THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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.

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)

PROPOSAL INVOLVING
ACQUISITION OF CHENGDU AN XIAO MINING COMPANY LIMITED
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 August 2007 at 11:00 a.m. (the "Meeting") is set out on page 64 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, 46th Floor, 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.

25 July 2007

CONTENTS

"Acquisition"	the acquisition of the PRC company by the Mega Resources on 11 June 2007
"Acquisition Agreement"	the agreement dated 11 June 2007 entered into by and between Mega Resources and the Vendors to acquire 95% equity interest in the PRC 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
"EGM"	the extraordinary general meeting to be held on 8 August 2007 at 11:00 a.m. at Unit 1, G/F., The Center, 99 Queen's Road Central, Hong Kong
"Global Select"	Global Select Limited, a wholly owned subsidiary of the Company
"Group"	the Company and its subsidiaries
"Jiu Feng"	Jiu Feng Mining Company Limited (also named as Zenith Non-Ferrous Metal Corporation Limited), a PRC company, the original owner of the Mining Rights
"JVC"	a joint venture company
"Land"	the piece of land located at Sandawan of Panzhihua City, Szechuan, PRC (四川省攀枝花市三大灣區), consisting of 2.89 km^2
"Latest Practicable Date"	19 July 2007
"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange
"Mega Resources"	Mega Resources International Enterprises Limited, a joint venture company established in Hong Kong by Global Select and the Partner on 16 April 2007

"Mining Rights"	the exploration and mining rights with license no.5100000620272 issued by Land and Resources Bureau of Sezchuan Province, the PRC, including the exploration rights of copper, graphite, lead/zinc, sulphur and silver, at Sandawan of Panzhihua City, Szechuan, PRC (四川省攀枝花市三大灣區), consisting of 2.89 km^2
"Partner"	New Fortress Capital Limited, a company incorporated in the British Virgin Islands, and Hara Intelligence Systems Co. Limited, a company incorporated in Samoa
"PRC Company"	Chengdu An Xiao Mining Company Limited (成都安曉礦業有限公司), a company incorporated in the People's Republic of China
"RMB"	Renminbi (人民幣), the legal currency of the PRC
"Shareholder(s)"	holder(s) of the existing shares of the Company
"Stock Exchange"	the Stock Exchange of Hong Kong Limited
"Vendors"	Yin Xiao Jing and Yin An Quan

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. Sit Mei

Independent Non-Executive Directors:
Mr. Lu Ren Jie
Mr. Chai Woon Chew
Mr. Ho Choi Chiu

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

25 July 2007

To the Shareholders

Dear Sir or Madam,

PROPOSAL INVOLVING ACQUISITION OF CHENGDU AN XIAO MINING COMPANY LIMITED AND NOTICE OF EXTRAORDINARY GENERAL MEETING

1. INTRODUCTION

On 11 June 2007, Mega Resources and the Vendors entered into an Acquisition Agreement to acquire 95% equity interest in the PRC Company. The purpose of this circular is to give the Shareholders information relating to the Acquisition Agreement, and to give the notice of the EGM at which Shareholders' approval for the Acquisition Agreement is required.

2. THE ACQUISITION AGREEMENT

Date 11 June 2007

Parties Mega Resources and the Vendors

1. Mega Resources, a JVC set up by Global Select and the Partner;

2. The Vendors: Yin Xiao Jing and Yin An Quan

The Company confirms that, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendors and their respective associates are third parties independent of the Company and its subsidiaries and connected person (as defined under the Listing Rules) of the Company.

Assets acquired

Chengdu An Xiao Mining Company Limited

3. BACKGROUND

The PRC Company is a company established in the People's Republic of China in March of 2007 to conduct exploration, mining and exploitation of minerals on or under the Land located at Sandawan of Panzhihua City in Szechuan, the PRC (四川省攀枝花市三大灣區), consisting of 2.89 km^2, wherein mines of multi-minerals are found.

Before Acquisition, Yin An Quan and Yin Xiao Jing are respectively holding 80% and 20% equity interest in the PRC Company. In the Acquisition, Yin An Quan and Yin Xiao Jing will respectively sell 76% and 19%of the equity interest in the PRC Company to the JVC. After the Acquisition, Yin Xiao Jing and Yin An Quan will retain the remaining 5% interest in the PRC Company.

As at the Latest Practicable Date, the PRC Company has neither prepared any financial statements nor have any past record of minerals mined. The PRC Company does not hold any subsidiaries and/or associates. The PRC Company has entered into an agreement with the owner of the Mining Rights, Jiu Feng (which, including its beneficial owners and their respective associates, are not connected persons to the Company and connected persons of the Company as defined in the Listing Rules) to transfer the Mining Rights to the PRC Company within six months after the completion of the Acquisition. The PRC Company will be treated as a subsidiary of the Company when the Acquisition is completed.

According to the technical assessment reports prepared by SRK Consulting, a European based valuer, and BMI Appraisals dated 29 May 2007 and 8 June 2007 respectively, the mineral deposits and estimated tonnage found on or under the Land mainly include: copper (2,570,216 tons), graphite (90,376,000 tons), lead-zinc (67,685 tons), sulphur and silver. The gross sales revenue for the above minerals is estimated to be RMB18,496,041,400. After deducting the mining and operating costs, government fees, taxes and unforeseeable expenses, the net market value of the mineral deposits on or under the Land as at 30 April 2007 was RMB3,347,000,000. The results in the technical assessment reports do not serve as a profit forecast to the Shareholders and/or any investors. The consideration for the Acquisition did not determined by the results reflected in the technical assessment reports, but was determined by the value of the paid up capital, which is RMB1,000,000, of the PRC Company. The results of the technical assessment reports are intended to serve as a reference to the Directors and the Shareholders at the extraordinary general meeting.

The Company confirms that, to the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendors, the Partner (and their ultimate beneficial owner(s)) and the owner of the Mining Rights, and their respective associates are third parties independent of the Company and its subsidiaries and connected person (as defined under the Listing Rules) of the Company.

4. MINING RIGHTS OF THE LAND IN PANZHIHUA, SZECHUAN

The Mining Rights with license no.5100000620272 issued by Land and Resources Bureau of Szechuan Province, the PRC is valid from June 2006 to June 2008, including the exploration rights of copper, graphite, lead/zinc, sulphur and silver, at Sandawan of Panzhihua City, Szechuan, the PRC, consisting of 2.89 km^2 area (the "Mining Area"), was held by Jiu Feng. Under the Administration of Transfer of Exploration Rights and Mining Rights (《探礦權採礦權轉讓管理辦法》), both Jiu Feng and the PRC Company was eligible for the transfer. On 11 March 2007, Jiu Feng and the PRC Company entered into a Mining Rights Transfer Agreement, the transfer of the Mining Rights to the PRC Company was completed. Upon completion of the Acquisition, Mega Resources will obtain the Mining Rights which is held by the PRC Company.

Considering the technical know-how, geographical accessibility and labour cost, Mega Resources will contract out the exploitation work to local contractors.

Neither the Company (and/or any of its subsidiaries) or any third parties have made or notified any claims in relation to the Mining Rights.

5. CONDITIONS PRECEDENT

The Acquisition Agreement is conditional upon:

(a) the regulatory body of the PRC government approving the PRC Company be transferred to a sino-foreign equity joint venture;

(b) the regulatory body of the PRC government approving the transfer of the exploration and mining rights be transferred to the PRC Company;

(c) the Shareholders approving the Acquisition Agreement at the extraordinary general meeting.

6. CONSIDERATION AND FURTHER INVESTMENT

The consideration for the Acquisition did not determined by the results reflected in the technical assessment reports, but was determined by the value of the paid up capital, which is RMB1,000,000, of the PRC Company. Accordingly, HK$1,000,000 will be paid to the Vendors as consideration for 95% equity interest in the PRC Company, an additional HK$99,000,000 will be contributed to the PRC Company for Mining rights and costs of the Land and related expenses (of which HK$38,000,000 to be paid for the Mining Rights of the Lands, and the rest of HK$61,000,000 to be used for exploration).

The payment schedule is as follow:

(1) HK$10,000,000 (to be paid within 30 days after obtaining approval from the Shareholders at the extraordinary general meeting of the Acquisition Agreement)

(a)	HK$1,000,000	Consideration to be paid to the Vendors
(b)	HK$2,100,000	Preparation work for the transfer of the Mining Rights
(c)	HK$6,900,000	To be paid to Jiu Feng, the owner of the Mining Rights, as initial deposit

(2) HK$50,000,000 (to be paid after the transfer of the Mining Rights)

(a)	HK$31,100,000	To be paid to Jiu Feng for the transfer of the Mining Rights
(b)	HK$18,900,000	For further exploration

(3) HK$40,000,000 (to be paid before 30 June 2008) for further exploration

7. FUNDING OF THE ACQUISITION

HK$100,000,000 will be paid from the HK$100,000,000 registered capital of Mega Resources, which will be contributed from part of the US$200,000,000 convertible debentures as disclosed in the announcement of 4 June 2007.

The Company intents to commit HK$100,000,000 into the mining work of the Land, of which HK$41,100,000 will be used as consideration to the Vendors and Jiu Feng paid for the Acquisition and the Mining Rights, another HK$58,900,000 will be used for further exploration and exploitation.

In this stage, the mining work has not started in the Land, and the mines has not generated any income yet, it is estimated that by the end of 2008, there may be income generated from the mining of the Land, should the mining works under smooth progress.

In this stage, the Company does not have further plan to finance the mining works of the Land. However, when the mining of the Land generates income, that income will be used for further exploitation of the Land.

Except the HK$100,000,000 commitment from the issue of US$200,000,000 convertible debentures, the Acquisition does not have any negative effect on the liabilities of the Group. In the near future, the Company does not have any plan to borrow money from banks.

8 . FACTORS AFFECTING THE EXPLORATION BUSINESS

There are some factors that may affect the exploration business of the Land. The mining industry may cause severe environmental degradation. The frequent negative impacts of mining operations are energy and water consumption; air, water and land pollution; landscape alteration; soil erosion, destruction of river banks, health and safety problems. The government policies may vary in different level and be altered from time to time.

Regarding the prospect of the mining business, if the estimated conditions reported in the technical assessment report included in Appendix I in this circular can be realized, and the forgoing adverse factors do not appear, the Company expects there will be increase in profit and assets within 24 months after the issue of this circular.

9. REASONS FOR THE ACQUISITION AGREEMENT

As a consequence of the worldwide industrialization, long-term demand for natural minerals will remain strong, especially in PRC and in other developing countries. After reviewing the valuation reports prepared by SRK Consulting and BMI Appraisals, the Directors (including independent non-executive directors) consider the balance of risk and business opportunities, the terms of the Acquisition Agreement are fair and reasonable and are on normal commercial terms, and which are in the interests of the Company and its Shareholders as a whole. Therefore, the entering into the Acquisition Agreement will be beneficial to the Company and its Shareholders as a whole.

10. INFORMATION OF THE GROUP

The Group has two principal lines of business. The first line of business is to develop, explore and produce crude oil in Indonesia and the Philippines, and the second line of business is to provide electronic manufacturing services in the United Kingdom.

The Group owns two oilfields: Bula Block Oilfield in Indonesia, and Agusan-Davao Basin Oilfield in Davao, the Philippines. Bula Block Oilfield is operated by the Company's wholly owned subsidiary, Kalrez Petroleum (Seram) Limited, under Bula Petroleum Production Sharing Contract ("Bula PSC") that was entered into with BPMIGAS, Department of Petroleum of Indonesia, on 22 May 2000. The Bula PSC will be expired in 2019.

Agusan-Davao Basin Oilfield of the Group is operated by South Sea Petroleum (Philippines) Corp., a100% owned subsidiary of the Group. Under the service contract with the Department of Energy of the Republic of Philippines, the Group is granted a permission to exploit crude oil and natural gas in an area with approximately 7,478 square kilometers at Agusan-Davao Basin of the Philippines. The initial exploitation term is seven years. After that, there are 25 years of production term. The Group is currently conducting seismic survey and other preparation work on the oilfield.

Since 1994, the Group had operated the crude oil business at Limau Oilfield in Indonesia under an Enhance Oil Recovery Contract with Pertamina, the Indonesia state-owned petroleum giant. The EOR Contract expired on 31 December 2004. The Group is negotiating with Pertamina, the state-owned oil company of Indonesia, to renew the Contract or enter into a new contract for the oil production at this Limau Oilfield we previously operated. On 16 June 2007, a Strategic Alliance Agreement was entered into between Global Select Ltd, the wholly owned subsidiary of the Company, and Pertamina. Negotiation is still going on to materialize the cooperation.

Through Axiom Manufacturing Services Limited, the Group provides electronic manufacturing services to original equipment manufacturers of telecommunication equipment, computers and related products for business enterprises, video/audio/ entertainment products, industrial control equipment, testing and instrumentation products and medical devices.

For the year of 2006, the Group's electronics manufacturing services operations in UK has continued to make progress with both revenues and operating profits showing an increase on the previous year. Business in current market sectors continues to be strong while activities continue to develop opportunities within military and aerospace sectors – these have already led to approved supplier status with one major multinational defense contractor. We believe our business model in UK is suited to the contract electronics market place and that plans put in place for 2007 should result in further growth in revenues and profits over the next few years.

For the year ended 31 December 2006, the Group's turnover was US$41.94 million. The turnover from crude oil operation was around US$5.2 million, and US$36.68 million was from contract electronics manufacturing service. As at 31 December 2006, the total assets of the Group was US$76.79 million, of which US$42.01 million was from oil business, and US$25.10 million was from contract electronics manufacturing service.

The main activities of the Company is exploration and production of crude oil. Under the Listing Rules 18.07, the exploration for natural minerals is an extension to its existing activities. Pursuant to the Listing Rules 18.07(2), the Acquisition is conditional on approval by the Shareholders in general meeting.

11. EGM

There is set out on page 64 of this document a notice convening the EGM to be held on 9 August 2007 at Unit 1, G/F., The Center, 99 Queen's Road Central, Hong Kong, at which a resolution in respect of the Acquisition Agreement will be proposed to the Shareholders to consider and, if thought fit, approve. No Shareholders have a material interest in the Acquisition Agreement, therefore no Shareholders will be required to abstain from voting at the EGM.

