
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold all your shares in South Sea Petroleum Holdings Limited, you should at once hand this circular to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

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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)

DISCLOSEABLE TRANSACTION

**Acquisition of 65% equity interest in PT. Cahaya Batu Raja Blok
by Global Select Limited**

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	
1. Introduction	2
2. The Share Purchase Agreement	3
3. Information of PT. Cahaya Batu Raja Blok	5
4. Reasons for the Acquisition	5
5. General	6
Appendix – General Information	7

DEFINITIONS

“Acquisition”	the acquisition of 65% interest of PT. Cahaya Batu Raja Blok for US\$5,800,000 by Global Select Limited, a wholly owned subsidiary of the Company
“Agreement”	share purchase agreement entered into between Global Select Limited and the shareholders of PT. Cahaya Batu Raja Blok on 7 April 2005 to acquire 65% of the issued share capital of PT. Cahaya Batu Raja Blok
“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
“Board/Directors”	the board of directors of the Company
“Group”	the Company and its subsidiaries
“Latest Practicable Date”	3 May 2005
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Production Contract”	Production Sharing Contract entered into between PT. Cahaya Batu Raja Blok and the Department of Petroleum (BPMIGAS) of the Indonesian government for oil and natural gas exploration at Air Korming Block in Southern Sumatra, Indonesia
“Shareholder(s)”	holder(s) of the existing shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

LETTER FROM THE BOARD



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)

Directors:

Mr. Zhou Ling (*Chairman*)

Ms. Lee Sin Pyung (*Managing Director*)

Ms. Sit Mei (*Executive Director*)

Mr. Lu Ren Jie (*Independent Non-Executive Director*)

Mr. Chai Woon Chew (*Independent Non-Executive Director*)

Mr. Ho Choi Chiu (*Independent Non-Executive Director*)

Registered Office:

Suite 2602

Cheung Kong Center

2 Queen's Road

Central

Hong Kong

5 May 2005

To the Shareholders

Dear Sir or Madam,

DISCLOSEABLE TRANSACTION

Acquisition of 65% equity interest in PT. Cahaya Batu Raja Blok by Global Select Limited

1. INTRODUCTION

The directors of the Company is pleased to announce that on 7 April 2005, Global Select Limited, a wholly owned subsidiary of the Company, entered into a share purchase agreement with three individual Indonesia citizens, who in aggregate owned 70% interest of PT. Cahaya Batu Raja Blok, to acquire from them a 65% interest in the issued share capital of PT. Cahaya Batu Raja Blok for an aggregate cash consideration of US\$5,800,000.

PT. Cahaya Batu Raja Blok is a company incorporated in Indonesia. The sole asset of PT. Cahaya Batu Raja Blok is the Production Contract signed with the Department of Petroleum (BPMIGAS) of the Indonesian government. Pursuant to the Production Contract, PT. Cahaya Batu Raja Blok will explore and develop petroleum and natural gas in Air Komerang Block, an area consists of approximately 4,110 square kilometers located in Southern Sumatra, Indonesia for 30 years.

LETTER FROM THE BOARD

2. THE SHARE PURCHASE AGREEMENT

Date of Agreement

7 April 2005

Parties to the Agreement

Purchaser: Global Select Limited, a company incorporated in the British Virgin Islands with limited liability, is a wholly-owned subsidiary of the Company

Vendors: Three individual shareholders of PT. Cahaya Batu Raja Blok, a company incorporated in Indonesia with limited liability. The three shareholders are individual Indonesia citizens who in aggregate owned 70% interest of PT. Cahaya Batu Raja Blok. The Company confirms that, to the best of the directors' knowledge, information and belief having made all reasonable enquiries, the Vendors are third parties independent of the Group and connected person of the Group (as defined under the Listing Rules).

Assets acquired

65% of the issued share capital of PT. Cahaya Batu Raja Blok. PT. Cahaya Batu Raja Blok will be treated as a non wholly-owned subsidiary of the Company in the Company's financial statements.

Value of assets acquired

PT. Cahaya Batu Raja Blok is newly established for signing the Production Contract, therefore PT. Cahaya Batu Raja Blok has about zero book value besides this Production Contract. In order to assess the value of PT. Cahaya Batu Raja Blok (i.e. the value of the Production Contract), the Vendors and the Purchaser agreed to use the estimated profit (which was estimated by the technical terms of both parties) for 30 years from oil production in the contract area as the estimated value of PT. Cahaya Batu Raja Blok. The calculation is as follows:

20% of the estimated energy reserves of 250,000,000 barrels of oil in the contract area was taken as the base of the calculation for consideration. Estimating the price of oil is US\$30 per barrel (assuming US\$30 will be the average selling price of oil for the next thirty years), the total oil production will be US\$1,500,000,000, where 0.6% of it, US\$9,000,000, will be the net profit after deduction of cost, tax, and other expenses. Therefore, US\$9,000,000 is the estimated value of PT. Cahaya Batu Raja Blok (please be noted that the estimated data of energy reserves was furnished by the Department of Petroleum (BPMIGAS) of the Indonesian government to PT. Cahaya Batu Raja Blok for reference, and is yet validated, through exploration, by the technical team of the Company or a professional third party hired by the Company).

LETTER FROM THE BOARD

Consideration

Based on the estimated value of US\$9,000,000 of PT. Cahaya Batu Raja Blok as calculated above, the Vendors and the Purchaser agreed to use this estimated value as the base for consideration. Therefore, the aggregate consideration for 65% interest of PT. Cahaya Batu Raja Blok will be US\$5,800,000 (approximately HK\$45,124,000).

