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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)

SUBSCRIPTION OF NON-LISTED WARRANTS AND CONNECTED TRANSACTION

On 19 April 2011 (after trading hours), the Company entered into the Subscription Agreement with the Subscriber in connection with the Subscription, pursuant to which the Subscriber agreed to subscribe for 200,000,000 Warrants conferring rights to subscribe for 200,000,000 Warrants Shares at the Exercise Price of HK\$0.45 per Warrant Share (subject to adjustment upon the occurrence of any of the Adjustment Events and other dilutive events which may have adverse effects on the rights of the holder of the Warrants). Each Warrant carries the right to subscribe for one (1) Warrant Share.

The Warrants are to be subscribed at a Subscription Price of HK\$0.01 per Warrant. The Subscription is conditional upon several conditions as set out in the paragraph headed "Conditions of the Subscription" in the section headed "The Subscription Agreement" in this announcement.

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Warrant Shares which may fall to be allotted and issued upon exercise of the subscription rights attaching to the Warrants. No listing of the Warrants will be sought on the Stock Exchange or any other stock exchanges.

LISTING RULES IMPLICATIONS

As the Subscriber is an executive Director and a Substantial Shareholder and thus, a connected person of the Company, the Subscription constitutes a non-exempt connected transaction on the part of the Company under the Listing Rules and is subject to reporting, announcement and Independent Shareholders' approval requirements.

GENERAL

Pursuant to Chapter 14A of the Listing Rules, the Subscriber and his associates are required to abstain from voting on the resolution at the EGM of the Company to approve the Subscription.

The Independent Board Committee comprising all the independent non-executive Directors, will be formed to advise the Independent Shareholders as to the fairness and reasonableness of the Subscription. An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other matters, further information on the issue of the Subscription, a letter from the independent financial adviser to the Independent Board Committee and the Independent Shareholders, a letter from the Independent Board Committee to the Independent Shareholders, a notice of the EGM and a proxy form will be despatched to the Shareholders within 15 business days after the publication of this announcement, i.e. on or before 17 May 2011.

THE SUBSCRIPTION AGREEMENT

Date

19 April 2011 (after trading hours)

Issuer

The Company

Subscriber

The Subscriber is an executive Director and a Substantial Shareholder and thus, a connected person of the Company. As at the date of this announcement, the Subscriber is interested in 576,033,011 Shares, representing approximately 13.95% of the entire issued share capital of the Company.

Number of Warrants

200,000,000 Warrants

Subscription Price

The Subscription Price is HK\$0.01 per Warrant. The aggregate Subscription Price HK\$200,000,000 payable by the Subscriber will be satisfied in cash at completion of the Subscription.

Exercise Price

HK\$0.45 per Warrant Share, subject to adjustment upon the occurrence of any of the Adjustment Events and other dilutive events which may have adverse effects on the rights of the holder of the Warrants.

The aggregate of the Subscription Price of HK\$0.01 per Warrant and the Exercise Price of HK\$0.45 per Warrant Share, i.e. HK\$0.46, represented a premium of approximately 3.37% over the closing price of HK\$0.445 per Share quoted on the Stock Exchange on the Last Trading Day, and (ii) a premium of approximately 1.99% over the average of the closing prices of HK\$0.451 per Share for the last five trading days for the Shares prior to the Last Trading Day.

The Exercise Price of HK\$0.45 per Warrant Share represented: (i) a premium of approximately 1.12% over the closing price of HK\$0.445 per Share quoted on the Stock Exchange on the Last Trading Day; and (ii) a discount of approximately 0.22% to the average of the closing prices of HK\$0.451 per Share for the last five trading days for the Shares prior to the Last Trading Day.

Both the Subscription Price and the Exercise Price are determined based on negotiations on an arm's length basis between the Company and the Subscriber with reference to the current market sentiment, liquidity flow in the capital market and the historical Share price. The Directors consider that both the Subscription Price and the Exercise Price are fair and reasonable.