12. PROCEDURES FOR DEMANDING A POLL BY SHAREHOLDERS

Pursuant to the articles of association of the Company, a poll may be demanded at any general meeting by:

(1) the chairman of the meeting; or

(2) at least five members present in person or by proxy and entitled to vote; or

(3) any member of members present in person or by proxy and representing in the aggregate not less than one tenth of the total voting rights of all members having the right to attend and vote at the meeting; or

(4) any member or members present in person or by proxy and holdings shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

A person entitled to more than one vote on a poll need not use all his votes or cast all the votes he uses in the same way.

13. RECOMMENDATION

The Directors are of the opinion that the Acquisition Agreement will serve as an extension of exiting businesses of the Company. Accordingly, the Directors recommend the Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM.

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

The purpose of this report is provide an independent technical assessment of the mineral assets proposed to be acquired for inclusion in a circular to be issued by South Sea. This report has been prepared in accordance with the Rules Governing the Listing of Securities (''Listing Rules'') of The Stock Exchange of Hong Kong Limited, in particular Chapter 18.

SRK Consulting China
B1408 Cofco Plaza
No.8 Jianguomennei Dajie
Dongcheng District
Beijing China 100005

Email: china@srk.cn
Website: www.srk.cn

Tel: 86 10 8512 0365/0375
Fax: 86 10 8512 0385

The Directors
South Sea Petroleum Holdings Limited,
Suite 6605, The Center,
99 Queen's Road Central,
Hong Kong.

June 26, 2007

Dear Sirs,

This report summarises the findings of an independent technical assessment of the mines and projects to be acquired by South Sea Petroleum Holdings Limited (the "Company"). The report has been prepared by SRK Consulting China Ltd. ("SRK"), located at B1408, COFCO Plaza, Beijing, China. The purpose of this Report is to provide an independent technical assessment of the Company's mineral assets for inclusion in a circular to be issued by the Company to its shareholders. This report has been prepared in accordance with the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited ("HKSE Listing Rules", in particular Chapter 18).

Zenith Non-Ferrous Metal Corporation Limited ("Zenith" or "Jiu Feng") owns and has interest in Sandawan Exploration Permit which hosts a Copper-Graphite deposit and Yinchangqing lead-zinc deposit in Pauzhihua, Sichuan, China (the "Project"). Chengdu Anxiao Mining Co. Ltd ("Anxiao") has contracted to acquire the Exploration Rights of the Mining Projects from Zenith. The Company has contracted to acquire 95% of the capital and equity rights of Anxiao.

Our report, which follows, documents the review completed by SRK to 31st May 2007.

Yours faithfully,
SRK Consulting China Ltd
Anson Xu *PhD MAusIMM*
Principal Geologist

EXECUTIVE SUMMARY

Summary of Principal Objectives

SRK's objective was to review all relevant technical aspects of the mines and processing plants to provide South Sea Petroleum Holdings Limited ("South Sea" or "the Company") with a clear understanding of the risks and opportunities associated with the mineral project proposed for acquisition by Chengdu Anxiao Mining Company Limited ("Anxiao") from Zenith Non-Ferrous Metal Corporation Limited ("Zenith" or "Jiufeng"). SRK was further required to provide an independent report which was to be provided to shareholders of the Company, and the Stock Exchange of Hong Kong Limited ("SEHK").

Outline of Work Program

The work program involved two phases:

Phase 1 – travel to Panzhihua, Sichuan Province, inspection of the mines and processing plants, interviews with the staff of Zenith, preparation of a draft report and return travel to Australia; and

Phase 2 – completion of a draft report, copying to the Company and Anxiao for review and then finalisation of the report.

Results

Overall

The Sandawan project is in its exploration stage. Previous mining activities and exploration programs including surface engineering, drilling and tunnelling provided preliminary definition of the Sandawan copper-graphite and Yinchangqing lead-zinc deposits. The Sandawan copper deposit was explored with several levels of tunnelling and cross-cuts at a spacing of 50m developed along exploration lines. A sampling program was conducted and a resource estimate has been prepared for the deposit based on assay results. Category 333 and 334 resources were certified by a government agent for the Sandawan copper deposits. There was no systematic sampling program for the graphite deposit. The Yinchangqing lead-zinc deposit was also the subject of surface exploration and tunnelling but the sampling and assaying was limited, satisfying only a category 334 resource estimate. SRK believes that both the copper and lead-zinc deposits, as well as the graphite deposit, have potential for extension of the defined ore bodies along strike and to depth. The permit area also has potential to host a platinum-copper-nickel deposit related to ultra-mafic or mafic intrusion. Further exploration programs are warranted. Metallurgical tests for recovering copper and sulphur from the Sandawan copper ores were conducted. The results indicate that the ores can be processed using a proposed closed circuit to produce saleable copper concentrate with a recovery of above 80%, and saleable sulphur concentrate by further processing the tailings.

Geology and Mineralogy

Sandawan Copper-Graphite Deposit

Mineralisation at Sandawan is located within a sequence of silicified and carbonated mica schists, and metasandstone with acid-intermediate volcanic rocks. The deposit is controlled by structures and has undergone deformation and alteration related to tectonic movement and magmatic intrusion of the primary sedimentary rocks. Fault and fold structures are well developed in the area, which also hosts a number of cross-cutting veins of greisen ranging in thickness from 0.2-1.5m. Mineralisation occurred as veinlets, veins and massive structures. The boundaries between mineralisation and host rocks are indistinct.

There are three ore zones defined, with an upper oxidised zone extending up to 45m from surface. Much of the oxidised material has been mined. The oxidised zone is defined as containing >30% oxidised minerals. The major ore minerals in the oxide zone include limonite, malachite cerussite and anglesite. The primary sulphide zone comprises pyrite, pyrrhotite, chalcopyrite, galena and sphalerite. The transitional zone comprises some mixed minerals in the oxide and primary zones.

The crystalline graphite orebody occurs in Proterozoic strata. At the tunnel PD1, the massive graphite occurrence approached 70m in thickness with 3.62-5.98% of fixed carbon. The maximum fixed carbon is 10%. The thicknesses of the other three crystalline graphite ore bodies are 14.01m, 9.35m, and 61.01m respectively, averaging 28.12m thickness. The maximum content of fixed carbon in the graphite ore deposits is 82.21%. The thickness weighted average grade of fixed carbon is 6.47%, associated with, on average, 0.13% of V_2O_5, minor Au, Cu and Platinum group elements (PGE).

Yinchangqing Lead-Zinc Deposit

The Yinchangqing Pb-Zn deposit is located in the northern portion of the Sandawan exploration area, having an area of 1.125Km^2. Similarly with the Sandawan Cu deposit, the ore bodies are developed along fracture zones subsidiary to regional structures. Mineralisation strikes northeast and dips steeply to the southeast, occurring in the contact zone between migmatitic granite and strongly silicified muscovite-biotite quartz monzonitic leptite or quartz veins. The mineralization shows a distinctive metal zonation with depth, i.e. 1710m-1590m is dominated by Pb-Zn and Cu mineralization.

The Yinchangqing ore bodies are steeply dipping lenses within the contact zones. One zone of mineralisation has been reported in the Yinchangqing deposit area. Three (level) adits with about 24m vertical spacing have intercepted the orebody.

The ore can be divided into two main types based on mineralogical composites: Pb-Zn ore and Cu-Fe-S ore. Pb-Zn ore occurs as single vein and multiple veins (F9), striking NE. The ore minerals include galena, sphalerite, chalcopyrite and pyrite. The gangue minerals include quartz, felspar, mica, chlorite, epidote, calcite and minor andalusite and hornblende. Cu-Fe-S ore occurs in muscovite-biotite schist, along faults striking NE15° direction which cross cuts Fault F9. The ore minerals include pyrite, chalcopyrite, pyrrhotite and minor sphalerite. The gangue minerals include quartz, felspar, mica, chlorite, epidote, calcite and minor andalusite garnet and hornblende. The ore is found predominantly with relict texture, and crystalloblastic, lepidoblastic, schistose and helicitic textures.

Resource and Reserve Estimates

Sandawan

Copper Deposit

Sample cut-off for Cu is 0.30%. Individual samples of less than 2m width are excluded from the resource (and not mined). Within this resource model, blocks with average grades less than 0.5% are not mined and are excluded from the resource reported by Zenith. No individual cut-offs for Co, Au and S are applied. Using the assays obtained in the sampling programs conducted between May 2005 and October 2006, a resource estimate has been made for the Sandawan copper deposit, as detailed in the table below.

Resources at Sandawan Deposit (2005)

Section	Category	Tonnage(t)	Cu Grade (%)	Cu Metal(t)
P1	333	611,108	0.761	4,650
P3	333	817,757	0.805	6,582
P5	333	472,357	0.755	3,566
Subtotal	333	1,901,222	0.78	14,798
P0	334	343,318	0.743	2,551
P7	334	162,677	0.484	787
P9	334	92,508	0.610	564
501	334	17,879	0.498	89
502	334	52,612	0.279	147
Subtotal	334	668,994	0.62	4,138
Total		2,570,216	0.737	18,936

Graphite Deposit

Zenith (2007) (documents published by Zenith in 2007) estimated the graphite resources based on channel samples from tunnels and surface trenches. The industrial parameters include the cut-off grade of 2.5% C_{fix}, minimum block grade is 3.0% C_{fix}, minimum mineable thickness of 2m and allowed band thickness of 1m. Following table summarises the graphite resources.

Resources at Sandawan Graphite Deposit (2007)

Category	Tonnage	C_{fix} (%)	C_{fix} (t)
332	5,529,000	5.426	300,000
333	37,358,000	6.692	2,500,000
334	47,489,000	6.692	3,178,000
Total	90,376,000	6.614	5,978,000

Yinchangqing Lead-zinc Deposit

Sample cut-off for Pb is 0.30%, Zn 0.5% and Cu 0.2%. Industrial cut-off for Pb is 1.0%, Zn 2.0% and Pb+Zn 3.0%. The current resource estimate for Yinchangqing deposit was based on a combination of surface sampling in trenches and sampling adits driven. The mined portion above RL1665m was excluded. Sampling was based on 25 adits with a spacing of 80-100m, with sampling at 60m interval along the lines. On the surface sampling was by trenches with a spacing of 60-80m with continuous channel samples of a minimum 1m with a maximum 1.6m. The samples were 10cm wide by 5cm deep. As a result of lower geological control for Yinchangqing deposit, only category 334 resource has been estimated as shown in following table.

Resources at Yinchangqing Deposit

			Contained Metals (t)			
Exploration Line	Category	Tonnage (t)	Pb+Zn	Cu	Ag (Kg)	S
P_{10}	334	6,556	1,238	6	79	
P_{12}	334	24,607	3,087	128	2,261	339
P_{14}	334	24,122	1,457	48	1,004	
P_{16}	334	12,400	837	18	114	6,994
Total	334	67,685	6,619	200	3,458	7,333

SRK notes that the Chinese resource classification is different from the Australian Joint Ore Reserves Committee ("JORC") Code. In general, Chinese category 333 may refer to Inferred resource of JORC, but there is no equivalent category of resource in JORC to Chinese Category 334. In the future the company should report the resources of lead and zinc separately, because the two metals have different marketing values.

Exploration Potential

Sandawan

Both Brigade and the Company have only explored the mineralized zone to a depth of about 170m. SRK regards the potential of the Sandawan deposit for mineralization to depth as significant, due to the nature of the mineralization, which occurs along faults. SRK recommends that Anxiao utilise both surface and underground drilling to accelerate the exploration of the Sandawan deposit. SRK notes that the graphite ore bodies can be as thick as 70m, as reported and observed. SRK recommends that more exploration should be done to upgrade the graphite resources.

Yinchangqing

SRK believes that extensions to the Yinchangqing deposit are possible both along strike and at depth. The Company and Anxiao should continue the exploration as planned. However, SRK recommends that the sampling and QA/QC issues be dealt with professionally to ensure a resource and reserve estimate which complies with international standards can be established. It is recommended that surface drilling and/or underground drilling be used to accelerate the exploration program.

Ore Processing Experiments

In 2006, Southwest Metallurgy & Geology Test Centre experimented on laboratory mineral dressing flowsheet for the ores of the Sandawan Copper deposit to determine the copper's beneficiability and the suitable flotation flowsheet to recover copper and sulphide comprehensively from the ores. Composite samples of three types of ores taken from the Sandawan deposit were used to conduct experiments which included, firstly, decarbonization, then flotation of copper, and then flotation of sulphur (sulphides) for floated copper's tailings. The mineral dressing experiments included flotation condition experiments, open circuit experiments and closed circuit experiments. A copper concentrate with 21.35% Cu was obtained after floating carbon firstly, then through one roughing, one scavenging, and four times concentrating operations. The recovery rate of copper was more than 80%. Simultaneously sulphur may be dressed from the floated copper's tailings, and a concentrate with sulphur grade of 25.26% was obtained.

SRK recommends more metallurgical tests be done for the ore dressing to recover copper and sulphur from the Sandawan deposit ores and that new tests should be conducted to determine the dressibility of graphite and lead-zinc ores found in the project area.

TABLE OF CONTENTS

LIST OF FIGURES

LIST OF TABLES

DISCLAIMER

The opinions expressed in this report have been based on the information supplied to SRK by the Company, Chengdu Anxiao Mining Company Limited and Zenith Non-Ferrous Metal Corporation Limited. The opinions in this report are provided in response to a specific request from South Sea Petroleum Holdings Limited to do so. SRK has exercised all due care in reviewing the supplied information. Whilst SRK has compared key supplied data with expected values, the accuracy of the results and conclusions from the review are entirely reliant on the accuracy and completeness of the supplied data. SRK does not accept responsibility for any errors or omissions in the supplied information and does not accept any consequential liability arising from commercial decisions or actions resulting from them.

1 INTRODUCTION

South Sea Petroleum Holdings Limited ("the Company", or "South Sea") has contracted to acquire 95% of the capital and equity rights of Chengdu Anxiao Mining Company Limited ("Anxiao"). Anxiao has acquired the Sandawan project which includes an exploration permit in which one copper-graphite deposit, and one lead-zinc polymetallic deposit have been discovered, located in Panzhihua, Sichuan Province, China ("the Projects"). The Company requires an independent report to be included in a circular to its shareholders, and Stock Exchange of Hong Kong Limited ("SEHK").

