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SOUTH SEA PETROLEUM HOLDINGS LIMITED

南海石油控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 076)

CLARIFICATION

This announcement is made at the request of the Stock Exchange to clarify the inconsistency between the Rule 13.10 statement made by the Company at 12:05 p.m. on 31 August 2004 which was released on the website of the Stock Exchange, and a notice that 12,810,000 of Company's shares beneficially held by Mr. Zhou Ling were forced sold by a financial institution at later time.

The Stock Exchange is of the view that the Company may have breached the Listing Rules, and will take appropriate action against the Company and its directors.

Trading in the shares of the Company has been suspended at the request of the Company with effect from 2:30 p.m. on Tuesday, 31 August 2004 pending the release of this announcement. An application has been made to the Stock Exchange for resumption in trading of the shares with effect from 9:30 a.m., Monday, 6 September 2004.

This announcement is made at the request of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

South Sea Petroleum Holdings Limited (the "Company") submitted the statement pursuant to the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") 13.10 (the "Statement") to the Stock Exchange confirming the board of directors (the "Board") of the Company was not aware of the reasons for the decrease in share price and the increase in trading volume at 12:05 p.m. on 31 August 2004. The Board had jointly and severally taken responsibility for the accuracy of the Statement.

Nevertheless, at around 1:30 p.m. the Company received a notice from Mr. Zhou Ling ("Mr. Zhou"), the Chairman and the beneficiary owner of Palmville Equities Inc. ("Palmville"), the substantial shareholder of the Company (Mr. Zhou then held 19.38% of the existing issued share capital of the Company in his corporate capacity) that, 12,810,000 (representing 2.68% of the existing issued share capital of the Company and 13.81% of the total shares then held by Mr. Zhou. After the forced sale of 12,810,000 of the Company's shares which were placed in a margin account, and were forced sold by a financial institution due to the sharp decrease of the price of the Company's shares from HK\$3.30 per share at around 11:00 a.m. to the closing price of HK\$0.37 at 12:30 p.m. on 31 August 2004, without prior notice to Mr. Zhou, Mr. Zhou, together with his associates, currently holds 79,914,000 shares of the Company, representing approximately 16.7% of the existing issued share capital of the Company) of the Company's shares held by Palmville. Mr. Zhou did not check with the financial institution before giving the Statement because in his experience, shares would be purchased or sold only after an instruction was given. And this was the first time that Mr. Zhou was facing a forced sale of shares in the securities market in Hong Kong. Mr. Zhou informed the Company immediately after the matter came to his attention around 1:30 p.m.; and the Company informed the Stock Exchange before 2:00 p.m..

The Board noted the seriousness of the matter, and endeavored to make timely disclosure to the Stock Exchange. The inconsistency of the Statement and the Company's shares beneficially held by Mr. Zhou were forced sold was due to time factor. Save as the forced sale of the Company's shares held by Palmville, the Board is not aware of any reason for such fluctuation in share price and trading volume. The Stock Exchange is of the view that the Company may have breached Rule 13.10 of the Listing Rules and will take appropriate action against the Company and its directors.

Trading in the shares of the Company has been suspended at the request of the Company with effect from 2:30 p.m. on Tuesday, 31 August 2004 pending the release of this announcement. An application has been made to the Stock Exchange for resumption in trading of the shares with effect from 9:30 a.m., Monday, 6 September 2004.

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

Hong Kong, 3 September 2004

As at the date of this announcement, the board of directors comprises of Mr. Zhou Ling, Ms. Lee Sin Pyung and Ms. Sit Mei being executive directors, Mr. Lu Ren Jie and Mr. Chai Woon Chew being independent non-executive directors.