Subject to the terms and conditions of the Subscription Agreement, the Exercise Price may be subject to adjustment upon, among other things:–

- (1) consolidation or sub-division of the Shares;
- (2) capitalization issue of the Shares by the Company (other than in lieu of a cash dividend);
- (3) capital distribution (as defined in the instrument creating the Warrants) made by the Company or grant of rights to acquisition of assets of the Group;
- (4) an offer or grant by the Company to Shareholders of new Shares for subscription by way of rights or of options or warrants to subscribe for new Shares, at a price less than 80% of the market price (calculated in accordance with the terms of the Warrants);
- (5) an issue for cash of convertible securities by the Company, if the total effective consideration is less than 80% of the market price (calculated in accordance with the terms of the Warrants), or the terms of any such issue being altered so that the said total effective consideration is less than 80% of the market price (calculated in accordance with the terms of the Warrants);
- (6) an issue for cash of Shares by the Company at less than 80% of the market price (calculated in accordance with the terms of the Warrants); and
- (7) a cancellation of any Shares or convertible securities which have been purchased by the Company (other than on the Stock Exchange) in circumstances where the Directors consider that it may be appropriate to make an adjustment to the Subscription Price.

Every adjustment to the Subscription Price will be certified either by the auditors of the Company or an approved merchant bank selected by the Company.

The Completion Date

Completion will take place the Completion Date being the day within three Business Days after the fulfillment of the conditions referred to in the section headed “Conditions of the Subscription” below.

Information of the Warrants

The Warrants will be issued to the Subscriber upon completion of the Subscription in registered form and constituted by a deed poll. The Warrants will rank pari passu in all respects among themselves.

Each Warrant carries the right to subscribe for one (1) Warrant Share at the Exercise Price and is issued at the Subscription Price.

The subscription rights attaching to the Warrants may be exercised at any time during a period of 36 months commencing from the date immediately after the date of issue of the Warrants. The Warrant Shares, when fully paid and allotted, will rank pari passu in all respects with the then existing issued Shares of the Company.

A total of 200,000,000 Warrants are proposed to be issued. Upon full exercise of the subscription rights attaching to the Warrants, a total of 200,000,000 Warrant Shares will be issued, representing (i) approximately 4.84% of the issued share capital of the Company as at the date of this announcement; and (ii) approximately 4.62% of the issued share capital of the Company as enlarged by the allotment and issue of the Warrant Shares upon full exercise of the subscription rights attaching to the Warrants.

The Company will seek a specific mandate from the Independent Shareholders for the allotment and issue of the Warrant Shares. In this regard, the EGM will be convened and held to pass the necessary resolution to approve the Subscription Agreement and the transactions contemplated thereunder.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the date of this announcement, the Warrant Shares to be issued upon the exercise of all Warrants, when aggregated with all other equity securities which remain to be issued on exercise of all other subscription rights, will not exceed 20% of the issued share capital of the Company.

Transferability

The Warrants are transferable in integral multiples of 1,000,000 Warrants. In the event of a transfer of the Warrants to a connected person (as defined in the Listing Rules) of the Company, prior approval from the Company and the Stock Exchange will be obtained. The Company undertakes to comply with the relevant Listing Rules and to make necessary announcement(s), where appropriate, if and when the Subscriber makes any transfer of the Warrants to other parties requiring disclosure.

Conditions of the Subscription

Completion of the Subscription Agreement is conditional on, among the other matters, the fulfillment of the following conditions on or before 5:00 p.m. on 30 June 2011 (or such later time and date as the Company and the Subscriber shall agree in writing):

- (a) the passing by the Independent Shareholders at an extraordinary general meeting of the Company to be convened and held, of the necessary resolutions to approve the Subscription Agreement and the transactions contemplated thereunder (including but not limited to the allotment and issue of the Warrant Shares to the holder(s) of the Warrants);
- (b) (if required) the Listing Committee of the Stock Exchange shall have approved the issue of the Warrants either unconditionally or subject to conditions to which neither the Company nor the Subscriber shall reasonably object and the satisfaction of such conditions; and
- (c) the Listing Committee of the Stock Exchange shall have granted (either unconditionally or subject to conditions to which neither the Company nor the Subscriber shall reasonably object) the listing of, and permission to deal in, the Warrant Shares which fall to be allotted and issued upon the exercise of the subscription rights attached to the Warrants.