2 BACKGROUND AND BRIEF

2.1 Background of the Project

The Company commissioned SRK Consulting ("SRK") to review and report on an exploration project, currently owned and operated by Zenith, and contracted to be transferred to Anxiao.

2.2 Scope of Work

The scope of work included SRK visiting the project area in Panzhihua, Sichuan Province and the preparation of a report suitable for the Company.

3 OBJECTIVES AND WORK PROGRAM

3.1 Program Objectives

The objectives of the program were to complete the scope of work by reviewing the data available, participating in a site visit and providing Anxiao and the Company with both verbal feedback and a written report.

3.2 Purpose of the Report

The purpose of the SRK report is to provide an Independent Expert Report of the mineral assets of Projects. This report is to comply with the technical property information required under various securities laws and listing rules of the Stock Exchange of Hong Kong Limited and may be included in the circular to the shareholders of the Company.

3.3 Reporting Standard

This report has been prepared to the standard of and is considered by SRK to be, a Technical Assessment Report under the guidelines of the Valmin Code. The Valmin Code incorporates the Australian Joint Ore Reserves Committee ("JORC") Code for the reporting of Mineral Resources and Ore Reserves and is binding upon all AusIMM members.

This report is not a Valuation Report and does not express an opinion as to the value of mineral assets. Aspects reviewed in this report do include product prices, socio-political issues and environmental considerations, however SRK does not express an opinion regarding the specific value of the assets and tenements involved.

3.4 Work Program

The work program included the following:

- A review of data prior to departure from Beijing;
- Travel to Panzhihua, Sichuan Province and inspection of the assets during April 2007;
- Discussions with the operational and management staff of Zenith;
- Collection of data and documents;
- Return travel to Beijing and review of data;
- Preparation of a draft report;
- Provision of the draft report to the Company for comment; and
- Completion of the report

3.5 Project Team

SRK's team consists of experienced professionals for this project. The table below lists the personnel in the SRK team with their roles and their short biographies follow.

Name	Title/Discipline	Responsibility
Dr Anson Xu	Principal consultant/Project Valuation	Team leader, overall/chief editor, coordinator
Dr Bielin Shi	Principal consultant/Resource and geology	Geology, Resource
Dr Kewen Zeng	Associated consultant/Ore processing	Ore processing/smelter
Qingtang Yang	Senior Geologist/Geology	Geology, resources
Dr Peter Williams	Principal Geologist, Resources Estimates	Peer review and quality control

Dr Anson Xu, *PhD, MAusIMM,* is a principal consultant who specialises in exploration of mineral deposits. He has more than 20 years experience in exploration and development of various types of mineral deposits including copper-nickel sulfide deposits related to ultrabasic

rocks, tungsten and tin deposits, diamond deposits, and in particular, various types of gold deposits, vein-type, fracture-breccia zone type, alteration type, Carlin type. He was responsible for resource estimations for several diamond deposits, and review of resource estimations for several gold deposits. He recently completed several due diligence assessments for clients in China, including gold, silver, lead-zinc, iron, bauxite, and copper etc projects, and several technical review projects, as well as Canadian NI43-101 and HKSE IPO technical reports. Dr Anson is the project manager and the CP of the project.

Dr Bielin Shi, *PhD, MAusIMM, Member of Geostatistics Association of Australia,* is a Principal Consultant who specialises in geology and mineral resources. He has more than 26 years exploration geology and mining industry experience in economic geology, mining geology and applied geostatistics. Bielin has extensive prior experience in geology, variography and resource estimation for numerous metal ore projects. He provides consulting services applying specialised geostatistical techniques for mineral resource evaluation and has been involved in a wide variety of geological and geostatistical studies including gold, iron ore, tin-tungsten, copper, nickel-cobalt and platinum group metals ("PGM"). His work has also included reviews of resources for several gold copper and iron ore mines, providing clients with an assessment of confidence levels and identified opportunities for significant improvements. Dr Shi is responsible for the review of geology and resources, and Qualified Person for geology and mineral resources.

Dr Kewen Zeng, *PhD (Mineral processing),* is an associate of SRK and senior engineer of Beijing Institute of Mining and Metallurgical Studies. Dr Zeng has about 15 years experience in ore dressing and metallurgical experiments and studies. His experience includes ore dressing tests and studies on copper ores, such as Jiangxi Dexing copper deposit, Inner Mongolian copper deposit, lead-zinc, iron, gold and bauxite deposits. Dr Zeng is responsible for the site visit and for compiling the section of this report dealing with metallurgical assessment.

Qingtang Yang, *BEng (Geology),* is a Senior Geologist with SRK Consulting China, who has more than 30 years experience in geological and mineral exploration on non-metals, Au-Ag, and chemical minerals, including graphite. Mr Yang assisted Dr Shi in collecting information about and preparing the section of the report dealing with geology and mineral resources.

Peter Williams, *BSc (Geology), PhD, MAIG, FAICD,* has over 30 years mining industry experience, including 14 years consulting, and 8 years as Managing Director of SRK Consulting in Australia. His specialisation includes the areas of mineral exploration, structural geology and geology-geophysics-GIS integration with particular expertise in major deposit syntheses, major research projects. His special interests include the relationship of structures to mineral systems, particularly shear-hosted Au, stratiform base metals, nickel sulphides, epithermal Au, breccia-hosted Cu-Au skarn, porphyry-Cu, and alkali granite Sn-W environments. He has conducted major interpretation projects from aeromagnetic data for exploration targeting, and has worked in a range of geological terranes in Australia (specialising in the Yilgarn Craton and Mount Isa), West Africa, East Africa, Zimbabwe, Zambia, DRC, Indonesia, PNG, Vanuatu, Solomon Islands, Europe and China. Dr Williams is responsible for the peer review for this project ensuring the quality of the report.

3.6 Statement of SRK Independence

SRK is completely independent of the Company. Neither SRK nor any of the authors of this Report has any material, present or contingent, interest in the outcome of this report, nor have they any pecuniary or other interest that could be reasonably regarded as being capable of affecting their independence or that of SRK.

SRK has no prior association with the Company in regard to the mineral assets that are the subject of this Report. SRK has no beneficial interest in the outcome of the technical assessment being capable of affecting it independence.

SRK's fee for completing this Report is based on its normal professional daily rates plus reimbursement of incidental expenses. The payment of that professional fee is not contingent upon the outcome of the report.

3.7 Statement of SRK Experience and Qualification

The SRK group employs approximately 500 professionals internationally and has 25 permanently staffed offices in eight countries on six continents. SRK China has an office in Beijing with 12 staff. In Australia SRK has approximately 60 staff in four offices located at Perth, Sydney, Maitland and Brisbane. The SRK Group has a demonstrated track record in undertaking independent assessments of mineral resources and reserves, project evaluation, and audits, independent expert reports, feasibility study to bankable standard on behalf of exploration and mining companies and financial institutions world-wide. SRK China and SRK Australia together have provided Independent Expert Reports for the companies and The Stock Exchange of Hong Kong Limited as shown in the table below.

Company	Year	Nature of Transaction
Yanzhou Coal Limited	2000	Sale of Jining III coal mine by parent company to the listed operating company
Chalco (Aluminium Corporation of China)	2001	Listing on HKSE and New York Stock Exchange
Fujian Zijin Gold Mining Company	2004	Listing on HKSE
Lingbao Gold Limited	2005	Listing on HKSE
Yue Da Holdings Limited	2006	Acquisition of shareholding in mining projects
China Coal Energy Company Limited	2006	Listing on HKSE
Sino Gold Mining Limited	2007	Dual listing on HKSE

3.8 Warranties and Indemnities

As recommended by the VALMIN Code, Anxiao has provided SRK with an indemnity under which SRK is to be compensated for any liability and/or any additional work or expenditure resulting from any additional work required:

- which results from SRK's reliance on information provided by Anxiao or to Anxiao not providing material information; or

- which relates to any consequential extension workload through queries, questions or public hearings arising from this Report.

3.9 Forward-Looking Statements

Estimates of mineral resources, ore reserves and mine and processing plant production are inherently forward-looking statements which, being projections of future performance, will necessarily differ from the actual performance. The errors in such projections result from the inherent uncertainties in the interpretation of geologic data, in variations in the execution of mining and processing plans, in the ability to meet construction and production schedules due to many factors including weather, availability of necessary equipment and supplies, fluctuating prices and changes in regulations.

The possible sources of error in the forward-looking statements are addressed in more detail in the appropriate sections of this report. Also provided in the report are comments on the risks inherent in the different of the mining and processing operations.

3.10 Consents

SRK consents to this report being included, in full, in the Company's circular to shareholders, in the form and context in which technical assessment is provided and not for any other purpose.

4 INTRODUCTION

4.1 Location and Access

The location of the project owned by Zenith which was inspected by SRK is shown in Figure 4-1.

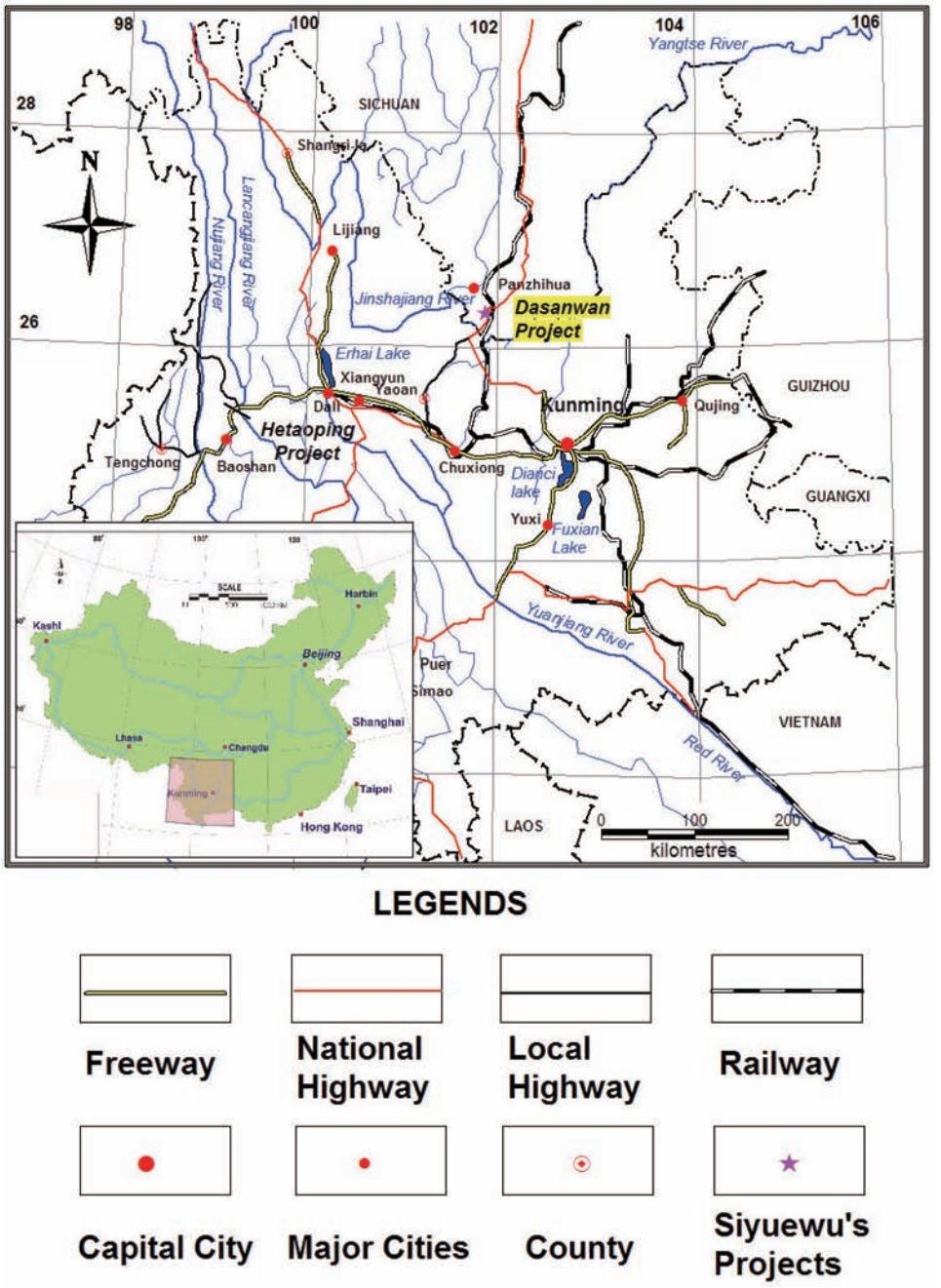

Figure 4-1: Location map, Panzhihua, Sichuan Province

General access to the region is excellent with vehicular access via a three-lane highway from Panzhihua via Datian Town to Wulamo Village and Yunluhe Village. A regional airport is available at Panzhihua City for rapid access for personnel. There are several flights between Panzhihua and Chengdu each day, and several daily flights between Chengdu and Beijing. The project area is close to Panzhihua City, a major iron and steel base in China. The Sandawan and Yinchangqing projects are within 90 minutes drive from Panzhihua. A freeway under construction between Panzhihua and Kunming passes close to the project area.

5 GEOLOGICAL AND MINERAL INVENTORY ASSESSMENT

The exploration area is located at the Southeast limb contact belt of Datian anticlinal axis in the south end of the Yanbian Platform arch, which is within the central part of Kangtian axis and west edge of the Yangzhi Platform. There are two main units of Proterozoic strata exposed in the exploration area, the Datian Formation (Pt_1d) and Hekou Formation (Pt_1h_1). Table 5-1 shows the distribution of the strata and relationships with mineralisation in the region.

