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PetroAsian Energy Holdings Limited

中亞能源控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 850 & Warrant Code: 344)

**EXTENSION OF LETTER OF INTENT IN RESPECT OF
POSSIBLE ACQUISITION OF 52% OF
THE PARTICIPATING INTERESTS IN MODAMUJI SAG,
HAILAER OILFIELD OIL AND GAS PROJECT
AND
GRANT OF LOAN**

This announcement is made by the Company pursuant to Rule 13.09 of the Listing Rules.

EXTENSION OF LETTER OF INTENT OF THE POSSIBLE ACQUISITION

Reference is made to the Announcement. Under the LOI, it is agreed that save and except with consent from the Company, the Vendor will not within 90 days from the date of the LOI negotiate with any party for the Possible Acquisition. It is also stated that if the Formal Agreement is not entered into on or before the date falling 90 days from the date of the LOI, the LOI shall cease and terminate and the Vendor shall forthwith refund the Deposit (without interest) to the Company. As more time is required for furnishing the technical review/valuation of the Project, which forms part of the due diligence review conducted by the Company, the Company and the Vendor mutually agreed by a written notice dated 12 August 2010 that the aforesaid period of 90 days be extended for additional 120 days. Save for that, all other terms and conditions of the LOI shall remain valid.

The Board wishes to emphasize that no binding agreement in relation to the Possible Acquisition has been entered into as at the date of this announcement. As such, the Possible Acquisition may or may not proceed. If the Possible Acquisition is materialized, it may constitute a notifiable transaction under the Listing Rules on the part of the Company. Shareholders and investors are urged to exercise caution when dealing in the securities of the Company. Further announcement will be made by the Company should any Formal Agreement be entered into as and when appropriate in accordance with the Listing Rules.

GRANT OF THE LOAN

On 12 August 2010, the Company entered into the Loan Agreement with the Borrower (one of the controlling shareholders of the Vendor holding 30% equity interest in the Vendor), pursuant to which the Company has conditionally agreed to lend the Loan of up to RMB25,000,000 to the Borrower, which shall be applied solely for the purpose of financing the 3D seismic data collection, drilling and exploration work of the Project, for a period of 6 months from the Drawdown Date. The Loan is secured by the Share Charge.

This announcement is made by the Company pursuant to Rule 13.09 of the Listing Rules.

EXTENSION OF LETTER OF INTENT OF THE POSSIBLE ACQUISITION

Reference is made to the Announcement. Unless otherwise requires, terms used herein shall have the same meanings as defined in the Announcement.

Under the LOI, it is agreed that save and except with consent from the Company, the Vendor will not within 90 days from the date of the LOI negotiate with any party for the Possible Acquisition. It is also stated that if the Formal Agreement is not entered into on or before the date falling 90 days from the date of the LOI, the LOI shall cease and terminate and the Vendor shall forthwith refund the Deposit (without interest) to the Company. As more time is required for furnishing the technical review/valuation of the Project, which forms part of the due diligence review conducted by the Company, the Company and the Vendor mutually agreed by a written notice dated 12 August 2010 that the aforesaid period of 90 days be extended for additional 120 days. Save for that, all other terms and conditions of the LOI shall remain valid.

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GRANT OF THE LOAN

The Loan Agreement

Date

12 August 2010

Parties

Lender: the Company

Borrower: Mr. Yan De Jun (閻德均先生), one of the controlling shareholders of the Vendor holding 30% equity interest in the Vendor.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Borrower is a third party independent of the Company and its connected persons.

Principal terms of the Loan

- Principal amount: Up to RMB25,000,000, which shall be drawn in Hong Kong dollars based on the exchange rate on the Drawdown Date.
- Purpose: The Loan shall be applied solely for the purpose of financing the 3D seismic data collection, drilling and exploration work of the Project.
- Interest: Interest shall accrue at one-month Hong Kong Interbank Offered Rate on (i) the outstanding principal amount of the Loan for the period from the Drawdown Date to the Repayment Date; and (ii) the total outstanding amount (principal amount together with interest accrued thereon) due and not yet repaid upon the Repayment Date, and be calculated with reference to actual number of days lapsed on the basis of 365 days a year.
- Term: 6 months from the Drawdown Date or such later day that the Company and the Borrower may agree in writing (the “Repayment Date”).
- Repayment: The total outstanding principal amount of the Loan together with any interest accrued thereon and any other sums payable to the Company under the Loan shall be fully repaid and discharged on or before the Repayment Date, which shall be repaid in Hong Kong dollars based on the exchange rate on the date of repayment.
- Early or partial repayment: The Borrower may repay all or part of the Loan in the amount of not less than RMB1 million before the Repayment Date by giving not less than 10 days’ advance notice to the Company.
- Security: The Loan is secured by the Share Charge executed by the Borrower in favor of the Chargee as a continuing security and continuing obligation for due, full and punctual payment of the Loan, interest accrued thereon, fee and other amounts from time to time payable by the Borrower pursuant to the Loan Agreement and the Share Charge.