In the event that the above conditions are not fulfilled by 5:00 p.m. on 30 June 2011 or such later date as may be agreed between the Company and the Subscriber, the Subscription Agreement will lapse and become null and void and the parties shall be released from all obligations hereunder, save the liabilities for any antecedent breaches hereof.

Voting rights for the holders of the Warrants

The holder of the Warrants will not have any right to attend or vote at any meeting of the Company by virtue of them being holders of the Warrants. The holder of the Warrants shall not have the right to participate in any distributions and/or offers of further securities made by the Company.

Rights of the holders of the Warrants on the liquidation of the Company

If the Company is wound up during the subscription period of the Warrants, all subscription rights attaching to the Warrants which have not been exercised shall lapse, save for in the event of a voluntary winding-up, the holders of the Warrants shall be entitled within six weeks after the passing of such a resolution approving the winding-up to exercise the subscription rights attaching to the Warrants in accordance with the terms and conditions of the Warrants.

Application for listing

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Warrant Shares which may fall to be allotted and issued upon exercise of the subscription rights attaching to the Warrants. No listing of the Warrants will be sought on the Stock Exchange or any other stock exchanges.

REASONS FOR THE SUBSCRIPTION

The Group is principally engaged in manufacture and sale of paints, blended solvents and plastic colorants, trading of chemical materials, provision of painting service, exploitation and sale of crude oil, and lease of investment properties and the sales of properties held for trading.

The Board considers that the Subscription represents good opportunities to raise additional funds for the Company while broadening the capital base of the Company. The Board has considered other equity financing such as rights issue or open offer, but taking into account the loss-making record of the Group for the six months ended 30 September 2010, it may not be possible for the Company to raise funds by rights issue or open offer without offering discounts to the prevailing market price of the Shares, and the rights issue or open offer would cause immediate dilution effect of the shareholdings of those non-participating Shareholders. In addition, the Warrants are not interest bearing and the Subscription will not result in any immediate dilution effect on the shareholding of the existing Shareholders. In addition to the net proceeds that will be raised upon completion of the Subscription, further capital will be raised upon the exercise of the subscription rights attaching to the Warrants by the holder of such Warrants during the subscription period.

In view of the immediate inflow of approximately HK\$2,000,000 upon completion of the Subscription, coupled with the potential inflow of further capital upon the exercise of the subscription rights attaching to the Warrants, the Directors are of the view that the Subscription provides a good opportunity to strengthen the Company's financial position and in the event the Subscriber fully exercises his subscription rights attaching to the Warrants, funds received may cater for future needs for its general working capital.

In view of the above, the Board considers that the terms of the Subscription are on normal commercial terms and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

USE OF PROCEEDS

The gross proceeds of the Subscription will amount to approximately HK\$2,000,000. The net proceeds from the Subscription, after the deduction of the legal fees, printing expenses and other related expenses, are estimated to be approximately HK\$1,700,000, representing a net issue price of approximately HK\$0.009 per Warrant. The Directors intend to apply the net proceeds as general working capital of the Group.

Assuming the full exercise of the subscription rights attaching to the Warrants, it is expected approximately HK\$90,000,000 will be raised. The net proceeds of approximately HK\$89,500,000 (with a net subscription price of approximately HK\$0.447 per Warrant) will be used for general working capital of the Group.

FUND RAISING EXERCISE BY THE COMPANY IN THE PAST TWELVE MONTHS

The following is the equity fund raising activities conducted by the Group in the past 12 months immediately preceding the date of this announcement:

Date of announcement	Event	Net proceeds	Intended use of proceeds	Actual use of proceeds
19 October 2010	Top-up placing and subscription of up to 400,000,000 Shares	Approximately HK\$205 million	Approximately HK\$150 million for financing the expansion of the oil extraction facilities in the oilfield in Qiqihar, Heilongjiang Province, the PRC and the remaining balance shall be applied as general working capital of the Group and for any potential acquisition in the future should suitable opportunities arise	Used as intended

Save as disclosed above, the Company has not conducted any other fund raising activities in the past twelve months before the date of this announcement.

