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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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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.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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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)**

**DISCLOSEABLE TRANSACTION**

**Establishment of a Joint Venture**

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## DEFINITIONS

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“China Resources Development”	China Resources Development Group Limited, a subsidiary 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
“Directors”	the board of directors of the Company
“Group”	the Company and its subsidiaries
“JV Agreement”	a joint venture agreement of 2 October 2007 entered into between China Resources Development and Mr. Song
“JVC”	a joint venture company to be established by China Resources Development and Mr. Song
“Latest Practicable Date”	8 October 2007
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Song”	Mr. Song Xiu Qiang, a party to the JV Agreement
“Shareholder(s)”	holder(s) of the existing shares of the Company
“Stock Exchange”	the Stock Exchange of Hong Kong Limited

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LETTER FROM THE BOARD

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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)**

*Executive Directors:*

Mr. Zhou Ling (*Chairman*)  
Ms. Lee Sin Pyung (*Managing Director*)  
Ms. Sit Mei

*Registered Office:*

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

*Independent Non-Executive Director:*

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

15 October 2007

*To the Shareholders*

Dear Sir or Madam,

**1. INTRODUCTION**

On 2 October 2007, the Directors announced that China Resources Development, a wholly owned subsidiary of the Company, had entered into a JV Agreement with the Mr. Song to set up a JVC to produce and sale of graphite products in Luobei County, Helongjiang Province, China. The purpose of this document is to give you information relating to the JV Agreement.

**2. THE JV AGREEMENT**

Date: 2 October 2007

Parties:

1. China Resources Development, a wholly owned subsidiary of the Company
2. Mr. Song Xiu Qiang

The Company confirms that, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, Mr. Song is a third party independent of the Company and its subsidiaries and connected person (as defined under the Listing Rules) of the Company.

**3. CONDITION PRECEDENT**

No long stop date is set as a condition precedent.

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## LETTER FROM THE BOARD

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### 4. THE JVC

Under the JV Agreement, China Resources Development will contribute US\$9,950,000 in cash for 83% of equity interest for the JVC, whereas Mr. Song will contribute US\$2,050,000 in cash for 17% of equity interest in the JVC. The cash contribution was determined by the estimated scale of operation of the JVC. It is estimated that US\$6,000,000 will be used in purchasing production equipment and industrial plant, another US\$6,000,000 will be used as cash flow. Therefore, the total cash injection will be US\$12,000,000. China Resources Development and Mr. Song will inject capital, share profits, assets and appoint the board of directors according to their shareholding in the JVC.

The JVC will be consolidated into the Company's financial statements as a subsidiary.

### 5. REASONS FOR ENTERING INTO THE JV AGREEMENT

Mr. Song has extensive experience and expertise in graphite business, and during the past years, he has established a broad sales and marketing channels for graphite and related products. The Directors (including independent non-executive directors) consider the terms of the JV Agreement are fair and reasonable and are on normal commercial terms, which are in the interests of the Company and its Shareholders as a whole.

### 6. FUNDING OF THE JVC

The Company, through China Resources Development, will contribute US\$9,950,000 to the JVC from its cash reserve. There is no other capital commitment in relation to the formation of the JVC. China Resources Development and Mr. Song will fulfill their cash commitment, whether partially or in a lump sum, within three months after signing of the JV Agreement.

The formation of the JVC will not affect the liability of the Group. Should the JVC will generate income in the future, there will be positive effect to the earnings and assets to the Group.

### 7. GENERAL

The principal activities of the Company are investment holding, and through its subsidiaries, the Company is currently operated in the following three principal business lines: (1) to develop, explore and produce crude oil in Indonesia and Philippines, (2) to provide electronics manufacturing services in the United Kingdom, and, to a lesser extent, (3) to explore and produce metallic, nonmetalliferous ores and their related products, particularly graphite at present, in China, and market and sell worldwide.

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

**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.

**DISCLOSURE OF INTERESTS****(a) Disclosure of Interests by the Directors**

- (i) As at the Latest Practicable Date, the interests of each of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or (b) which were required pursuant to Section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or (c) which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

*Directors' long position in Shares of the Company*

Name of Director	Number of Shares beneficially held and nature of interest		Total shareholding	Approximate Percentage to the issued share capital of the Company as at the Latest Practicable Date
	Directly beneficially owned	Through controlled corporation		
Mr. Zhou Ling	–	32,000,000	32,000,000	0.41%

*Note:* 32,000,000 Shares in the Company are held by Palmsville Equities, Inc., a company beneficially owned by Mr. Zhou Ling, the Chairman and executive director of the Company. Mr. Zhou is also a director of Palmsville Equities, Inc.

- (ii) save as disclosed herein, as at the Latest Practicable Date none of the Directors and the chief executive of the Company had any interest or short positions in the shares or underlying shares or interest in debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or

deemed to have under such provisions of the SFO) or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange;

- (iii) as at the Latest Practicable Date, none of the Directors had any interest or short positions in the shares or underlying shares which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO;
- (iv) as at the Latest Practicable Date, none of the Directors is materially interested in any contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Group; and
- (v) as at the Latest Practicable Date, none of the Directors had entered, or proposed to enter into a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

**(b) Disclosure of Interest by the Substantial Shareholders**

- (i) So far as known to the Directors and the chief executive of the Company, as at the Latest Practicable Date, the persons (other than the Directors or chief executive of the Company) having interests or short positions in the Shares and underlying Shares which were notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO were as follows:

*Shareholders' long position in the Shares*

Name of Shareholder	Number of Shares beneficially held and nature of interest		Total shareholding	Approximate Percentage to the issued share capital of the Company as at the Latest Practicable Date
	Directly beneficially owned	Through controlled corporation		
Palmsville Equities, Inc.	–	32,000,000	32,000,000	0.41%

*Note:* Palmsville Equities, Inc. is wholly and beneficially held by Mr. Zhou Ling, the Chairman and executive director of the Company. Mr. Zhou is also a director of Palmsville Equities, Inc.

- (ii) save as disclosed above, there was no person known to the Directors or the chief executive of the Company, other than the Directors or the chief executive of the Company, who, as at the Latest Practicable Date, had an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO; and

- (iii) as at the Latest Practicable Date, there was no person known to the Directors or the chief executive of the Company, other than the Directors or the chief executive of the Company, who, as at the Latest Practicable Date, was, directly or indirectly, interested in 10% or more of the nominal value of the issued share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group, or any options in respect of such capital.

### **DIRECTORS' INTERESTS IN COMPETING BUSINESS**

As at the Latest Practicable Date, none of the directors of the Company (including their respective associates) are considered to have interests in businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules.

### **LITIGATION**

Neither the Company nor any of its subsidiaries is engaged in any claim, litigation or arbitration of material importance and, so far as the Directors are aware, no claim, litigation or arbitration of material importance is pending or threatened against the Company or any of its subsidiaries.

### **GENERAL**

- (a) The registered office of the Company is Unit 6605, 66/F., The Center, 99 Queen's Road Central, Hong Kong.
- (b) The secretary of the Company is Ms. Lam Lee Yu, a qualified chartered secretary who is an associate member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators.
- (c) The qualified accountant of the Company is Mr. William Ho, a fellow of Hong Kong Institute of Certified Public Accountants.
- (d) The share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited located at 46/F., Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (e) The English text of this circular shall prevail over the Chinese text.