Table 5-1: The distribution of the strata and relationships with mineralisation in the region

Group	Formation	Member	Number	Thickness (m)	Description of lithology	Mineralisation
Hekou Group (Pt)	Lower member of Hekou Formation	4	$Pt_1h_1^4$	>1000	Biotite (sericite) quartz schist; leptite; muscovite-biotite-quartz schist	
		3	$Pt_1h_1^3$	582-110	Muscovite-biotite-quartz schist with andalusite mica-quartz schist, tremolite schist	Au, graphite
		2	$Pt_1h_1^2$	345-1300	Carbon and pyrite bearing muscovite-biotite-quartz schist intercalated with muscovite-biotite-quartz schist	Cu (Au-Ag)
		1	$Pt_1h_1^1$	>1556	Biotite (muscovite-biotite) quartz schist intercalated with monzonitic leptite	
	Datian Formation	3	Pt_1d_3	>260	Plagioclase-Amphibolite; Plagioclase- amphibole leptynoite; Graphite mica-quartz schist	Graphite
		2	Pt_1d_2	464	Plagioclase-Amphibolite; Amphibole Plagioclase leptynite with granite gneiss	
		1	Pt_1d_1	4900-7400	Amphibole Plagioclase migmatitic gneiss with Plagioclase amphibolite etc	

The are two deposits of different type in the Panzhihua Sandawan area; the Sandawan copper-graphite (with Co, S, Au, Pt) mineral deposit and the Yinchangqing Pb-Zn polymetallic mineral deposit.

5.1 Sandawan

The main geological reports on the deposit were produced by the Yunnan No.1 Regional Geological Brigade and Yunnan Geological Brigade #3 (1960s, 1975-1977). In the 1980's, No. 603 Geological Brigade of Sichuan Metallurgical Bureau conducted gold exploration at the south side of the exploration area. Three gold mineralisation points were defined. In 1995, Panxi Geological Brigade completed studies on geological conditions for PGE mineralisation within the region. The exploration and reports were updated in October 2006 based on the previous work by the Sichuan Sanzhou Mining Co. Ltd., a wholly owned subsidiary of Zenith.

Mineralisation at Sandawan is located within a set of silicified and carbonated mica schists, and metasandstone with acid-intermediate volcanic rocks. The deposit is controlled by structures and has undergone deformation associated with recent tectonic movement and magmatic intrusion of the primary sediment rocks. Fault and fold structures are well developed in the area, as indicated by a number of cross-cutting veins of greisen ranging in thickness from 0.2-1.5m. Mineralisation occurred as veinlets, veins and massive structures. The boundaries between mineralisation and host rocks are indistinct.

The host rocks are metamorphosed to low to intermediate regional facies.

- Datian Formation has undergone stronger metamorphism to amphibolite-granulite facies. The lithology consists of plagioclase-amphibolite, plagioclase-amphibole leptynite, Graphitic mica-quartz schist; amphibole-plagioclase migmatitic gneiss with plagioclase amphibolite.

- Hekou Formation has undergone weaker metamorphism to greenschist-epidote-amphibolite facies. The lithology consists of biotite (sericite) quartz schist, muscovite-biotite-quartz schist with andalusite, mica-quartz schist, tremolite schist.

5.1.1 Orebody Geology – Sandawan

Two zones of mineralisation have been reported in the Sandawan deposit, here referred to as I and II ore bodies. Orebody (Vein) 501, 502, 503 and 504 were also delineated during the exploration.

The ore bodies are outlined by 5 exploration lines: P0, P1, P3, P5 and P7. The outcrop of Orebody I has been the main focus of previous mining activity. The western zone is wider than the eastern zone. The central part of Orebody I was investigated in detail by Sichuan Geological Brigade #4 (1993) and further work by the Company (2005) has helped define the current orebody geometry. The ore bodies occur in the Fa^3 fault zone. The footwall contact is a narrow breccia zone. The orebody extends over 200m in surface outcrop and extends down-dip at least 170m. The orebody dips between 80° SE and 85° SE along the strike length of the orebody. A typical cross section through Orebody I is shown in Figure 5-2. Orebody I is quite complex and there are several separate individual ore lenses that comprise the orebody. These are all in sub-parallel lenses and vary in size form 50m to 205m in strike and from 75m to 170m down dip. The range of Cu grades is 0.21-1.95%, with average of 0.87% Cu.

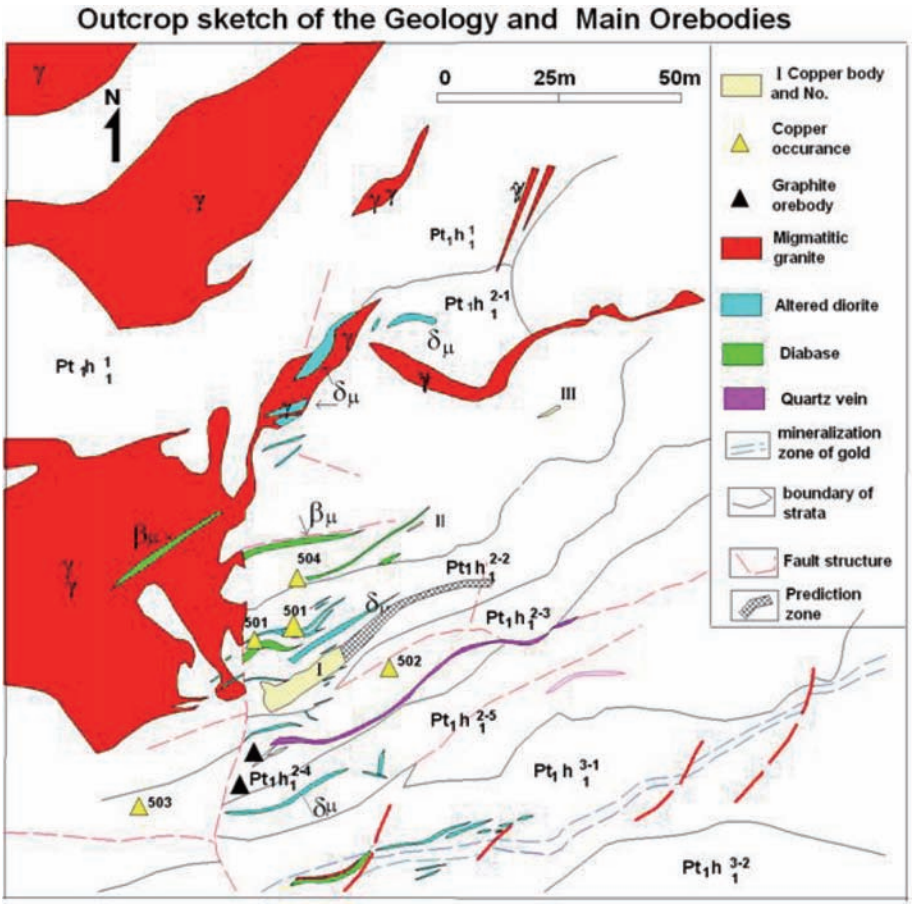

Figure 5-1: Sandawan: Outcrop sketch of the geology and location of the main ore bodies

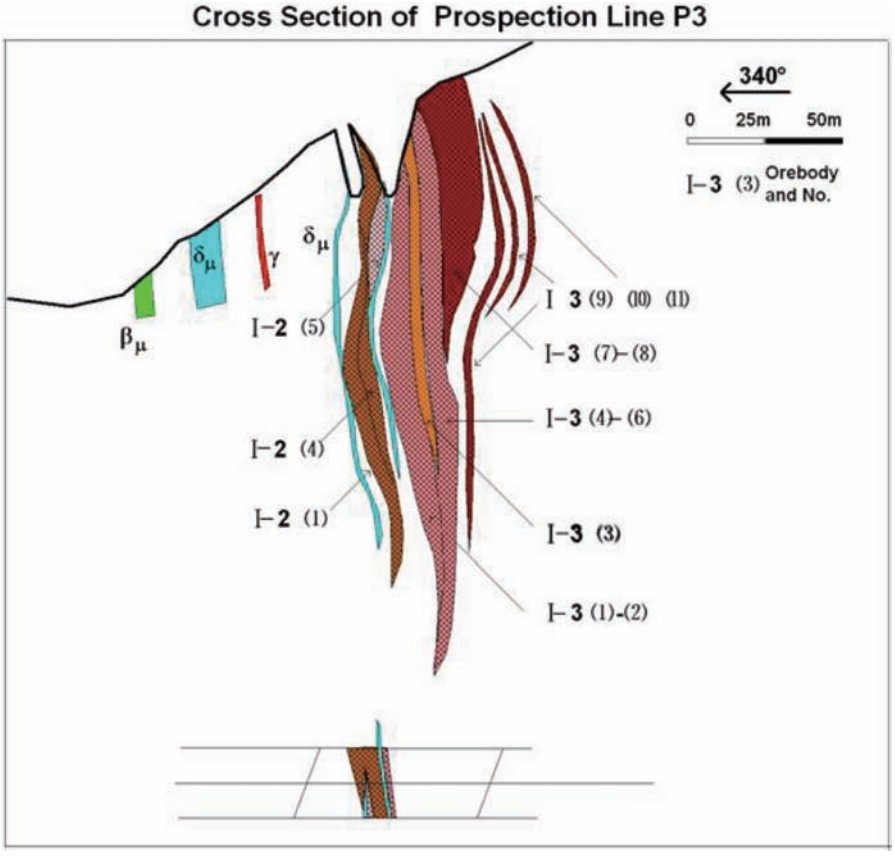

Figure 5-2: Cross-section through Orebody at Exploration Line P3

Orebody II is located north of Orebody I, revealed by two trenches and two pits. The surface expression extends for 170m along strike (Figure 5-1). Orebody II has an average dip of 80° southeast. Definition of its extent down dip requires further exploration. Orebody II is offset by a series of SW striking faults, with relatively small offset, but these do cause problems locating the offset ore bodies across the drives during mine development.

5.1.2 Mineralogy

There are three different ore zones. An upper oxidised zone extends up to 45m from surface (Figure 5-3). Much of the oxidised material has been mined. The oxidised zone is defined as containing greater than 30% oxidised minerals. The major ore minerals in the oxided zone include limonite, malachite cerussite and anglesite (Figure 5-4). The primary sulphide zone comprises pyrite, pyrrhotite, chalcopyrite, galena and sphalerite, etc (Figure 5-5). The transitional zone comprises some mixed minerals in the oxide and primary zones.

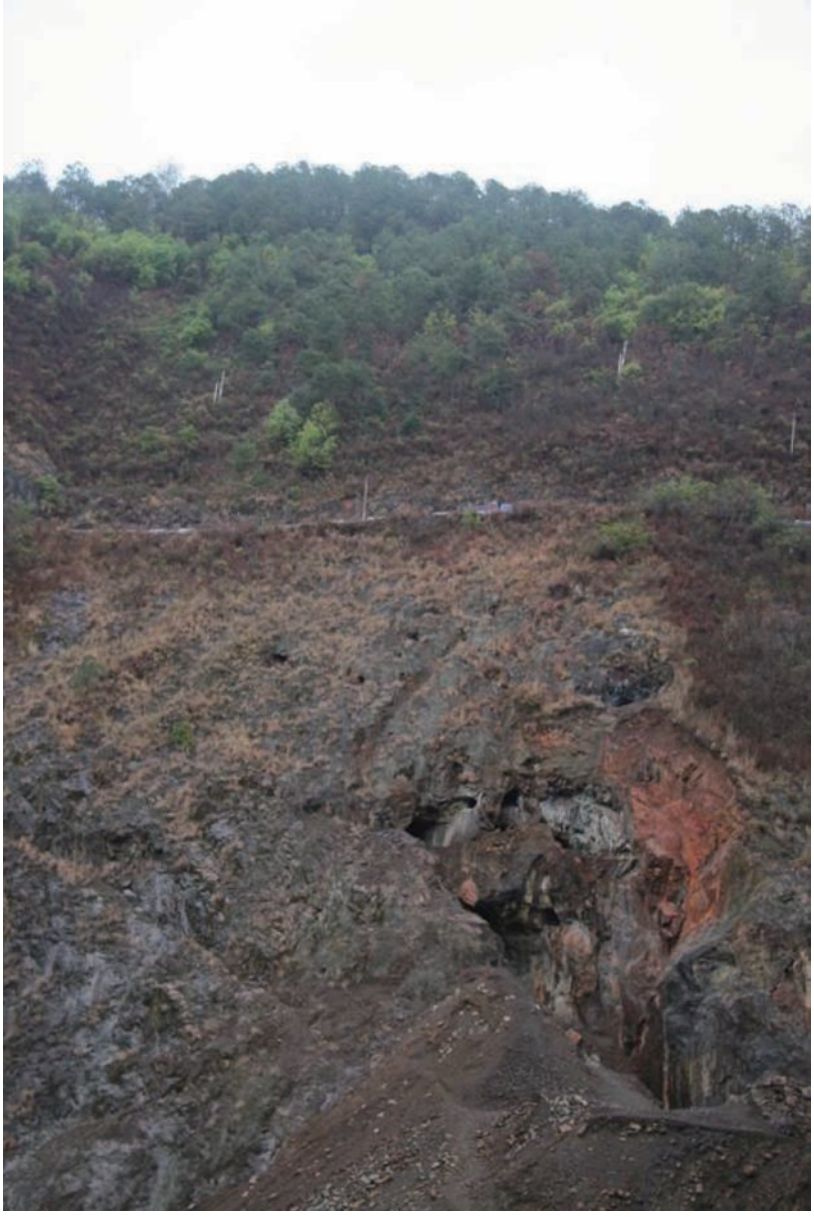

Figure 5-3: The upper zone of oxidization of Sandawan Copper deposit, looking to Northwest

Figure 5-4: The major ore minerals in oxide zone include limonite, malachite cerussite and anglesite

Figure 5-5: The original sulphide ore minerals include pyrite, pyrrhotite, chalcopyrite, galena and sphalerite

5.1.3 Crystalline Graphite Orebody

The crystalline graphite orebody occurs in strata of $Pt_1h_1^{2-3}$ formation outlined by exploration line P_4 and outcrop at S214 Highway cutting, basically in the footwall of the copper mineralised bodies. At tunnel PD_1, the massive graphite occurrence was up to 70m thick with 3.62-5.98% of fixed carbon, with the maximum fixed carbon up to 10% (Figure 5-6).

Figure 5-6: The crystalline graphite orebody exposure at Tunnel PD1, Sandawan Deposit

The thickness of other three outlined crystalline graphite ore bodies are 14.01m, 9.35m, and 61.01m respectively. The maximum fixed carbon content in the graphite ore deposit is 82.21%. The thickness weighted average grade of fixed carbon is 6.47%, associated with an average 0.13% of V_2O_5, minor Au, Cu and PGE. The exploration potential for graphite ore deposits is indicated by the fact that the graphite ore deposit extends to Laoxiongqing outside the licenced exploration area. A crystalline graphite orebody of 53m long occurs within an exploration tunnel at Laoxiongqing. Assays of samples show that the fixed carbon is 16.92%, associated with 0.25% of V_2O_5, Cu <0.01%, Au <0.01%. It is 3km from the outcrop from Yunlu River to Laoxiongqing, with 420m height difference. In general, the graphite orebody strikes NE 70°, with 85° dipping to SE. There is a good potential to find a large-scale graphite deposit in the region.

