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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)

GRANT OF WARRANTS UNDER SERVICE AGREEMENT

SERVICE AGREEMENT

On 29 November 2012, the Company entered into the Service Agreement with the Consultant pursuant to which and subject to the fulfillment of the Conditions, the Consultant is appointed for providing the Services for the business of the Group.

Under the Service Agreement with the Consultant and subject to fulfillment of the Conditions, the Company shall grant to the Consultant, the Warrants, which is exercisable during the Warrants Period, to subscribe for new Warrant Shares at the Exercise Price of HK\$0.18 per Warrant Share under the General Mandate. The Warrants will not be listed on the Stock Exchange.

SERVICE AGREEMENT

On 29 November 2012, the Company entered into the Service Agreement with the Consultant pursuant to which and subject to the fulfillment of the Conditions, the Consultant is appointed for providing the Services for the business of the Group. The material terms and conditions of the Service Agreement are summarised below:–

Date: 29 November 2012

Parties: (1) the Company

(2) Convoy

The Consultant is principally engaged in the provision of business consultancy services. To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, the Consultant and its associates are third parties independent of the Company and its connected person and not a connected person of the Company within the meaning of the Listing Rules.

Duties of the Consultant

According to the term of the Service Agreement, the Consultant shall proactively and use its best endeavours to provide the Services, namely seeking suitable energy projects for the development or diversification of the business of the Company; and seeking suitable business partners/investors for the Company for fund raising projects. The Consultant shall promptly notify the Company of all enquiries it received concerning the Company. In relation to the Services, the Consultant shall not hold itself out, permit any person to hold it out, as being authorised to bind the Group in any way, and not to do any act which may reasonably create the impression that it is so authorised.

Duties of the Company

It is a common term of the Service Agreement that the Company will be entitled, at its own absolute discretion, to accept or reject the referral of potential business partners or potential investors from the Consultant. In addition, the Company shall at its own expenses supply the Consultant with promotional materials and information as the Consultant may from time to time reasonably require for the purpose of complying with its obligations under the Service Agreement.

Termination

The Service Agreement shall continue for a period of 36 months unless terminate by either party pursuant to the respective terms of the Service Agreement.

The Company shall be entitled to terminate the Service Agreement by notice in writing if:

- (a) the Consultant commits any continuing or material breach of the Service Agreement provided however that in the case of a breach capable of remedy, the right of termination shall not be exercised until the Company have given to the Consultant notice in writing specifying the same and requiring it to be rectified within a reasonable time (not being more than one month) and the Consultant shall have failed to comply with such notice within the time specified in the notice; or
- (b) the Consultant ceases, or threatens to cease, to carry on all or a substantial part of its business.

The Consultant shall be entitled to terminate the Service Agreement by giving not less than one month written notice to the Company subject to a written confirmation issued by the Board to confirm that the Consultant has successfully (i) sought suitable energy projects for the development or diversification of the business of the Company; or (ii) sought suitable partners/investors and has successfully raised funds for the Company (as the case may be) to the satisfaction of the Company.

On termination of the Service Agreement for any reason, neither party shall have further obligation under the Service Agreement to the other subject to the accrued rights of either party in respect of any antecedent breaches of the Service Agreement by the other party.

Consideration

In consideration of the performance of the Services to be rendered by the Consultant, under the Service Agreement, the Company shall grant the Consultant the Warrants, which is exercisable at any time during the period of 33 months commencing from the date falling three months after the date of issue of the Warrants, to subscribe for new Warrant Shares at the initial Exercise Price of HK\$0.18 per Share under the General Mandate.

Number of Warrants

Warrant conferring rights to subscribe for up to HK\$63,000,000 for new Warrant Shares will be issued to Convoy under the Service Agreement, entitle to subscribe up to 350,000,000 Shares at the initial Exercise Price of HK\$0.18.

The number of Warrant Shares represent: (i) approximately 7.88% of the existing issued share capital of the Company; and (ii) approximately 7.30% of the issued share capital of the Company as enlarged by the issue of the Warrant Shares.

The Warrants will not be listed on the Stock Exchange. The Warrant Shares, when allotted and issued, will be listed on the Stock Exchange.

Exercise Price

Initially HK\$0.18 per Warrant Share, which is subject to adjustment based on the prescribed formulas as set out in the instrument creating the Warrants for the happening of the following events:

- (i) an alteration of the nominal amount of each Share by reason of any consolidation or subdivision;
- (ii) an issue (other than pursuant to a scrip dividend scheme in lieu of a cash dividend) by the Company of Shares credited as fully paid by way of capitalisation of profits or reserves (including any share premium account or capital redemption reserve fund);

