.

The Company expects that in 2018 demands for our graphite products exceed our capacity mainly based on the following:

- (1) Orders from customers for the first six months of 2018 exceeded our production capacity. For the first six months of 2018, orders from customers totaled 10,000 tons, while the Company's production capacity for the same period is only 5,000 tons.
- (2) Our graphite products are sold right off the production line. Customer feedback on quality of large flake graphite from Madagascar has been positive followed by additional orders. 5,056 tons were slated for customer orders before they are off the production line, all of which have now been shipped, and the corresponding US\$4,210,000 receivables have been collected in full.

The Company expects income from Madagascar's graphite sales for 2018 to reach US\$8.4 million (based on US\$4.2 million for the first 6 months of 2018), and income from semi-finished graphite to reach US\$30 million (based on over US\$15 million for the first 6 months of 2018).

4. Company's future markets and customers

In Madagascar, our graphite products consist of the following:

Graphite Products	Percentage (by volume)
50 mesh (0.3 mm)	15%
80 mesh (0.18 mm)	20%
100 mesh (0.15 mm)	15%
150 mesh (0.1 mm)	15%
-100 mesh (≤ 0.09 mm)	35%

By volume amount, among which minus mesh accounts for 35%, mainly sold to steel mills, while positive mesh accounts for 65%, mainly sold to battery manufacturers and special material companies.

By monetary amount, customers in the Americas (US, Mexico) account for 42%, Asia (China, Japan, India) account for 32%, Europe (Germany, Italy, Turkey) account for 26%.

Contracts entered and performed during the first 6 months of 2018 amounted to 5,056 tons for US\$4.2 million.

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5. Risk Disclosure

Although the Company's semi-finished graphite on inventory is enough to meet our production line's raw material needs for 10 years, and it is mutually beneficial to buy graphite ore from MGL because our production line is situated near the graphite mine, and costs for transportation of graphite ore are reasonable. Due to the fact that MGL is the only supplier of ore to the Company in Madagascar, such heavy reliance involves risk. The Company will continue its efforts to look for other suppliers of graphite ore. Supplier of graphite ore supply is similar to supplier of utilities without much choice. In the future, a task force will be established for seeking and making contact with new graphite ore suppliers all over the world.

After convening of the EGM and obtaining approval from the Shareholders, the Company is planning to establish a task force to seek graphite resources and suppliers. The Company has semi-graphite products storage which is sufficient supply for 10-year production, the reliance on MGL can be reduced.

Reasons for Issue of Debentures

Since the Nobel Prizes were granted to the scientists who discovered graphene, graphite production became a highly valued industry. But graphite ore resource is the base of further development. The production lines that the Company built in Madagascar, a country be rich in large flake graphite mines, solved the problem of scarcity in graphite ore encountered in China, wherein production can only be done for few months within a year.

The production lines of the Company in Madagascar need more capital injection. HK\$0.06 is the maximum conversion price that the Subscriber can accept. The conversion price HK\$0.06 is a discount of approximately 17.80% over the net asset value per Share HK\$0.073. However it is a premium of approximately 62.16% over the average closing price of HK\$0.037 per Share over the ten consecutive trading days immediately prior to the Latest Practicable Date. Furthermore, the Debentures are issued without interest.

Graphite business is of resources production type which can bring long-term and stable revenue to the Company. If the Company is unable to raise fund, opportunity for long term profit gain will be lost and the interest of the Shareholders will be harmed.

Therefore the Directors (including the independent non-executive directors of the Company) consider the issue of HK\$600,000,000 nil interest Debentures and the Agreement is appropriate, fair, reasonable and in the best interest of the Company and its Shareholders as a whole.

Use of Net Proceeds

After deducting cost of issuing and administrative expenses, the Company intends to use the net proceed HK\$569,000,000 to build graphite production lines in Madagascar.

Information of the Company

The Company, through its subsidiaries, is primarily engaged in production and trading of minerals, primarily graphite, worldwide; provision of electronic manufacturing services in the United Kingdom, and development of cultural industrial business.

LETTER FROM THE BOARD

Currently, the Company plans to expand its graphite business as its profit growth base through building new graphite production lines in Madagascar to maximize shareholder interest in the long term. Other than graphite business, the Company has plans as follows:

To help Axiom Manufacturing Services Limited, a wholly owned subsidiary of the Company, to continue develop into comprehensive contract manufacturing services, from design of electronic products to manufacturing, to the medical, national defense, transportation, aerospace, security, maritime and natural gas industries and other sectors.

To expand the multi-media business of Unicorn Arts Limited, a wholly owned subsidiary of the Company, including movie and TV shows making, as well as internet broadcast, plus introducing popular foreign movies to China.

To further develop the gold trading services of Gold Gold Gold Limited (a joint venture of the Company) to become one of the revenue contributors.

In March of 2018, the Company invested 10,100,000 Renminbi for a 25% equity interest in Shanghai Guo Xiong Investment and Development Co. Ltd (“Guo Xiong”). The principal business of Guo Xiong is investing in real properties in Shangdong Province, China. Due to the Sino-U.S. trade disputes, unstable factors affecting the real property market in China may increase. The Company has decided not to hold the investment for the long term and sold the equity interest for profit on 28 September 2018. Apart from this which was disclosed in the announcement, the Company has no intentions or plans to dispose of or discontinue its other businesses that are currently carried out by the Company.

(2) EGM

The notice of EGM is set out on page 19 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.

The resolution 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.

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(3) RECOMMENDATION

The Directors consider that the issue of HK\$600,000,000 Debentures are fair and reasonable and 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 resolution at the EGM.

For and on behalf of
South Sea Petroleum Holdings Limited
Feng Zhong Yun
Managing Director

NOTICE OF EGM



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)

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 9 November 2018 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 resolution which will be proposed as ordinary resolution:

ORDINARY RESOLUTION

“THAT

- (a) the Agreement (as defined in the circular of the Company dated 23 October 2018 (the “Circular”) despatched to shareholders of the Company) dated 25 April 2018 in relation to the issue of HK\$600,000,000 nil interest convertible debentures due 25 April 2028 be and is hereby approved, confirmed and ratified;
- (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 Agreement including (without limitations) the issue of the maximum of 10,000,000,000 New Shares (as defined in the Circular).”

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

Hong Kong, 23 October 2018

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.