5.1.4 Sampling Analytical Procedures and Quality Control

Sichuan Zenith Ore Co. Ltd conducted exploration in the Sandawan area from May 2005 to October 2006. Surface and underground samples were taken by trenching at exploration line spacing 50m for Ore bodies I and II. Tunnelling of 927m adit was developed to explore Orebody I to a maximum depth of 170 m. Drilling of 426m was conducted to explore the depth extension of Orebody I; and 25 old underground tunnels were remapped and logged. Samples were taken from a channel 10cm (wide) x 5cm (deep) from both trenches and adits. The length of each sample ranges from 70cm to 1.5m averaging 1.0m. Chip samples were also taken from tunnels for semi-quantitative analysis.

The channel samples were analysed for Cu, Pb, Zn, Au, Ag and Co at the Analytical Centre of Southwest Metallurgy Geological Exploration Bureau in Chengdu. Internal check samples account for more than 10% of the samples. External check samples were analysed in the laboratory of E'mei Chinese Academy of Sciences in Chengdu. The overall qualification rate of the check samples was above 97%.

Since Zenith acquired the property in December 2004, the company has logged and developed 3 levels of old and new adits to explore Ore bodies I and II both laterally and at depth. Orebody I has been explored to a maximum of 170m. SRK has reviewed the new exploration work that is recorded primarily on maps stored at Sandawan. Sampling of the new tunnels was by channel samples and/or continuous chip samples.

SRK undertook a limited program of check sampling at Sandawan to provide additional confidence in the overall grade. Four samples were submitted to the Tianjin SGS laboratories for analysis. Table 5-2 gives the assaying results of the checking samples.

Table 5-2: Sandawan grab sample assays

Sample No.	Sample type	Cu (%)	Pb (%)	Zn (%)	Ag (ppm)	S (%)
PD1-2	ore	2.06	0	2.59	6.1	>10
YLH4	ore	1.4	0	0	3.1	>10
PD1-1	leptynite	0.007	0	0	3.1	>10
YLH4A	schist	0.007	0	0	2.7	>10

The results from the check audit assays indicate that the company estimates of ore grade (Table 5-3) could significantly smooth the grades among the portions with higher grades and lower grades. The company has treated separately high grade ore (Cu >1.0%) and lower grade ore (Cu <1.0%) and estimated higher grade ore about 221,687 tonnes at 1.67% Cu, occupying 8% of total estimated resource. Unfortunately there are insufficient analyses to be definitive, particularly near the cut-off grade, where a higher grade ore falls within the lower grade ores used for estimation.

5.1.5 Mineral Resources and Reserves

Cut-off grades – Sandawan Cu Deposit

Sample cut-off for Cu is 0.30%. Individual samples of < 2m width are excluded from the resource (and not mined). Within this resource model, blocks with average grades < 0.5% are not mined and are excluded from the resource stated by the company. There is no individual cut-off for Co, Au and S.

The cut-off for Fixed Carbon in crystalline graphite samples is 2.5%. Industrial cut-off is 3.0%; minimum mineable width is 1m and thickness of removing horsestone is 2m.

Method Used for the Estimate

The parallel cross-section method has been applied for resource estimation because drill holes and exploration adits and the lines are parallel to each other with 50m spacing. Parameters used are defined as following:

- Average grade in a complete intercept of an orebody: the grade was the average weighted by sample length;
- Section area was calculated by computer through section interpretation diagrams;
- Average section grade was average grade weighted by thickness;
- Block volume: different formulae have been used depending on the difference between areas in adjacent cross-sections (set S1 and S2 as the areas in two sections (S1>S2), V as volume, L as the distance between the sections):
    - V = L. (S1+S2)/2, when (S1-S2)/S1 is <40%
    - V = L. (S1+S2+(S1.S2)1/2)/3, when (S1-S2)/S1 is >40%
    - V = L.S1/2 or V = L.S1/3, when only one section has the area for wedge or conic shape, respectively;
- Average height of each section is 25m, which is the height between upper and lower adits;
- The length of the section is 50m;
- Extrapolation of the ore intersection: when one section intercepts the orebody and the adjacent section does not, extrapolation is for a maximum of 25m; when one section intercepts the orebody and there is no adjacent section, extrapolation is also for 25m; and
- Specific gravity: the data obtained from 65 samples has been used, 3.104 t/m^3 for the ore of copper grade <1%; 3.391 t/m^3 for the ore of copper grade >1%.

Defining and Connecting Ore Intersections

Where the average grade of a complete intercept of an aggregation of ore is greater than minimum industrial grade the samples with grades greater than or equal to the cut-off grade are defined as "ore bodies".

The method for connecting of the ore intersections within the sections is based on understanding the controls of ore deposition, i.e. the ore bodies occur in the footwalls of the F9 and F10 faults and are strictly controlled by those faults. The ore bodies become steeper closer to the faults. SRK regards the method used by Zenith to connect ore intersections at Sandawan deposits as geologically realistic based on current understanding of the relevant geology. Consequently extrapolation distances between ore intersections are reasonable.

Resources of Sandawan Cu Deposit

The current resource calculation for Sandawan deposit has been defined by exploration lines P_0, P_1, P_3, P_5, P_7 and P_9, and above 1600m between P_0 and P_1 lines and above 1630m between P_3, and P_5 lines. The resources calculated were based on a combination of surface sampling in trenches and sampling adits. Sampling was based on 25 adits with a spacing of 80-100m, with sampling at 60m sampling along the lines. On the surface sampling was by trenches with a spacing of 60-80m and continuous channel samples of, generally, approximately 1m length, with a maximum 1.6m. The samples were 10cm wide by 5cm deep.

This intensity of sampling results in a Chinese resource classification of class 333. The resource quoted was Class 333 and Class 334 as shown in Table 5-3 The class 334 is an extrapolation of the class 333, and where there is only a single sample defining the grade. The calculation method is polygonal, where grade was extrapolated 25% (Class 333) or 50% (Class 334) of the distance between a mineralised and an un-mineralised intersection.

Table 5-3: Resources at Sandawan Deposit

Section	Category	Tonnage(t)	Cu Grade (%)	Cu Metal(t)
P1	333	611,108	0.761	4,650
P3	333	817,757	0.805	6,582
P5	333	472,357	0.755	3,566
Subtotal	333	1,901,222	0.78	14,798
P0	334	343,318	0.743	2,551
P7	334	162,677	0.484	787
P9	334	92,508	0.610	564
501	334	17,879	0.498	89
502	334	52,612	0.279	147
Subtotal	334	668,994	0.62	4,138
Total		2,570,216	0.737	18,936

Resources of Sandawan Graphite Deposit

Zenith (2007) estimated the graphite resources based on the channel samples taken from tunnels and on the surface, and the results have been given in Table 5-4. Category 332 was defined by the samples from the surface and a tunnel which are about 200m apart; category 333 was based on samples from tunnels of about 400m apart, and category 334 was the extrapolation of 333 resource.

Table 5-4: Resources at Sandawan Graphite Deposit

Category	Tonnage	C_{fix} (%)	C_{fix} (t)
332	5,529,000	5.426	300,000
333	37,358,000	6.692	2,500,000
334	47,489,000	6.692	3,178,000
Total	90,376,000	6.614	5,978,000

Prior to 1999 China used a letter system to categorise reserves/resources. This has been replaced by a three number system. However, both Chinese systems use different criteria than those used in defining resources under the Australian Joint Ore Reserves Committee (JORC) code. Comparison of the Chinese and JORC systems is provided in Appendix 1. In general, Category 331 is similar to Measured, 332 to Indicated and 333 to Inferred classes. Category 334 usually can not be translated into a JORC resource class.

Based on the Chinese standard, some ore bodies at Sandawan delineated by the exploration tunnels may be categorized as Class 332. SRK obtained tunnel plan maps of several levels which contain average grades and width data. Although SRK did not verify each datum point, the examination and recalculation by SRK geologists showed that the method used by the mine and the values derived for 333+334 category resources are reasonable. Consistency with JORC classifications is immaterial due to absence of information about quality assurance and quality control in sampling and assaying.

5.1.6 Potential of Further Exploration

Neither Brigade nor Zenith have explored the mineralized area beyond a depth of about 170m. In SRK's view, the potential of mineralization to depth in the Sandawan deposit should be significant given to the nature of the mineralization, which occurs along faults. SRK recommends that the Company should utilise both surface and underground drilling to accelerate exploration of the Sandawan deposit.

5.2 Yinchangqing Pb-Zn Deposit

A brief geological report on the deposit was compiled by Sichuan Zenith Ore Co. Ltd. (October, 2006).

The Yinchangqing Pb-Zn deposit, 1.125Km^2 in area, is located in the north portion of Sandawan exploration area (Figure 5-1). There are large granite bodies in the region. Datian quartz diorite, which hosts the Pb-Zn-Cu deposit, occurs at the contact zone of granite and strata of $Pt_1h_1^1$. Similarly with the Sandawan Cu deposit, the ore bodies are developed along fracture zones subsidiary to regional structures. Mineralisation dips steeply to the southeast, occurring in the contact zone between migmatitic granite and strongly silicified muscovite-biotite quartz and monzonitic leptite or quartz veins. There mineralization shows a distinctive metal zonation with depth, i.e. 1710m-1590m is dominated by Pb-Zn and Cu mineralization occurs below the Pb-Zn mineralisation.

5.2.1 Orebody Geology – Yinchangqing

The Yinchangqing ore bodies are steeply dipping lenses within the contact zones, located in fault zones. One zone of mineralisation has been reported in the Yinchangqing deposit area. Three adits with approximately 24m vertical spacing have intercepted the orebody. On the upper level, the orebody has been traced for about 65m along strike. Its width varies from 3 to 7 m (Figure 5-7). The average grade of 21 samples is 7.96% Zn, 0.92% Pb, 0.27% Cu. On the lower level, the orebody has been traced for about 105m along strike. It varies in width from 3 to 10 m. The average grade of five samples is 6.97% Zn, 1.86% Pb, 0.20% Cu. Induced Polarisation survey results indicate that the ore deposit has a potential length of 400m at its north-eastern end. Figure 5-8 shows the section view of Yinchangqing orebody at Line P012.

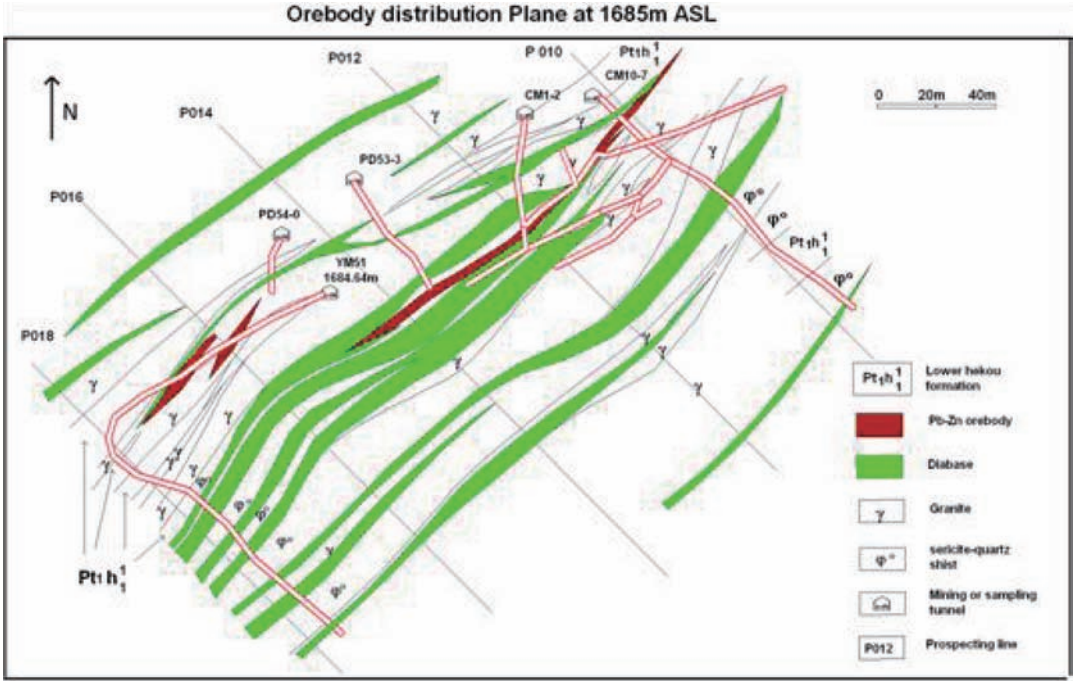

Figure 5-7: Composite Tunnel Level (1685m) Map, Yinchangqing

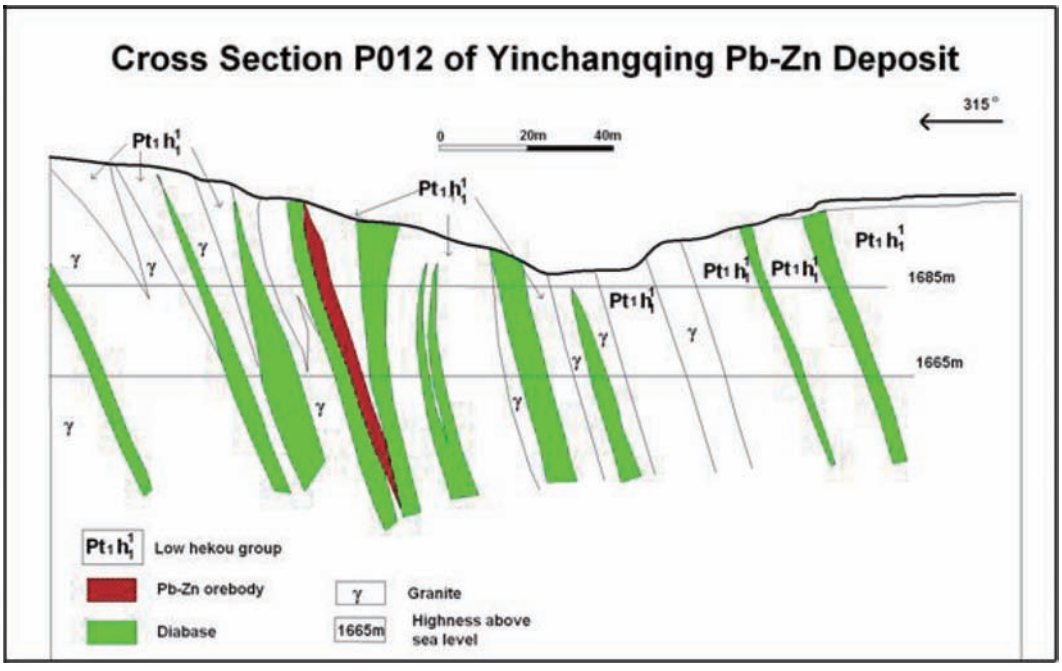

Figure 5-8: Cross section at Line P012, Yinchangqing

5.2.2 Mineralogy

The ore can be divided into two main types based on mineralogical composition: Pb-Zn ore and Cu-Fe-S ore.