- (iii) a capital distribution in cash or in specie other than out of distributable profits of the Company being made by the Company, whether on a reduction of capital or otherwise, to Shareholders (in their capacity as such);
- (iv) a grant by the Company to Shareholders (in their capacity as such) of rights to acquire for cash assets of the Company or any of its subsidiaries;
- (v) an offer of new Shares for subscription by way of rights, or a grant of options or warrants to subscribe for new Shares, at a price which is less than 80 per cent. of the average market price of one Share for the five consecutive dealings days ending on such last dealing day immediately preceding the day on which the market price is to be ascertained (the “**market price**”) being made by the Shareholders (in their capacity as such);
- (vi) an issue wholly for cash being made by the Company or any of its subsidiaries of securities convertible into or exchangeable for or carrying rights of subscription for new Shares, if in any case the total effective consideration per new Share is less than 80 per cent. of the market price, or the conversion, exchange or subscription rights of any such issue are altered so that the said total effective consideration is less than 80 per cent. of such market price;
- (vii) an issue of Shares being made wholly for cash at a price less than 80 per cent. of the market price; and
- (viii) the purchase by the Company of Shares or securities convertible into Shares or any rights to acquire Shares (excluding any such purchase made on the Stock Exchange or any recognised stock exchange, being a stock exchange recognised for this purpose by the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong and 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 Exercise Price shall be certified either (at the option of the Company) by the auditors of the Company or by an approved merchant bank.

The Exercise Price of HK\$0.18 per Share represents:

- (i) a premium of approximately 11.11% to the closing price of HK\$0.162 per Share as quoted on the Stock Exchange on 29 November 2012, being the date of the Service Agreement;
- (ii) a premium of approximately 9.49% to the average closing price of HK\$0.1644 per Share as quoted on the Stock Exchange over the last five trading days up to and including 28 November 2012, being the date immediately prior to the date of the Service Agreement; and
- (iii) a premium of approximately 8.17% to the average closing price of HK\$0.1664 per Share as quoted on the Stock Exchange over the last ten trading days immediately prior to 28 November 2012, being the date immediately prior to the date of the Service Agreement.

Based on the closing price of HK\$0.166 per Share as quoted on the Stock Exchange on 28 November 2012, being the last trading day, the market value of the Warrants Shares is approximately HK\$58,100,000. The Exercise Price is determined after arm's length negotiations with the Company and the Consultant with reference to the prevailing Share price and the provision of the Services under the Service Agreement.

Conditions

The Service Agreement and the grant of the Warrants are conditional upon, among other things, the following:

1. (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 the Company shall not reasonably object and the satisfaction of such conditions;
2. the Listing Committee of the Stock Exchange having approved 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; and
3. (if any) all necessary consents, approvals and waivers required for or in connection with the completion of the transactions contemplated thereunder having been obtained.

The Company undertakes to the Consultant to use its reasonable endeavours to ensure that the Conditions are fulfilled as early as practicable and in any event not later than 20 December 2012 or such later date as may be agreed between the Company and the Consultant. If any of such condition shall not be so satisfied, the Warrants shall lapse and be of no effect.

Subject to the fulfillment of the Conditions, the Company shall issue the Warrants Certificate to the Consultant on the date of fulfillment of all the Conditions and to register the Consultant as the holder of the Warrants.

Ranking of the Warrant Shares

The Warrant Shares, when issued, will rank pari passu in all respects with all other Shares in issue at the date of issue and be entitled to all dividends and other distributions the record date of which falls on a date on or after the date of issue.

Mandate

The General Mandate was granted to the Directors pursuant to an ordinary resolution of the Company passed at its annual general meeting on 21 September 2012 to allot and issue up to 20% of the aggregate nominal amount of the share capital of the Company to issue on that date, being HK\$8,259,904.23 and divided into 825,990,423 Shares. The grant of Warrants is not subject to Shareholders' approval.

The Warrant Shares to be issued upon the exercise of the subscription rights attaching to the Warrants will be allotted and issued under the General Mandate. The 350,000,000 Warrant Shares to be allotted and issued upon full exercise of the subscription rights attaching to the Warrants utilises approximately 42.37% of the General Mandate. The General Mandate has not been previously utilised prior to the Service Agreement.

Transferability

The Warrants are transferable in integral multiples of 1,000,000 Warrants. In the event of a transfer of Warrants to a connected person of the Company (as defined under the Listing Rules), prior approval from the Stock Exchange and the Company 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.

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.

REASONS FOR THE GRANT OF THE WARRANTS AND THE USE OF PROCEEDS

The Group is principally engaged in exploration and sale of crude oil, sale of chemical products, commodity trading, property investment and provision of painting service.

The grant of Warrant is part of the incentive offered to the Consultant to promote the business of the Group. The issue of the Warrant Shares as an incentive will have no impact on the cashflow of the Group while the shareholder base of the Company will be enlarged. In view of the Services being provided by the Consultant, the Directors are of the view that the grant of the Warrants will provide the Consultant with the opportunity to participate in the future growth of the Group and at the same time to strengthen the Group's working capital position and enhance its capital base. In addition, in the event the Consultant fully exercise his subscription rights attaching to the Warrants, funds received may cater for future needs for the Company's operation and development. The Company intends to apply such funds towards the general working capital of the Group or for such other purposes as the Directors deem necessary, taking into consideration the requirements of the Company prevailing at the relevant time.