The consideration was arrived at after arm's length negotiation between the Vendor and the Purchaser. Though the book value of PT. Cahaya Batu Raja Blok itself is about zero, considering the opportunities offered by the Production Contract, the Board is of the view that the price of US\$5,800,000 for 65% of PT. Cahaya Batu Raja Blok is fair and reasonable.

The cash consideration will be paid from internal sources of the Company.

Condition

Except paying the consideration of US\$5,800,000 within one year, no other conditions were set in the Agreement. Save for US\$5,800,000, there is no other loan or capital contribution commitment under the Agreement.

Payment schedule of the US\$5,800,000 cash consideration

1. US\$400,000 upon signing of Agreement;
2. US\$400,000 within three months after signing the Agreement;
3. US\$1,200,000 no later than six months after signing the Agreement;
4. US\$1,200,000 no later than nine months after signing the Agreement; and
5. US\$2,600,000 no later than twelve months after signing the Agreement.

Funding of the operation upon Acquisition

The expected operation costs within the contract area for the first two years will be US\$5,300,000 and US\$12,000,000 for the next three years.

The Company will bear the estimated cost in proportion to its 65% shareholding in PT. Cahaya Batu Raja Blok. The source of funding of the first two years of operation will come from working capital of the Company; from the third year of operation onward, funding will come from revenue of oil production.

LETTER FROM THE BOARD

3. INFORMATION OF PT. CAHAYA BATU RAJA BLOK

PT. Cahaya Batu Raja Blok is a company incorporated in Indonesia on 2 August 2004. The sole asset of PT. Cahaya Batu Raja Blok is the Production Contract signed with the Department of Petroleum (BPMIGAS) of the Indonesian government, to conduct petroleum and natural gas operations. Before Acquisition, there were totaling five individual Indonesians holding 100% interest of PT. Cahaya Batu Raja Blok, where three of them were in aggregate holding 70% interest of PT. Cahaya Batu Raja Blok. Global Select Limited acquired 65% from these three individuals and one of them is still holding 5% after Acquisition. The remaining 30% is being held by the other two individual shareholders who are third parties independent of the Group and connected person of the Group (as defined under the Listing Rules).

Production Contract:

Contract Term:	30 years; from 12 December 2004 to 11 December 2034
Contract Area:	Air Komerling Block, an area consisting of approximately 4,110 square kilometers located in Southern Sumatra, Indonesia.
Estimated Energy Reserves within Contract Area:	Approximately 250,000,000 barrels oil and 100,000,000,000 cubic feet gas (please be noted that the estimated data was furnished by the Department of Petroleum (BPMIGAS) of the Indonesian government to PT. Cahaya Batu Raja Blok for reference, and is yet validated, through exploration, by the technical team of the Company or a professional third party hired by the Company)

4. REASONS FOR THE ACQUISITION

The Production Contract is in line with the Company's corporate strategy to increase its investment in the energy-related industries and to actively seek investment opportunities in these industries. Considering the increasing demand in petroleum and the climbing oil price, while comparing the consideration of the Acquisition and the business potential offered by the Production Contract, the Board is of the view that the Acquisition is in the interest of Shareholders and the Company. Furthermore, the original 15-year oil exploration contract signed between the Company and Pertamina, a state-owned oil company of Indonesia, in Limau Oilfield, South Sumatra, Indonesia was expired on 31 December 2004. The Company has been negotiating with Pertamina for extension or signing of new contract for years, but the Company cannot guarantee it will be granted or when it will be granted in the near future. Therefore, the Board views that the Production Contract is a new opportunity for the Company, and do not expect the Acquisition to have any immediate material impact on either the earnings or the assets and liabilities of the Company. However, Shareholders and investors should always be cautious of the potential risk involved.

LETTER FROM THE BOARD

5. GENERAL

The principal activities of the Company are investment holding, and through its subsidiaries, the Company develops, explores and produces crude oil in South Sumatra, Indonesia, and provides electronics manufacturing services in the United Kingdom. Your attention is drawn to the general information set out in the appendix to this circular.

Yours faithfully,

By order of the Board

South Sea Petroleum Holdings Limited

Zhou Ling

Chairman

1. 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.

2. 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 long position in shares held	Capacity	Percentage of total issued share capital as at the Latest Practicable Date
Mr. Zhou Ling	79,914,000 (Note 1)	Corporate	14.68%
Ms. Lee Sin Pyung	3,300,000 (Note 2)	Corporate	0.6%

Note 1: 57,934,000 shares (represents 10.64% of the issued share capital of the Company as at the Latest Practicable Date) in the Company is held by Palmsville Equity, Inc.; 21, 980,000 shares (represents 4.03% of the issued share capital of the Company as at the Latest Practicable Date) in the Company is held by Seashine Holdings Limited. Palmsville Equities, Inc. and Seashine Holdings Limited are wholly-owned by Mr. Zhou Ling.

Note 2: 3,300,000 is held by Bondic Holdings Limited which is wholly-owned by Ms. Lee Sin Pyung.

- (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; and

- (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.
- (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) 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:

Name of Shareholder	Number of shares/Percentage of total issued share capital					
	Long position	%	Short position	%	Lending pool	%
Palmsville Equities, Inc.	57,934,000	10.64	–	–	–	–

- (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.
- (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 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.

3. 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.

4. 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.

5. GENERAL

- (a) The registered office of the Company is Suite 2602, Cheung Kong Center, 2 Queen's Road Central, Hong Kong
- (b) The secretary of the Company is Ms. Lam Lee Yu, a qualified chartered secretary designated as ACIS, ACS.
- (c) The qualified accountant of the Company is Mr. Hung Wai Leung, an associate member of Hong Kong Society of Accountants.
- (d) The English text of this circular shall prevail over the Chinese text.