Pb-Zn ore occurs as single vein and complex vein arrays along Fault F9, striking NE. The ore minerals include galena, sphalerite, chalcopyrite and pyrite. The gangue minerals include quartz, felspar, mica, chlorite, epidote, calcite and minor andalusite and hornblende.

Cu-Fe-S ore occurs in muscovite-biotite schist, along faults striking N15°E crosscutting Fault F9. The ore minerals include pyrite, chalcopyrite, pyrrhotite and minor sphalerite. The gangue minerals include quartz, felspar, mica, chlorite, epidote, calcite and minor andalusite garnet and hornblende. The ore is found mainly with relict texture, and crystalloblastic, lepidoblastic, schistose and helicitic textures.

There are also three ore types defined by vertical weathering zones, with an upper oxidised zone extending up to 15-20m from surface. The oxidised zone is defined as containing > 30% oxidised minerals. The major ore minerals in the oxidised zone include limonite, malachite, cerussite and anglesite (Figure 5-9). The primary sulphide zone comprises pyrite, pyrrhotite, chalcopyrite, galena and sphalerite, etc (Figure 5-10). The transitional zone is comprised of some mixed minerals of the oxide and primary zones. Much of the oxidised material has been mined.

Figure 5-9: The oxidization zone of ore deposit, Yinchangqing Pb-Zn deposit

Figure 5-10: The primary zone of orebody with massive and vein structures, Yinchangqing Pb-Zn deposit

5.2.3 Sampling, Analytical Procedures and Quality Control

The sampling and assaying procedures are similar to those described above for the Sandawan deposit.

SRK undertook a limited program of check sampling to provide additional confidence in the overall ore grade reported during the SRK site visit. Five samples from Yinchangqing were submitted to the Tianjin SGS laboratories for analysis. The assay checking results are shown in Table 5-5 below.

Table 5-5: Check audit samples, Yinchangqing

Sample	Sample type	Cu (%)	Pb (%)	Zn (%)	Ag (ppm)	S (%)
YLH1	ore	0.009	7.5	15.00	157	>10
YLH2	ore	0	20.59	8.87	66.7	>10
YLH3	ore	0.004	1.56	8.44	24	8.41
YLH5	schist	0.004	0	0	2.8	>10
YLH6	schist	0	0	0	<1	0.98

The check samples confirm high lead and zinc grades from the 1655 level at Yinchangqing and also suggest medium-high silver content in the Yinchangqing ore. The lead and zinc grades from the SRK samples are far in excess of the grades reported from the current exploration results and may indicate potential for a higher value resource than anticipated from the reported results.

5.2.4 Mineral Resources and Reserves

Sample cut-off for Pb is 0.30%, Zn 0.5% and Cu 0.2%. Industrial cut-off for Pb is 1.0%, Zn 2.0% and Pb+Zn 3.0%.

Based on the Chinese regulation on exploration for copper, lead, zinc, gold, silver, cobalt and molybdenum, the ore type at Yinchangqing is classified as a mixed lead ore. In these deposits, silver is considered as an accompanying element.

The current resource calculation for Yinchangqing deposit has been defined by exploration lines P_{10}, P_{12}, P_{14} and P_{16}. The resources calculated were based on a combination of surface sampling in trenches and sampling adits, and excluded the mined portion above RL1665m. Sampling was based on 25 adits with a spacing of 80-100m, with sampling at 60m interval along the lines. On the surface sampling was by trenches with a spacing of 60-80m with continuous channel samples of approximately 1m length with a maximum 1.6m. The samples were 10cm wide by 5cm deep.

Only category 334 resource has been estimated because of lower geological control for Yinchangqing deposit. The resource estimate results are listed in Table 5-6.

Table 5-6: Resources at Yinchangqing Deposit

Exploration Line	Category	Tonnage (t)	Contained Metals (t) Pb+Zn	Cu	Ag (Kg)	S
P_{10}	334	6,556	1,238	6	79	
P_{12}	334	24,607	3,087	128	2,261	339
P_{14}	334	24,122	1,457	48	1,004	
P_{16}	334	12,400	837	18	114	6,994
Total	334	67,685	6,619	200	3,458	7,333

As discussed previously in this report, there is no category of resource in JORC equivalent Chinese Category 334. In SRK's opinion, the 334 resource may be upgraded to category 333, because of the exploration tunnelling. In the future, the Company should report the resources of lead and zinc separately, because the two metals have different marketing values.

5.2.5 Potential of Further Exploration

SRK believes that extensions to the Yinchangqing deposit are possible both along strike and at depth. The Company should continue the exploration as planned. However, SRK recommends that the sampling and QA/QC issues be dealt with professionally to ensure that a resource and reserve estimate that complies with international standards is obtained. It is recommended that surface and/or underground drilling be used to accelerate the exploration program. Zenith has estimated the prospective resources (Class 334) of the extensions of the mineralization zones to north, south and at depth (170m extrapolation) within the exploration permit area. SRK regards the potential for mineralization to depth at Yinchangqing as significant.

5.3 Other Potential of the Sandawan Exploration Permit Area

In addition to the copper, lead-zinc and graphite, there is also potential to find a copper-nickel deposit related to ultra-mafic or mafic intrusion. An ultra-mafic or mafic intrusive rock body occurring partially within the Sandawan exploration permit area may have a potential to host mineralisation. It is quite common in the region that platinum-copper-nickel mineralization or deposits occur within the ultra-mafic or mafic intrusive rock bodies. Some geophysical survey done on the rock body implies that the rock body extends to the permitted area in depth. The company should explore the anomaly, and apply for additional exploration permit area if the initial exploration returns favourable results.

6 MINING ASSESSMENT

During the site visit, SRK noted that there had been some previous mining activities in the Sandawan exploration project. Small scale mining pits were widespread in the area, extracting ore from oxidized zone of the mineralization (Figure 6-1). The mining had also tracked the mineralized vein systems using tunnels. The mined areas are excluded from the resources reported above.

Exploration tunnels have been developing to explore the mineralized bodies in several levels. Generally, the cross-cuts are distributed along exploration lines at a spacing of 50m on the levels. The exploration tunnel is excavated to a width of 1.5m and a height of 1.7m, which is quite small, and must be enlarged for further mining.

Upon the success of further exploration programs, a feasibility study should be conducted to address issues related to develop the project, including mining, ore processing, geotechnical and hydrogeological issues, such as possible impact of the water reservoir to the mining.

Figure 6-1: A mining pit at Sandawan project area

7 METALLURGICAL AND PROCESSING ASSESSMENT

There is no current ore processing operation because the Sandawan project is still in its exploration phase. Ore dressing experiments for recovering copper and sulphur from the ores of the Sandawan copper deposits have been conducted at the Southwest Metallurgy & Geology Test Centre in Chengdu, Sichuan.

In 2006, Southwest Metallurgy & Geology Test Centre conducted laboratory experiments on a mineral dressing flowsheet for the ores of the Sandawan Copper deposit to determine the suitability of the copper ore for beneficiation and a suitable flotation flowsheet for comprehensive recovery of copper and sulphur from the ores. Three different natural types of ore samples with copper grades of 0.99%, 0.75% and 0.30% were taken from the deposit. Since the beneficiation characteristics of the three ore types are similar, a composite sample, based on ore sample length, with 0.65%Cu, was taken as representative and used for the experiment.

Copper and sulphur are the main useful elements of Sandawan ores. Copper is present as primary copper sulphide, and sulphur is present predominantly as pyrrhotite or pyrite. There are many fine grains of carbonaceous matter in gangue. As the native floatability of the carbonaceous matter is high it will affect the separation of this ore.

According to the floatability differences of the various ore minerals, the mineral dressing flow-sheet is determined as: firstly to decarbonize, and then to float copper, and then to float sulphur (sulphides) from floated copper tailings. The mineral dressing experiments include: flotation condition experiments, open circuit experiments and the closed circuit experiments.

The flotation condition experiments include: a grinding fineness experiment, a pulp pH condition experiment, a collector dosage experiment, a pulp density experiment, a flotation time experiment and so on.

Closed circuit experiments have been conducted using parameters determined by the condition experiments and the open circuit experiments. Figure 7-1 shows the results obtained in the Closed circuit Experiments' Flow-sheet and Figure 7-2 shows the Closed circuit Experiments' Mass Flow-sheet. Table 7-1 gives Closed circuit Experiments' Results, and Table 7-2 lists Products' Essential Compositional Analytical results.