CHANGES IN SHAREHOLDING STRUCTURE OF THE COMPANY

As at the date of this announcement, the Company has 4,129,946,286 Shares in issue. The shareholding structure of the Company (i) as at the date of this announcement; (ii) immediately after and the full exercise of the subscription rights attaching to the Warrants; and (iii) immediately after the full exercise of the subscription rights attaching to the Warrants and the Existing Warrants are as follows:

Shareholders	As at the date of this announcement		Immediately after the full exercise of the subscription rights attaching to the Warrants		Immediately after the full exercise of the subscription rights attaching to the Warrants and the Existing Warrants	
	<i>Number of Shares</i>	<i>Approximate %</i>	<i>Number of Shares</i>	<i>Approximate %</i>	<i>Number of Shares</i>	<i>Approximate %</i>
Mr. Poon Sum <i>(Note 1)</i>	185,770,453	4.50%	385,770,453	8.91%	635,770,453	13.33%
Mr. Poon Sau Tin <i>(Note 2)</i>	36,292,453	0.88%	36,292,453	0.84%	40,144,490	0.84%
Ever Source <i>(Note 3)</i>	390,262,558	9.45%	390,262,558	9.01%	421,745,437	8.84%
Mr. Poon Wai Kong <i>(Note 4)</i>	7,900,000	0.19%	7,900,000	0.18%	8,000,000	0.17%
Mr. Wong Kwok Leung <i>(Note 5)</i>	16,285	–	16,285	–	17,642	–
Mr. Chan Shu Kin <i>(Note 6)</i>	61,500	–	61,500	–	61,500	–
Mr. Cheung Kwan Hung <i>(Note 7)</i>	234,000	0.01%	234,000	0.01	234,000	–
Mr. Chan Kam Ching, Paul <i>(Note 8)</i>	4,000	–	4,000	–	104,000	–
Subtotal	620,541,249	15.03%	820,541,249	18.95%	1,106,077,522	23.18%
Public Shareholders	3,509,405,037	84.97%	3,509,405,037	81.05%	3,664,819,987	76.82%
Total	<u>4,129,946,286</u>	<u>100%</u>	<u>4,329,946,286</u>	<u>100%</u>	<u>4,770,897,509</u>	<u>100%</u>

Notes:

1. Mr. Poon Sum is the chairman of the Company and is the brother of Mr. Poon Sau Tin. As at the date of the announcement, Mr. Poon Sum is also interested in share options and Existing Warrants of the Company which conferred rights to subscribe for 50,000,000 Shares and 250,000,000 Shares respectively.
2. Mr. Poon Sau Tin is the elder brother of Mr. Poon Sum.
3. Ever Source Enterprises Limited (“**Ever Source**”) is also interested in the Existing Warrants of the Company which conferred rights to subscribe for 31,482,879 Shares. The issued share capital of Ever Source Enterprises Limited is beneficially owned as to 50% by Time Concord Limited, a company incorporated in the British Virgin Islands and indirectly owned by a discretionary trust, the beneficiaries of which are family members of Mr. Poon Sum, and as to 50% by Guidance Investments Limited, a company incorporated in the British Virgin Islands and indirectly owned by a discretionary trust, the beneficiaries of which are family members of Mr. Poon Sau Tin.
4. Mr. Poon Wai Kong is an executive Director and as at the date of this announcement, he is also interested in share options and the Existing Warrants of the Company which conferred rights to subscribe for 8,000,000 Shares and 100,000 Shares respectively.
5. Mr. Wong Kwok Leung is an executive Director and as at the date of this announcement, he is also interested in share options and the Existing Warrants of the Company which conferred rights to subscribe for 316,000 Shares and 1,357 Shares respectively.
6. Mr. Chan Shu Kin is an independent non-executive Director and as at the date of this announcement, he is also interested in share options of the Company which conferred rights to subscribe for 3,600,000 Shares.
7. Mr. Cheung Kwan Hung is an independent non-executive Director and as at the date of this announcement, he is also interested in share options of the Company which conferred rights to subscribe for 3,600,000 Shares.
8. Mr. Chan Kam Ching, Paul is an independent non-executive Director and as at the date of this announcement, he is also interested in share options and the Existing Warrants of the Company which conferred rights to subscribe for 3,600,000 Shares and 100,000 Shares respectively.