Conditions precedent: The drawdown of the Loan under the Loan Agreement shall be conditional upon the following conditions precedent being fulfilled:

- (i) all necessary consents, approvals and authorizations for the transactions contemplated under the Loan Agreement having been obtained;
- (ii) the representations and warranties made by the Borrower in the Loan Agreement being true and correct and not misleading in any material respects as it repeated at all times between the date of the Loan Agreement and the Drawdown Date and as at the Drawdown Date by reference to the facts and circumstances then subsisting;
- (iii) no event of default or prospective event of default as set out in the Loan Agreement shall have occurred or being occurred (or would be likely to occur as a result of the drawdown of the Loan); and
- (iv) the Share Charge having been duly executed by the Borrower and received by the Company.

Reason for and the benefit of the entering into of the Loan Agreement

The Group is principally engaged in the exploration, drilling, production and sale of crude oil, manufacture and sale of paints, blended solvents and plastic colorants, trading of chemical materials, provision of painting services, and property investment.

As set out in the Announcement, the Company and the Vendor have entered into the LOI in relation to the Possible Acquisition. It is expected that if the Possible Acquisition is materialized, it will strengthen the Group's technical capability in oil exploration and exploitation and provide additional income to the Group as well as strengthen its revenue base. As more time is required for furnishing the technical review/valuation of the Project as part of the due diligence review conducted by the Group, and at the same time funds are required for the 3D seismic data collection, drilling and exploration work of the Project, the grant of the Loan by the Company to the Borrower will avoid unnecessary delay to the development progress of the Project and represents a better bargaining position and utilization of funds of the Company.

The Directors have also considered the potential risks involved in the entering into of the Loan Agreement. Pursuant to the Share Charge, the Borrower has pledged his entire shareholding (i.e. 30% equity interest) in the Vendor to the Chargee to secure the due and full performance of the Borrower's obligations under the Loan Agreement. The Vendor has been fully entrusted to execute the Project under the Joint-Operating Agreement. On that basis, the Share Charge will provide the Company with security and alternate means of repayment of the Loan and interests accrued thereon in case the Borrower fails to repay them when becoming due and the Board considers that the benefits of the Loan Agreement override the potential risks.

Having considered the (i) the terms of the Loan, including but not limited to the interest rate; (ii) the reason for and benefit of the entering into of the Loan Agreement; and (iii) the Share Charge executed in favor of the Chargee, the Board considers that the Loan Agreement is entered into upon normal commercial terms and the terms and conditions of the Loan Agreement are fair and reasonable and are in the interests of the Group and the Shareholders as a whole.

DEFINITIONS

In this announcement, the following terms shall, unless the context requires otherwise, have the following meanings:

“Announcement”	the announcement of the Company dated 12 May 2010 in relation to the LOI and the Possible Acquisition
“Borrower”	Mr. Yan De Jun (閻德均先生), one of the controlling shareholders of the Vendor holding 30% equity interest in the Vendor
“BVI”	British Virgin Islands

“Chargee”	北京富順石油科技有限公司 (Beijing Fushun Petroleum Technology Company Limited*), a wholly-owned subsidiary of the Company established in the PRC
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Drawdown Date”	the date on which the Loan is drawn by the Borrower
“Loan”	the loan in the amount of up to RMB25,000,000 to be granted by the Company to the Borrower subject to the terms and conditions of the Loan Agreement
“Loan Agreement”	the conditional loan agreement dated 12 August 2010 and entered into between the Company and the Borrower in relation to the Loan
“Share Charge”	the share charge dated 12 August 2010 and executed by the Borrower in favor of the Chargee by way of a legal charge over the Borrower’s entire shareholding (i.e. 30% equity interest) in the Vendor, as security for due and full performance of the Borrower’s obligation under the Loan Agreement

By order of the Board
PetroAsian Energy Holdings Limited
Poon Sum
Chairman

Hong Kong, 12 August 2010

As at the date of this announcement, the Board comprises (i) three executive Directors, namely Mr. Poon Sum, Mr. Wong Kwok Leung and Mr. Poon Wai Kong; and (ii) three independent non-executive Directors, namely Mr. Chan Kam Ching, Paul, Mr. Chan Shu Kin and Mr. Cheung Kwan Hung.

* For identification purposes only