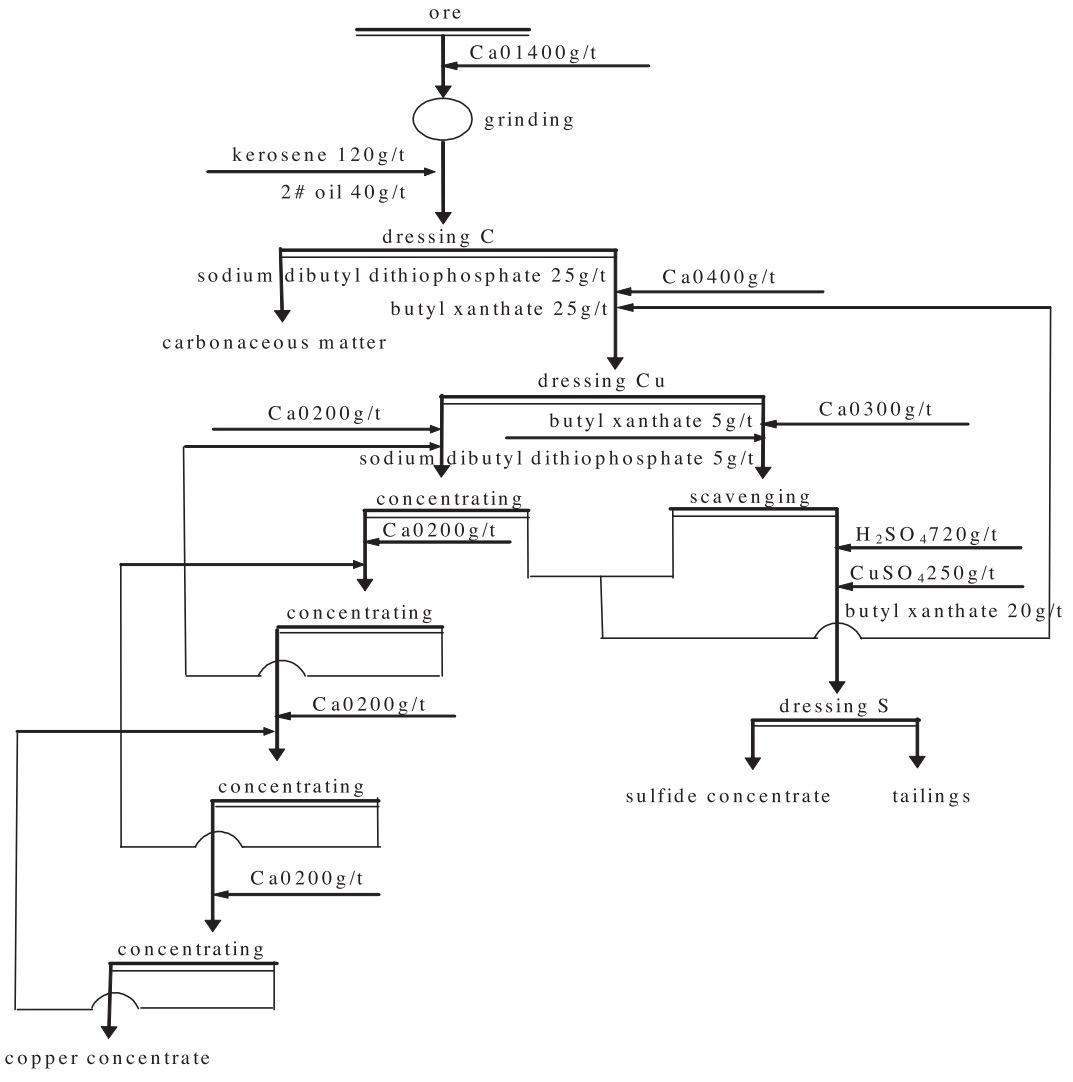

Figure 7-1: Closed circuit Experiments' Flowsheet

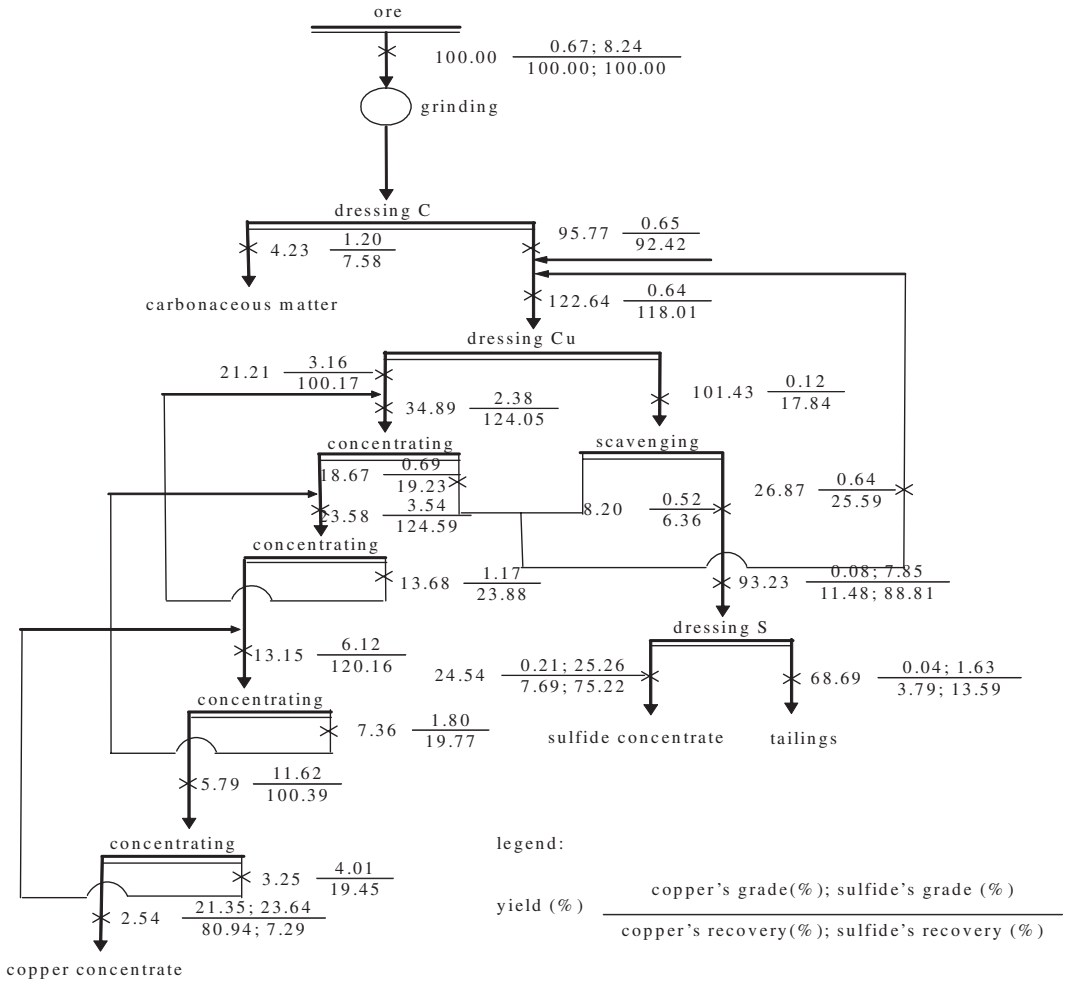

Figure 7-2: Closed circuit Experiments' Mass Flowsheet

Table 7-1: Experimental results from Closed circuit Experimental Flow-sheet

		Grade (%)		Recovery (%)	
Product	**Yield (%)**	**Cu**	**S**	**Cu**	**S**
Carbonaceous matter	4.23	1.2	7.6	7.58	3.9
Copper concentrate	2.54	21.35	23.64	80.94	7.29
Sulfide concentrate	24.54	0.21	25.26	7.69	75.22
Tailings	68.69	0.04	1.63	3.79	13.59
Total	100	0.67	8.24	100	100

Table 7-2: Essential Compositional Analytical Results of the Products in the Closed Circuit Experiments

Element		CaO	MgO	Al_2O_3	SiO_2	Cu	S	Au#	Ni
Content(%)	Copper concentrate	0.74	1.09	3.45	18.2	21.35	23.64	0.56	0.0071
	Sulfide concentrate	0.5	0.86	4.24	24.16	0.21	25.26		0.065
	Tailings	1.33	2.09	10.67	69.42	0.04	1.63		

Element		Ag#	Co	C	TFe	F	As#	Pb+Zn
Content(%)	Copper concentrate	30.5	0.0032	5.75	23.32	0.054	18.15	0.04
	Sulfide concentrate		0.037	1.29	41.1	0.033	21.05	<0.6
	Tailings			0.67	5.51			

 # in g/t

A copper concentrate with 21.35% Cu was obtained after firstly floating carbon, then through one roughing, one scavenging, and four times concentrating operations. The recovery rate of copper is more than 80%. Simultaneously sulphur may be dressed from the floated copper's tailings, and a concentrate with a sulphur grade 25.26% was obtained.

The flotation reagents selected for experiments, including lime, kerosene, 2# oil, butyl xanthate, sodium dibutyl dithiophosphate, copper sulfate etc. are widely used, and procedures for the safe handling of these reagents are well established in the mining industry.

The copper concentrate will reach the copper standard for smelting; the gold and the silver in the copper concentrates and the sulphur concentrates may be comprehensively recovered as valuable elements.

In SRK's opinion, the experimental plan was appropriate and these tentative data for dressing the copper ores from the Sandawan deposit are reliable. Consequently, they may be relevant to the mine development.

Access to the Sandawan Copper deposit is convenient because there is a freeway under construction that passes close by the exploration permit area. Supplies of water and electric power are sufficient. The mineral dressing plant may be built against the mountain according to the mountain geomorphology. There is a canyon with sufficient space under the mountain for tailings containment and storage. The mineral dressing reagents are widely used, and procedures for the safe handling of them are well established in the mining industry.

No test was conducted for dressing either the lead-zinc ores or the graphite discovered in the permit area. Tests for dressibility of lead-zinc and graphite should be conducted during further exploration programs. More experiments of dressing copper and sulphur should also be performed before the flowsheet can be put into production.

8 OTHER ISSUES

8.1 Governmental Approvals and Licenses

Bureau of Land and Resource of Sichuan Province granted an exploration permit to Sichuan Zenith Mining Co. Ltd. (Table 8-1) to explore the copper and platinum resource in the Sandawan area. The transfer of the permit to Anxiao is in progress.

Table 8-1: Sandawan Exploration Permit to be Transferred to Anxiao

Permit No.	**No. 5100000620272**
Owner	Sichuan Zenith Mining Co. Ltd.
Location	No. 27 Gulou North 4th Street, Qingyang District Chengdu, Sichuan, China
Name of the Project	General prospecting of copper-platinum mineral resource at Sandawan, Renhe District, Panzhihua, Sichuan Province
Location	Renhe District, Panzhihua, Sichuan Province
Map Sheet No.	047E011024
Mine Area	2.89 Km^2
Valid Period	From June 28, 2006 to June 28, 2008
Issued Date	June 28, 2006
Exploration unit	Sichuan Sanzhou Mining Co. Ltd.

9 CONCLUSIONS AND RECOMMENDATIONS

9.1 Conclusions

Geology and Resources

Previous mining activities and exploration working have discovered copper-graphite mineralization and lead-zinc deposits in the Sandawan exploration permit area. The Sandawan copper-graphite deposit has been explored by using surface engineering, drilling and tunnelling. The tunnelling has been developed in several levels, and cross-cuts on each level were also developed along exploration lines which are, basically, at a spacing of 50m. Channelling samples were systematically taken on the mining pits on the surface and in the tunnels. These samples and their assays were used to estimate mineral resources in the Sandawan deposit in the categories of 333 and 334 of the Chinese resource classification system.

Exploration was also conducted on Yinchangqing lead-zinc deposit, which also occurs in the exploration permit area, by using surface engineering and tunnelling. The sampling and assaying programs conducted to date satisfy a resource estimate in category 334.

SRK carried out a limited sampling program to check the overall grades of mineralization. The samples returned higher assays than expected, which may indicate a large potential to define some high grade ore bodies in the deposits.

The graphite mineralization has not been systematically sampled, but its potential should be large because it was observed on the site that, as had been reported, the layer of graphite is very thick, up to 70m.

In SRK's opinion, the project is still in its exploration stage. More exploration programs to define the extent of the discovered ore bodies and new ore bodies are warranted.

Ore Processing

In 2006, Southwest Metallurgy & Geology Test Centre did laboratory experiments on a mineral dressing flowsheet for the ores of the Sandawan Copper deposit to determine the copper's beneficiability and the suitable flotation flowsheet for comprehensive recovery of copper and sulphide from the ores. Composite samples of three types of ores taken from the Sandawan deposit were used to conduct experiments which included firstly decarbonization, then floatation of copper, and then floatation of sulphur (sulphides) for floated copper's tailings. The mineral dressing experiments included: flotation condition experiments, open circuit experiments and closed circuit experiments. A copper concentrate with 21.35% Cu was obtained by firstly floating carbon, then through one roughing, one scavenging, and four concentrating operations. The recovery rate of copper was more than 80%. Simultaneously sulphur was dressed from the floated copper's tailings and a concentrate with sulphur grade 25.26% was obtained.

9.2 Recommendations

Geology and Resources

SRK recommends additional exploration of the copper-graphite and the lead-zinc deposits to better define them and to assist future development and fundraising. SRK recommends that the Company utilise both surface and underground drilling to accelerate exploration of the Sandawan area.

SRK recommends that the sampling and QA/QC issues be dealt with professionally to ensure establishment of a resource and reserve estimate that complies with international standards.

SRK recommends that the geophysical anomaly interpreted as a response of an ultra-mafic or mafic intrusive rock body should be tested for potential to host a platinum-copper-nickel or other type of mineral deposit.

Ore Processing

SRK recommends more metallurgical tests be conducted for ore dressing to recover copper and sulphur from the Sandawan deposit ores and that new tests be conducted to determine the dressibility of graphite and lead-zinc ores found in the project area.

Upon the success of further exploration programs, a feasibility study should be conducted to address issues related to develop the project, including mining, ore processing, geotechnical and hydro-geological issues, such as possible impact of the water reservoir to the mining.

10 REFERENCES

Sichuan Zenith Mining Co. Ltd, 2006. *The Exploration Report on Sandawan Cu-Pb-Zn Polymetallic Mineral Deposits, Panzhihua City, Sichuan Province.*

Sichuan Zenith Mining Co. Ltd, 2007. *The Supplemental materials on Sandawan Graphite resources estimate, in Sandawan Polymetallic Mineral Deposits, Panzhihua City, Sichuan Province.*

Southwestern Metallurgic and Geological Test Centre, 2006. *Report on the ore dress experiments on Sandawan ores, Panzhihua.*

11 ABBREVIATIONS AND GLOSSARY

ABBREVIATIONS

Anxiao	Chengdu Anxiao Mining Co. Ltd.
Brigades	Refer to Yunnan No. 1 Regional Geological Brigade, Yunnan No. 3 Geological Brigade, Sichuan No. 608 Geological Brigade, and Sichuan Panxi Geological Brigade
IP	Induced polarization method, one kind of geophysical survey. In nature, the induced polarization (I.P.) effect is seen primarily with metallic sulphides, graphite, and clays. For this reason, I.P. surveys have been used extensively in mineral exploration.
IPO	Initial public offering of company shares
JORC	Australian Joint Ore Reserves Committee
PGE	Platinum group elements
PGM	Platinum group minerals
SEHK	Stock Exchange of Hong Kong Limited

SRK	SRK Consulting
The Company	South Sea Petroleum Holdings Limited
USBM	United States Bureau of Mines
USGS	United States Geological Survey
Zenith	Sichuan Zenith Non-Ferrous Metal Corporation Limited

GLOSSARY

acid-intermediate rocks	Magmas are grouped into compositional categories based on silica content: ultramafic (<45% silica), mafic (45-52% silica), intermediate (53-65% silica), and acid (>65% silica). Igneous rocks formed from each category of magma are called ultramafic rocks, mafic rocks, intermediate rocks and acid rocks.
adit	A horizontal or nearly horizontal passage driven from the surface. If driven through the hill or mountain to the surface on the opposite side, it would be a tunnel.
amphibole	A mineral group; characterized by double chains of silica tetrahedra having the composition A_{0-1} B_2 Y_5 Z_8 O_{22} (OH,F,Cl), where (A=Ca,Na,K,Pb,B), (B=Ca,Fe,Li,Mg,Mn,Na), (Y=Al,Cr,Fe,Mg,Mn,Ti), and (Z=Al,Be,Si,Ti)
amphibolite	A crystalloblastic rock consisting mainly of amphibole and plagioclase with little or no quartz. As the content of quartz increases, the rock grades into hornblende plagioclase gneiss.
andalusite	A silicate of aluminum built around independent tetrahedra, Al_2SiO_5. Characteristic of middle-grade metamorphism.
anglesite	An orthorhombic mineral, $4[PbSO_4]$; a minor ore of lead. Formerly called lead vitriol, lead spar.
beneficiability	Propensity for improving the grade by removing associated impurities.

biotite	"Black mica," ranging in color from dark brown to green. Rock-forming ferromagnesian silicate mineral with tetrahedra in sheets.
breccia	Clastic rock made up of angular fragments of such size that an appreciable percentage of rock volume consists of particles of granule size or larger.
calcite	A mineral composed of calcium carbonater, $CaCO_3$.
cerussite	An orthorhombic mineral, $4[PbCO_3]$; aragonite group; adamantine; sp gr, 6.55; in oxidized and carbonated parts of lead-ore veins; a source of lead. Syn: white ore; white lead ore; lead carbonate; lead spar.
chalcopyrite	A sulfide of copper and iron, $CuFeS_2$; sometimes called copper pyrite or yellow copper ore.
chlorite	Family of tetrahedral sheet silicates of iron, magnesium and aluminium; characteristic of low-grade metamorphism. Green color, with cleavage like mica except that chlorite smale scales are not elastic.
closed circuit	Retention and retreatment of ore in part of flow a line until it satisfies criteria for release. Used in comminution to reduce overgrinding by passing intermediate particles repeatedly through grinding systems, classifying the product and returning oversize. Used in concentration (e.g., rougher-scavenger-cleaner flotation) to retain a selected fraction of ore in circuit for retreatment (a middling), until it is either upgraded to rank as concentrate or sufficiently denuded of value to be rejected as tailing.
crystalloblastic	A crystalline texture owed to metamorphic recrystallization. A characteristic of this texture is that the essential constituents are simultaneous crystallizations and are not found in sequence, so that each may be found as inclusions in all the others.

