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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)

**MEMORANDUM OF UNDERSTANDING
IN RELATION TO
PURCHASE OF GRAPHITE ORE**

Reference is made to the announcements dated 16 May 2016, 23 May 2016 and 3 August 2016 in relation to the entering into agreements and memorandum between GSL, the wholly owned subsidiary of South Sea Petroleum Holdings Limited, and MGL that GSL purchases large flakes graphite ore from MGL. Both parties entered into a supplementary memorandum on 5 September 2016.

The purchase of large flake graphite ore in Madagascar involves large amount of fund, the Board decided to convene an EGM to seek approval from the Shareholders. A circular containing details the Memorandum together with an EGM notice will be dispatched to the Shareholders (who elected to receive printed copies) and published on the website of the Stock Exchange (www.hkex.com.hk) as well as the Company's website (www.southseapetro.com.hk) as soon as practicable.

Reference is made to the announcements dated 16 May 2016, 23 May 2016 and 3 August 2016 in relation to the entering into agreements and memorandum between Global Select Limited (“GSL”), the wholly owned subsidiary of South Sea Petroleum Holdings Limited, and Madagascar Graphite Limited (“MGL”), that GSL purchases large flakes graphite ore from MGL. Both parties entered into a supplementary memorandum on 5 September 2016.

Date of the Memorandum

5 September 2016

The Parties

- GSL
- MGL

MGL is a graphite company which owns the mining rights of graphite mines in Madagascar to explore large flake graphite ore. The Company confirms that, to the best of the directors' knowledge, information and belief, having made all reasonable enquiry, MGL and its ultimate beneficial owner are third parties independent of the Group and connected persons (as defined under the Listing Rules) of the Group.

Condition for the Memorandum to Come to Effect

The Memorandum will come to effect after the Shareholders granting approval and confirmation in EGM, as well as the Shareholder authorizing the Board to implement the terms and conditions of the Memorandum.

Principal Terms of the Memorandum

GSL and MGL entered into agreements and memorandum respectively on 16 May 2016, 23 May 2016 and 3 August 2016 in relation to the purchase of large flake graphite ore in Madagascar. MGL agreed a long-term exclusive supply of large flake graphite ore to GSL. In return, GSL shall pay the purchase price in a manner of purchase deposit, which aggregates US\$432 million.

Both parties entered into a supplementary Memorandum with principal terms as follows:

1. Both GSL and MGL agreed the large flake graphite ore that GSL purchases from MGL is consumable production material. The main purpose that GSL purchases graphite ore is for its self-consumption or resell. The purchased graphite ore will not be kept on GSL's book as inventory or possessed as an asset, except for a short period. In this connection, the principle for purchasing graphite ore is "Rolling Purchase": the quantity depends on the self-consumption by GSL' production lines and the purchase orders from its customers. MGL guarantees to supply such quantity of graphite ore requested by GSL, but GSL will not be restrained by minimum order quantity.
2. MGL reiterated that in order to meet the demand from GSL, MGL will increase production quantity and reduce costs. The Deposit made by GSL to MGL is the

prerequisite for MGL' supply of graphite ore to GSL under the agreements.

3. GSL reiterated that the Deposit made by GSL is a "Rolling Deposit Payment". GSL will consume or resell the graphite ore, at the same time GSL will pay the Deposit to MGL out of the revenue from selling of graphite ore or graphite products to ensure that MGL will supply in a timely manner. MGL also agreed to accept GSL customers' receivable of as part of the Deposit.
4. The Deposit paid by GSL to MGL changed from a period of 3-year to a period of 10-year. The total sum of the Deposit aggregates US\$432 million. To avoid any misunderstanding, the aggregate amount of the Deposit includes the total sum of the "Rolling Deposit Payment" from the reselling of graphite ore by GSL. That is the principle mentioned in the aforesaid point number 3.
5. MGL will issue invoice to GSL after each delivery of graphite ore, the amount will be deducted from the Deposit. The Deposit before deduction will be charged at an annual interest rate of 2% that MGL agreed to pay GSL. When 72 million tons graphite ore are delivered from MGS to GSL, the Deposit becomes zero. At that time GSL will not pay any deposit to MGL, instead GSL pays within 60 days after each delivery.
6. Both GSL and MGL agreed to change from exclusive supply of large flake graphite ore from MGL to GSL to priority supply. MGL undertook that before 80 million tons of graphite ore to GSL is completed, it will not supply to other customers. And MGL agreed to make referral to GSL of their customers who request to purchase graphite ore.
7. MGL undertook that MGL and any of their associates shall not hold in any shape or form of any kind of shareholding of the Company.
8. The Memorandum shall supersede any terms of the agreements and memorandum entered into between GSL and MGL which is contradictory to the Memorandum. Other terms remain unchanged.

Reasoning for Entering into the Memorandum

The Board is of the view that high grade large flake graphite ore in Madagascar is a very good business opportunity for the Company. Since the Nobel Prize awarded to the scientists who performed the first experiments on graphene (which is the thinnest among the known materials with extraordinary high conductivity of heat and electricity), there is a great demand for graphite as a kind of strategic industrial material in recent years. Graphite is named one of 14 critical materials along with the rare earth elements. Graphite is used extensively in aeronautics, iron and steel industry, automobile, electric motors, batteries, lubricants, etc. It is estimated that there will be an increasing great demand for graphite.

After weighing the risks, the expected profit and the prospect, the Company believes that co-operation with MGL enable the Company to obtain long term supply of high grade large flake graphite ore at a low price. The key of the Memorandum is the “Rolling Purchase” and the “Rolling Deposit Payment”; it appears that the amount of the Deposit is large, in practice it consists of the receivable from the Company’s customers now and in the future, that means the Company is able to carry out sizable trading with limited capital. It is in the interest of the Company and the Shareholders as a whole.

EGM

The purchase of large flake graphite ore in Madagascar involves large amount of fund, the Board decided to convene an EGM to seek approval from the Shareholders. A circular containing details the Memorandum together with an EGM notice will be dispatched to the Shareholders (who elected to receive printed copies) and published on the website of the Stock Exchange (www.hkex.com.hk) as well as the Company’s website (www.southseapetro.com.hk) 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 graphite in Indonesia and China, and provides electronics manufacturing services in United Kingdom, as well as develops of cultural industry business and multi-media production.

DEFINITIONS

“Board” or “Directors”	the board of directors of the Company
“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
“Deposit”	the deposit to be paid by GSL to MGL for the purchase of large graphite ore in Madagascar which aggregates US\$432 million
“EGM”	an extraordinary general meeting to be held to seek the Shareholders’ approval to the Memorandum
“Group”	the Company and its subsidiaries
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Memorandum”	the memorandum entered into between GSL and MGL on 5 September 2016

“Shareholder(s)” holder(s) of the existing shares of the Company

“Stock Exchange” the Stock Exchange of Hong Kong Limited

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

Hong Kong, 5 September 2016

As at the date of this announcement, the board of directors comprises of Mr. Feng Zhong Yun and Ms. Zhang Xue being executive directors; Mr. Han Zhi Jun, Mr. Lu Ren Jie, Mr. Chai Woon Chew and Mr. Ng Lai Po being independent non-executive directors.