LISTING RULES IMPLICATIONS

As the Subscriber is an executive Director and a Substantial Shareholder and thus, a connected person of the Company, the subscription of the Warrants constitutes a non-exempt connected transaction on the part of the Company under the Listing Rules and is subject to reporting, announcement and Independent Shareholders’ approval requirements.

GENERAL

Pursuant to Chapter 14A of the Listing Rules, the Subscriber and his Associates are required to abstain from voting on the resolution at the EGM of the Company to approve the Subscription.

The Independent Board Committee comprising all the independent non-executive Directors, will be formed to advise the Independent Shareholders as to the fairness and reasonableness of the Subscription. An independent financial adviser will be appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing, among other matters, further information on the Subscription, a letter from the independent financial adviser to the Independent Board Committee and the Independent Shareholders, a letter from the Independent Board Committee to the Independent Shareholders, a notice of the EGM and a proxy form will be despatched to the Shareholders within 21 days after the publication of this announcement.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings when used herein:

“Adjustment Events” (1) alteration to the nominal amount of each of the Shares by reason of any subdivision or consolidation of Shares; or (2) issue of Shares by way of capitalization of profit or reserves; or (3) capital distribution to all Shareholders or grant to Shareholders rights to acquire for cash assets of the Company or any of its subsidiaries; or (4) offer to the Shareholders new Shares for subscription by way of rights; or grant of any options or warrants to all Shareholders to subscribe for new Shares, at a price which is less than 80% per cent (5) issue for cash any securities which are convertible into or exchangeable for or carry rights of subscription for new Shares; or (6) issue for cash any Shares at a price which is less than 80% of the market price; or (7) the repurchase of any Shares or securities convertible into Shares or any rights to acquire Shares by the Company

“Associates”	has the meaning ascribed thereto in the Listing Rules
“Board”	the board of Directors
“Business Day”	any day (not being a Saturday, a Sunday and a public holiday) on which licensed banks in Hong Kong are generally open for business throughout their normal business hours
“Company”	PetroAsian Energy Holdings Limited, a company incorporated in the Cayman Islands with limited liability whose issued Shares are listed on the Stock Exchange
“Completion Date”	within three Business Days following the date on which the conditions precedent set out in the Subscription Agreement are fulfilled
“Director(s)”	director(s) of the Company
“Exercise Price”	an initial exercise price of HK\$0.45 per Warrant Share (subject to adjustment) at which holder of the Warrants may subscribe for the Warrant Share(s)
“Existing Warrants”	the existing listed and non-listed warrants issued by the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	The Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	a board comprising all the independent non-executive Directors to advise the Independent Shareholders as to the terms of the Subscription
“Independent Shareholders”	Shareholders other than the Subscriber and those who are required to abstain from voting under the Listing Rules and their respective Associates (if any)

“Instrument”	a separate instrument to be executed by the Company by way of a deed poll containing terms of the Warrants, including the adjustment mechanisms of the initial subscription price for Shares
“Last Trading Day”	19 April 2011, being the last trading day for the Shares before the date of this announcement.
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, for the purpose of this announcement, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Share(s)”	ordinary issued share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscriber”	Mr. Poon Sum, the chairman of the Company and an executive Director and a Substantial Shareholder
“Subscription”	the subscription of 200,000,000 Warrants pursuant to the terms of the Subscription Agreement
“Subscription Agreement”	the conditional subscription agreement dated 19 April 2011 and entered into between the Company and the Subscription in relation to the Subscription
“Subscription Price”	HK\$0.01, being the issue price per Warrant payable in full on application under the Subscription Agreement

“Substantial Shareholder”	has the meaning ascribed thereto in the Listing Rules
“Warrant(s)”	200,000,000 non-listed warrants to be issued by the Company at the Subscription Price, each entitles the holder thereof to subscribe for one Warrant Share at the Exercise Price (subject to adjustment) at any time during a period of thirty six (36) months commencing from the date of issue of the Warrants
“Warrant Shares”	up to 200,000,000 new Shares to be allotted and issued upon exercise of the subscription rights attaching to the Warrants
“HK\$ and cents”	Hong Kong dollars and cents, the lawful currency of Hong Kong
“%”	per cent.

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

Hong Kong, 19 April 2011

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.