dip	Acute angle that a rock surface makes with a horizontal plane. Direction of dip is always perpendicular to strike.
dressing	A general term for the processes of milling and concentration of ores.
epidote	Silicate of aluminum, calcium, and iron characteristic of low-grade metamorphism and associated with chlorite and albite in greenschist facies.
facies	Assemblage of mineral, rock or fossil features reflecting environment in which rock was formed.
fault	Surface of rock rupture along which has been differential movement.
feldspar	A monoclinic or triclinic mineral with the general formula $XZ_4\ O_8$ where (X= Ba,Ca,K,Na,NH_4) and (Z= Al,B,Si).
flotation	Process that begins concentration of ore minerals from gangue.
flowsheet	A diagram showing the progress of material through a preparation or treatment plant. It shows the crushing, screening, cleaning, or refining processes to which the material is subjected from the run-of-mine state to the clean and sized products.
galena	Lead sulphide, PbS. Principal ore of lead.
gangue	Commercially valueless material remaining after ore-mineral extraction from rock.
grade	The relative quantity or the percentage of ore-mineral or metal content in an orebody.
granite	Coarse-grained igneous rock dominated by light-colored minerals, consisting of about 50 percent orthoclase, 25 percent quartz, and balance of plagioclase feldspars and ferromagnesian silicates. Granites and granodiorites comprise 95% of all intrusive rocks.

granulite	Gneissic rocks produced by deep-seated high-grade regional metamorphism.
graphite	A hexagonal and trigonal mineral, native carbon 4[C] , polymorphous with chaoite, diamond, and lonsdaleite; scaly, soft, lustrous, metallic; greasy feel; as crystals, flakes, scales, laminae, or grains in veins or bedded masses or disseminations in carbonaceous metamorphic rocks; conducts electricity well, is soft and unctuous; immune to most acids; extremely refractory. Syn: plumbago; black lead.
greisen	A pneumatolytically altered granitic rock composed largely of quartz, mica, and topaz. The mica is usually muscovite or lepidolite. Tourmaline, fluorite, rutile, cassiterite, and wolframite are common accessory minerals.
helicitic	Pertaining to a metamorphic-rock texture consisting of bands of inclusions that indicate original bedding or schistosity of the parent rock and cut through later-formed crystals of the metamorphic rock. The relict inclusions commonly occur in porphyroblasts as curved and contorted strings.
hornblende	A rock-forming ferromagnesian silicate mineral with double chains of silicon-oxygen tetrahedral. An amphibole.
horsestone	Waste rocks bedded within ore body.
leptynolite	A fissile ore schistose variety of hornfels containing mica and feldspar, with or without accessaries such as andalusite and cordierite.
lepidoblastic	Pertaining to a flaky schistosity caused by an abundance of minerals like micas and chlorites with a general parallel arrangement.
leptite	The metamorphic rocks that have experienced high temperatures of metamorphism.

Leptynite (granulite)	Granulites are metamorphic rocks that have experienced high temperatures of metamorphism. They typically have a granular texture – that is, a texture comprised of similarly sized and shaped grains – and hence the name granulite.
limonite	Iron oxide with no fixed composition or atomic structure; a mineraloid. Always of secondary origin, not a true mineral.
Mafic	The term is a combination of "magnesium" and *ferrum*, the Latin word for iron [ma(gnesium) + f(errum) + ic]. Mafic minerals and rocks are silicate minerals, magmas, and volcanic and intrusive igneous rocks that have relatively high concentrations of the heavier elements.
magmatic	Pertaining to magma, the naturally occurring molten rock, generated within the Earth and capable of intrusion and extrusion, from which igneous rocks are derived through solidification and related processes.
malachite	A monoclinic mineral Cu_2CO_3; dimorphous with georgette; bright green; occurs with azurite in oxidized zones of copper deposits; a source of copper. Syn.: Atlas ore.
Metasandstone	Sandstone altered by incipient metamorphic reconstitution but not recrystallized and without the development of partings or preferred mineral orientation.
mica	A group of phyllosilicate minerals having the general composition, $X_2\ Y_{4-6}\ Z_8\ O_{20}$ (OH,F) where X=(Ba,Ca,Cs,H (sub 3) O,K,Na,NH_4), Y=(Al,Cr,Fe,Li,Mg,Mn,V,Zn), and Z=(Al,Be,Fe,Si); may be monoclinic, pseudohexagonal or pseudo-orthorhombic; soft; perfect basal (micaceous) cleavage yielding tough, elastic flakes and sheets; colorless, white, yellow, green, brown, or black; excellent electrical and thermal insulators (isinglass); common rock-forming minerals in igneous, metamorphic, and sedimentary rocks.

Migmatitic	Comprised of mixed rock produced by intimate interfingering of magma and invaded rock.
Monzonitic	
muscovite	"White mica." Nonferromagnesian rock-forming silicate mineral with tetrahedra arranged in sheets. Sometimes called potassic mica.
Open circuit	In mineral dressing, a flow line in which the solid particles pass from one appliance to the next without being screened, classified, or otherwise checked for quality and no fraction is returned for retreatment.
Plagioclase	A series of triclinic feldspars of general formula: (Na,Ca)Al(Si,Al) Si_2 O_6.
Pyrite	A sulphide mineral, iron sulphide, FeS_2.
Pyrrhotite	A mineral, iron sulphide, Fe(1-x)S (x = 0 to 0.2).
Quartz	A silicate mineral, SiO_2, composed exclusively of silicon-oxygen tetrahedra, with all oxygens joined in a three-dimensional network. Crystal form is six-sided prism tapering at end, with prism faces striated transversely. An important rock-forming mineral.
Relict texture	In mineral deposits, an original texture that remains after partial or total replacement.
Schist	Metamorphic rock dominated by fibrous or platy minerals. Has schistose cleavage and is product of regional metamorphism.
Schistose	Having the foliation in schist or other coarse-grained, crystalline rock due to the parallel, planar arrangement of mineral grains of the platy, prismatic, or ellipsoidal types, usually mica.
sedimentary	Formed by the deposition of sediment.

strike	The course or bearing of the outcrop of an inclined bed, vein, or fault plane on a level surface; the direction of a horizontal line perpendicular to the direction of the dip.
Tectonic	Associated with the regional assembly of structural or deformational features.
sericite	A white, fine-grained potassium mica occurring in small scales as an alteration product of various aluminosilicate minerals, having a silky luster, and found in various metamorphic rocks (esp. in schists and phyllites) or in the wall rocks, fault gouge, and vein fillings of many ore deposits. It is commonly muscovite or very close to muscovite in composition, but may also include paragonite and illite.
Sphalerite	A mineral; zinc sulphide; ZnS. Nearly always contains iron. Principal ore of zinc. Also known as zinc blende or blackjack.
Tremolite	A monoclinic mineral, $2[Ca_2\ Mg_5\ Si_8\ O_{22}\ (OH)_2]$; amphibole group with magnesium replaced by iron, and silicon by luminium toward actinolite; white to green; long-bladed or stout prismatic crystals; may show columnar, fibrous, or granular masses or compact aggregates; in low-grade metamorphic rocks such as dolomitic limestones and talc schists; the nephrite variety is the gemstone jade; the asbestiform variety is byssolite.
Ultra-mafic	Ultramafic (or ultrabasic) rocks are igneous and meta-igneous rocks with very low silica content (less than 45%), generally >18% MgO, high FeO, low potassium, and are composed of usually greater than 90% mafic minerals (dark colored, high magnesium and iron content).
VALMIN Code:	Code adopted by the Australasian Institute of Mining and Metallurgy and the Australian Institute of Geoscientists. The standard is binding upon all AusIMM and AIG members. The Valmin code incorporates the JORC Code for the reporting of Mineral Resources and Ore Reserves.

APPENDIX 1 – RESOURCE AND RESERVE STANDARDS

Categorisation of Mineral Resources and Ore Reserves

The system for the categorising mineral resources and ore reserves in China is in a period of transition that commenced in 1999. The traditional system, derived from the former Soviet system, uses five categories based on decreasing levels of geological confidence – Categories A, B, C, D and E. The new system (Rule 66) promulgated by the Ministry of Land and Resources ("MLR") in 1999 uses three-dimensional matrices, based on economic, feasibility/mine design and geological degrees of confidence. These are categorised by a three number code of the form "123". This new system is derived from the United Nations Framework Classification proposed for international use. All new projects in China must comply with the new system. However, estimates and feasibility studies carried out before 1999 will have used the old system.

Both the new and old systems are quoted in this report, because it is common for Chinese mining assets to be classified according to both systems. Wherever possible, the Chinese Resource and Reserve estimates have been reassigned by SRK to categories similar to those used by the JORC Code to standardize categorization. Although similar terms have been used, SRK does not mean to imply that in their present format they are necessarily classified as 'Mineral Resources' as defined by the Australasian Code for the Reporting of Exploration Results, Mineral Resources and Ore Reserves (the "JORC Code").

A broad comparison guide between the Chinese classification scheme and the JORC Code is presented in the following table.

JORC Code	**Chinese "Reserve" Category**	
Resource Category	**Previous system**	**Current system**
Measured	A	111, 111b, 121, 121b, 122, 122b,
	B	2M11, 2M21, 2M22, 2S21, 331
Indicated	C	2S11, 2S22, 332
Inferred	D	333
Non-equivalent	E	334

Relationship between JORC Code and the Chinese Reserves System

In China, the methods used to estimate the resources and reserves are generally prescribed by the relevant Government authority, and are based on the level of knowledge for that particular geological style of deposit. The parameters and computational methods prescribed by the relevant authority include cut-off grades, minimum thickness of mineralisation, maximum thickness of internal waste, and average minimum 'industrial' or 'economic' grades required. The resource classification categories are assigned largely on the basis of the spacing of sampling, trenching, underground tunnels and drill holes.

In the pre-1999 system, Category A generally included the highest level of detail possible, such as grade control information. However, the content of each category B, C & D may vary from deposit to deposit in China, and therefore must be carefully reviewed before assigning to an equivalent "JORC Code type" category. The traditional Categories B, C and D are broadly equivalent to the 'Measured', 'Indicated', and 'Inferred' categories that are provided by the JORC Code and USBM/USGS systems used widely elsewhere in the world. In the JORC Code system the 'Measured Resource' category has the most confidence and the 'Inferred' category has the least confidence, based on increasing levels of geological knowledge and continuity of mineralisation.

According to the new Chinese Category Scheme, as shown in the following table, the three numbers refer to economic, feasibility/mine design and geological degrees of confidence.

Definition of the new Chinese Resource Category Scheme

Category	Denoted	Comments
Economic	1	Full Feasibility Study considering economic factors has been conducted
	2	Pre-feasibility to scoping study which generally considers economic factors has been conducted
	3	No pre-feasibility or scoping study conducted to consider economic analysis
Feasibility	1	Further analysis of data collected in "2" by an external technical department
	2	More detailed feasibility work including more trenches, tunnels, drilling, detailed mapping etc
	3	Preliminary evaluation of feasibility with some mapping and trenches
Geologically controlled	1	Strong geological control
	2	Moderate geological control via closely-spaced data points (e.g. small-scale mapping)
	3	Minor work which projected throughout the area
	4	Review stage

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.

INFORMATION OF THE MANAGEMENT OF THE COMPANY

Zhou Ling (aged 57) was appointed as executive director and the Chairman of the Board of Directors of the Company since August 2003. Mr. Zhou also serves president of Fortune World Publishing Co., Ltd., and president of Shen-Shen Venture Capital Investment Co., Ltd. in China.

Lee Sin Pyung (aged 43) has been the Company's executive director and Managing Director since 2002. Prior to her joining the company, Ms. Lee had worked for a number of multi-international companies, and has experience and exposure to international business.

Sit Mei (aged 35) has been the Company's executive director since 2002. Ms. Sit graduated from Holmes College in Melbourne, Australia. She joined the Company in January 2001.

Lu Ren Jie (aged 72) has been an independent non-executive director of the Company since 1999 and he is a member of the audit committee. Mr. Lu has over 39 years experience in petroleum industry and had been responsible for many oilfield projects in China. He was an associate of the World Associate of Production Science and Chairman of Shengli Branch of Society of Petroleum Engineers. Mr. Lu is currently a part-time professor at Shanghai Communication University and Petroleum University.

Chai Woon Chew (aged 49) has been the Company's independent non-executive director since 2002. From 1994 to the present, Mr. Chai has been a partner at Michael Chai & Co., a law firm in Kuala Lumpur, Malaysia. From 1991 to 1994, he was a legal associate with Shook Lin & Bok, a law firm in Kuala Lumpur, Malaysia. Mr. Chai holds a Bachelor of Laws (Hons) degree from the University of Buckingham, and a Bachelor of Science (Hons) degree in Chemistry from University of Surrey, UK. Mr. Chai is qualified as Barrister at Law from Lincoln's Inn, England.

Ho Choi Chiu (aged 74) was elected as independent non-executive director of the Company in September 2004. Mr. Ho is a practicing Certified Public Accountant and a partner of C.C. Ho & Co., a public accountant firm in Hong Kong. Mr. Ho is a member of the Audit Committee of the Board of Directors of the Company.

Every director of the Company did not have any interest, direct or indirect, in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group within two years immediately preceding the issue of this circular.

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

	Number of Shares beneficially held and nature of interest			Approximate Percentage to the issued share capital of the Company as at the Latest
Name of Director	**Directly beneficially owned**	**Through controlled corporation**	**Total shareholding**	**Practicable Date**
Mr. Zhou Ling	–	32,000,000	32,000,000	0.57%

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 theLatest 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			Approximate Percentage to the issued share capital of the Company as at the Latest Practicable Date
	Directly beneficially owned	Through controlled corporation	Total shareholding	
Palmsville Equities, Inc.	–	32,000,000	32,000,000	0.57%

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.

EXPERT AND CONSENT

(i) The following are the qualifications of the experts who have given opinions and advice which are included in this circular:

Name	Qualification
SRK Consulting	Independent technical advisers

(ii) SRK Consulting does not have any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(iii) SRK Consulting has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of the references to its name and/or its opinion in the form and context in which they are included.

(iv) SRK Consulting did not have any interest, direct or indirect, in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group within two years immediately preceding the issue of this circular.

LITIGATION

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

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)

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 August 2007 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**:

the Acquisition Agreement dated 11 June 2007 is hereby approved, confirmed and ratified; and 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 Acquisition Agreement."

By Order of the board of directors
South Sea Petroleum Holdings Limited
Lam Lee Yu
Company Secretary

Hong Kong, 25 July 2007

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.