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
12 October 2012	Placing of new shares	Approximately HK\$50,000,000	Approximately HK\$48,200,000 will be used for financing the possible acquisition in the future and the general working capital of the Company	Used as intended

Save as disclosed above, the Company did not raise any other funds by issue of equity securities during the past 12 months. The Directors (including the independent non-executive Directors) believe that the respective terms of the Service Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

As at the date of this announcement, save for the Warrants and the share options granted under the share option scheme of the Company adopted on 21 October 2002, the Company does not have any outstanding share options, convertible bonds or any other securities convertible into Shares.

SHAREHOLDING STRUCTURE OF THE COMPANY

The following table illustrates (i) the existing shareholding structure of the Company; and (ii) the shareholding structure of the Company immediately following the exercise of the Warrants in full (assuming the Conditions are fulfilled):

Shareholder	As at the date of this announcement		Immediately following the exercise of the Warrants in full	
	No. of Shares	%	No. of Shares	%
Mr. Poon Sum (<i>Note 1</i>)	187,298,453	4.22	187,298,453	3.91
Mr. Poon Sau Tin (<i>Note 2</i>)	16,292,453	0.37	16,292,453	0.34
Ever Source (<i>Note 3</i>)	310,262,558	6.98	310,262,558	6.47
Mr. Poon Wai Kong (<i>Note 4</i>)	7,900,000	0.18	7,900,000	0.17
Mr. Wong Kwok Leung (<i>Note 5</i>)	16,285	0.00	16,285	0.00
Mr. Chan Shu Kin (<i>Note 6</i>)	61,500	0.00	61,500	0.00
Mr. Cheung Kwan Hung (<i>Note 7</i>)	234,000	0.01	234,000	0.00
Mr. Chan Kam Ching, Paul (<i>Note 8</i>)	704,000	0.02	704,000	0.02
Public Shareholders				
Convoy	–	–	350,000,000	7.30
Other public Shareholders	3,919,682,870	88.22	3,919,682,870	81.79
Total:	<u>4,442,452,119</u>	<u>100.00</u>	<u>4,792,452,119</u>	<u>100.00</u>

Notes:

- Mr. Poon Sum is the honorary chairman and executive director of the Company and is the brother of Mr. Poon Sau Tin. As at the date of this announcement, Mr. Poon Sum is also interested in 200,000,000 share options and 450,000,000 warrants of the Company which conferred rights to subscribe for 650,000,000 Shares.
- Mr. Poon Sau Tin is the elder brother of Mr. Poon Sum.

3. 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 3,800,000 share options of the Company which conferred rights to subscribe for 3,800,000 Shares.
5. Mr. Wong Kwok Leung is an executive Director and as at the date of this announcement, he is also interested in 3,900,000 share options of the Company which conferred rights to subscribe for 3,900,000 Shares.
6. Mr. Chan Shu Kin is an independent non-executive Director and as at the date of this announcement, he is also interested in 3,800,000 share options of the Company which conferred rights to subscribe for 3,800,000 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 3,800,000 share options of the Company which conferred rights to subscribe for 3,800,000 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 3,800,000 share options of the Company which conferred rights to subscribe for 3,800,000 Shares.

RESPONSIBILITY STATEMENT

This announcement, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

DEFINITIONS

Unless the context requires otherwise, the following words and phrases used in this announcement have the following meanings:

“Board”	the board of Directors
“Company”	PetroAsian Energy Holdings Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed on the Stock Exchange
“Conditions”	the conditions precedent for the grant of the Warrants, details of which are set out in the paragraph headed “Conditions” in this announcement
“Consultant”	Convoy Investment Services Limited (“Convoy”), a company incorporated in Hong Kong with limited liability
“Directors”	directors of the Company
“Exercise Price”	HK\$0.18 per Warrant Share to be allotted and issued upon exercise of the subscription rights attaching to the Warrants
“General Mandate”	the general mandate granted to the Directors by the Shareholders pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 21 September 2012
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“PRC”	the Peoples’ Republic of China, which for the purpose of this announcement, excludes Hong Kong, Macau Special Administrative Region and Taiwan
“Services”	the services provided by the Consultant to the Company which comprise the provision of business development strategies and advisory services including (i) seeking suitable energy projects for the development or diversification of the business of the Company; and (ii) seeking suitable business partners/investors for the Company for fund raising projects
“Service Agreement”	the service agreement entered into between the Group and Convoy dated 29 November 2012
“Share(s)”	the ordinary share(s) of HK\$0.01 each in the capital of the Company
“Shareholders”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Warrants”	the warrants conferring rights to subscribe up to HK\$0.18 for new Warrant Shares, to be granted by the Company to the Consultant upon fulfillment of the Conditions attaching with it the right to subscribe for the Warrant Shares at the Exercise Price, which are exercisable in whole or in part by the Consultant at any time during the Warrants Period
“Warrants Certificate”	the certificate to be issued in respect of the Warrants
“Warrants Period”	the period of 33 months commencing from the date falling three months after the date of issue of the Warrants

“Warrant Shares”	350,000,000 Shares to be issued upon the exercise of the subscription rights attaching to the Warrants which Shares shall rank pari passu in all respects with the Shares in issue at the date of allotment of the Warrant Shares
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent.

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

Hong Kong, 29 November 2012

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