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

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred** all your shares in South Sea Petroleum Holdings Limited or both, you should at once hand this circular together with the enclosed form of proxy (for Shareholders only) to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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

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**SSP**  **南海石油**

**SOUTH SEA PETROLEUM HOLDINGS LIMITED**

**南海石油控股有限公司**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 076)**

**DISCLOSEABLE TRANSACTION**

**Establishment of a Joint Venture**

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7 August 2007

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## CONTENTS

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	<i>Page</i>
<b>Definitions</b> .....	1
 <b>Letter from the Board</b>	
1. Introduction .....	2
2. The JV Agreement .....	2
3. Condition Precedent .....	3
4. The JVC .....	3
5. Reasons for Entering into the JV Agreement .....	3
6. Funding of the JVC .....	3
7. General .....	3
 <b>Appendix – General Information</b> .....	 4

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## DEFINITIONS

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“CRDC”	China Resources Development Co-operation Holdings Limited, a company incorporated in the British Virgin Islands
“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
“Global Select”	Global Select Limited, a wholly owned subsidiary of the Company
“Group”	the Company and its subsidiaries
“JV Agreement”	a joint venture agreement of 25 July 2007 entered into between Global Select and CRDC
“JVC”	a joint venture company to be established by Global Select and CRDC
“Latest Practicable Date”	1 August 2007
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Shareholder(s)”	holder(s) of the existing shares of the Company
“Stock Exchange”	the Stock Exchange of Hong Kong Limited

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LETTER FROM THE BOARD

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**SOUTH SEA PETROLEUM HOLDINGS LIMITED**

南海石油控股有限公司

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 076)**

*Executive Directors:*

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

*Registered Office:*

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

*Independent Non-Executive Directors:*

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

7 August 2007

*To the Shareholders*

Dear Sir or Madam,

**1. INTRODUCTION**

On 25 July 2007, the Directors announced that the Company had entered into a JV Agreement with the CRDC to set up a joint venture company in Hong Kong. The purpose of this document is to give you information relating to the JV Agreement.

**2. THE JV AGREEMENT**

Date: 25 July 2007

Parties:

1. Global Select, a wholly owned subsidiary of the Company.
2. CRDC, a company with major business of investing in mining industry.

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

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## LETTER FROM THE BOARD

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### 3. CONDITION PRECEDENT

Global Select and CRDC shall contribute their fund in a lump sum within one month after the establishment of the JVC. No long stop date is set as a condition precedent.

### 4. THE JVC

Under the JV Agreement, Global Select will contribute US\$8,500,000 cash for 85% equity interest for the JVC, whereas CRDC will contribute US\$1,500,000 cash for 15% equity interest of the JVC. Global Select and CRDC will share their profits and appoint the board of directors according to their shareholding in the JVC. The JVC will be consolidated into the Company's financial statements as a subsidiary. In the future, upon wind up or liquidation of the JVC, the arrangement will be based on the Companies Ordinance of Hong Kong.

According to the administrative policy in the PRC, foreign companies participating in mining industry have to go through complicated registration procedures and submit a large number of documents. Setting up a JVC before there is any specific types of natural resources as target is a means to save time for the JVC to complete the registration procedure .

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

For China has a huge demand in natural resources for its rapid economic growth, the purpose of setting up the JVC is for business opportunities regarding natural resources which are of proven reserves or already in production inside China. In this stage, there is not any specific types of natural resources considered as target. CRDC also has expertise in the business of natural resources, and a good business network inside China.

Considering the shareholder of CRDC has been engaged in the mining industry, especially in graphite, for many years, and CRDC possesses not only the technical know-how of mining industry, but also knows well about the market condition in PRC and has a good business connection, the Directors (including independent non-executive directors) consider the terms of the JV Agreement are fair and reasonable and are on normal commercial terms, which are in the interests of the Company and its Shareholders as a whole.

### 6. FUNDING OF THE JVC

The Company, through Global Select, will contribute US\$8,500,000 to the JVC from its cash reserve. There is no other capital commitment in relation to the formation of the JVC.

Should the JVC generates income and/or acquires assets in the future, it will increase the earnings and assets of the Group. The US\$8,500,000 cash will be contributed from the cash reserve of the Company, the JVC will not affect the liabilities of the Group.

### 7. GENERAL

The principal activities of the Company are investment holding, and through its subsidiaries, the Company develops, explores and produces crude oil in Indonesia and Philippines, and provides electronics manufacturing services in the United Kingdom.

**RESPONSIBILITY STATEMENT**

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement contained herein misleading.

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

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

*Directors' long position in Shares of the Company*

Name of Director	Number of Shares beneficially held and nature of interest		Total shareholding	Approximate Percentage to the issued share capital of the Company as at the Latest Practicable Date
	Directly beneficially owned	Through controlled corporation		
Mr. Zhou Ling	–	32,000,000	32,000,000	0.48%

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

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

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

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

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

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

*Shareholders' long position in the Shares*

Name of Shareholder	Number of Shares beneficially held and nature of interest		Total shareholding	Approximate Percentage to the issued share capital of the Company as at the Latest Practicable Date
	Directly beneficially owned	Through corporation controlled		
Palmsville Equities, Inc.	–	32,000,000	32,000,000	0.48%

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

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

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

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

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

#### **LITIGATION**

Neither the Company nor any of its subsidiaries is engaged in any 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.