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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)

**CLARIFICATION ANNOUNCEMENT
DISCLOSEABLE TRANSACTION**

Reference is made to the announcement dated 12 May 2016 in relation to the formation of a new graphite company.

Formation of a New Graphite Company

On 12 May 2016 GSL, a wholly owned subsidiary of the Company, and MGL and entered into the Agreement to establish a new company for producing graphite products. GSL will be holding 15% of the new company while MGL will be holding 85%.

Listing Rules Implication

As the applicable percentage ratios for the Transaction exceed 5% but are less than 25%, the formation of a new company constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

Reference is made to the announcement dated 12 May 2016 in relation to the formation of a new graphite company (the “Transaction”).

FORMATION OF A NEW GRAPHITE COMPANY

The board of directors (the “Board/ Directors”) of South Sea Petroleum Holdings Limited (the “Company”) is pleased to announce that on 12 May 2016, MGL and GSL, a wholly owned subsidiary of the Company, entered into a cooperation agreement (the “Agreement”) to establish a new company for producing graphite products.

The Agreement

Date

12 May 2016

Parties

1. Global Select Limited (“GSL”), a wholly-owned subsidiary of the Company; and
2. Madagascar Graphite Limited (“MGL”), a company which principally engaged in investment, mining and energy.

(together, the “Parties”)

To the best of the Directors’ knowledge, information and belief, having made all reasonable enquiries, MGL and its ultimate beneficial owner are third parties independent of the Company and its connected persons (as defined under the Listing Rules).

Principal terms of the Agreement

1. Capital

The paid up capital of the new company shall be US\$40,000,000. MGL shall invest US\$34,000,000 which represents 85% shareholding in the new company, and GLS shall invest US\$6,000,000 which represents 15% shareholding. The capital amount of US\$40,000,000 was determined by MGL based on actual needs. After inquiring the Company’s intention, the Company wishes to invest US\$6,000,000 in the new company. The Parties agreed and entered into the Agreement.

2. Principal Business

The business of the new company shall be exploration, development, producing and marketing of large flake graphite products in Madagascar.

3. Responsibilities of the Parties

MGL is responsible for sufficient supply of graphite ore to the new company; while GLS is responsible for technical knowhow of graphite production and global sales of graphite products.

REASON FOR FORMATION OF A NEW 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), in recent years, there is a great demand for graphite as a kind of strategic industrial material, similar to the rare earth products. 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.

MGL is the owner of large flake graphite mines in Madagascar. The results of

exploration and testing showed that the graphite mines is one of the largest large flake graphite mines in the world; the graphite explored from the area belongs to the world-class superior grade. The Company believes that the cooperation will uplift the Group's results and income.

GENERAL INFORMATION OF THE COMPANY

The Company, through its subsidiaries, is primarily engaged in the business of developing and producing crude oil in Indonesia, graphite minerals in China, provision of electronic manufacturing services in the United Kingdom, and development of cultural industrial business.

LISTING RULES IMPLICATION

As the applicable percentage ratios for the transaction exceed 5% but are less than 25%, the formation of a new company constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

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

Hong Kong, 13 May 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.