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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)**

### **SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO THE PROPOSAL OF CHANGE OF JOINT AUDITORS**

The Board announces that subsequent to the despatch of the Circular to the Shareholders on 28 May 2010, the Company received a letter from Baker Tilly on 28 May 2010. A response from the Company to the 28 May Letter was sent to Baker Tilly on 4 June 2010.

Reference is made to the announcement of PetroAsian Energy Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 24 May 2010 in relation to, inter alia, the proposed change of auditors of the Group. Reference is also made to the circular (the “**Circular**”) of the Company dated 28 May 2010 together with the notice (the “**Notice**”) convening the extraordinary general meeting of the Company dated 28 May 2010. Capitalised terms used in this announcement shall have the same meaning as those defined in the Circular unless defined otherwise.

Subsequent to the despatch of the Circular to the Shareholders on 28 May 2010, the Company received a letter from Baker Tilly on 28 May 2010 (the “**28 May Letter**”). A response from the Company (the “**Response Letter**”) to the 28 May Letter was sent to Baker Tilly on 4 June 2010.

The Directors do not consider the 28 May Letter contained any material information on the subject matter to be considered at the EGM. The Directors considered that all necessary information for the Shareholders to form an informed decision regarding the resolutions to be approved at the EGM as set out in the Notice have been included in the Circular. Nonetheless, for the purpose of transparency, full text of the 28 May Letter and the Response Letter are set out below.

By Order of the Board  
**PetroAsian Energy Holdings Limited**  
**POON SUM**  
*Chairman*

4 June 2010, Hong Kong

*As at the date of this announcement, the Board consists of (i) three executive Directors namely Mr. POON Sum (Chairman), Mr. WONG Kwok Leung and Mr. POON Wai Kong; (ii) three independent non-executive Directors, namely Mr. CHAN Shu Kin, Mr. CHAN Kam Ching, Paul and Mr. CHEUNG Kwan Hung.*

*The following is a reproduction of the full text of the 28 May Letter:*

28 May 2010

Our Ref: P602/adr/pp/dc/u10

The Board of Directors  
PetroAsian Energy Holdings Limited  
Suite 1006, 10/F Ocean Centre,  
Harbour City,  
Tsim Sha Tsui,  
Kowloon, Hong Kong

Dear Sirs,

**PetroAsian Energy Holdings Limited (the “Company”)**

1. We refer to your announcement (“the Announcement”) to The Stock Exchange of Hong Kong (the “SEHK”) of 24 May 2010 and to earlier emails and discussions we have had with Directors since the end of March.

We were not provided with a copy of the Announcement prior to its publication. We were shown earlier drafts of a possible announcement which were significantly different from this Announcement.

2. We set out below a number of matters which, in our opinion, need to be brought to the attention of holders of securities of the Company under Rule 13.51(4) of the Listing Rules of the SEHK.

**We consent to this letter being supplied to the SEHK and to the holders of securities of the Company.**

**Matters of Principle**

3. As we communicated to you in our email of 20 May 2010, we have considered the request of the Directors of the Company of 23 April 2010 and 17 May 2010 that we should resign forthwith as one of the joint auditors of the Company and its Group and the letter of 7 May 2010 which informed us that the Directors intended to replace us as one of the joint auditors of the Company and its Group.

We have pointed out to the Directors on a number of occasions that we were appointed by the shareholders of the Company and it is to those shareholders that we are responsible.

4. We are of the view that
  - a) there is no reason for us to resign; and
  - b) it would not be in the best interests of those shareholders for their Company to change lead joint auditors at a late stage of the financial reporting and auditing process.

Consequently, for both of these reasons, we declined to resign as joint auditors of the Company and the Group when requested to do so by the Directors.

5. In the discussions and correspondence we have had with Directors since it was first intimated that the Directors wished to replace us, we have been offered various reasons why we should resign and have been provided with drafts of an announcement to be made by the Company under the SEHK Listing Rules in this regard.

As we pointed out in our discussions, these various draft announcements shown to us did not, in our view, fully reflect the circumstances of and reasons for the proposed change of auditors as communicated to us by Directors and by the joint auditors orally and in writing. We attach as Appendix I to this letter a draft announcement which shows in “mark-up” those various and varied explanations.

Consequently, we are not certain that the reasons for our proposed replacement set out in the Announcement fully reflect the circumstances of and reasons for the proposed change of auditors.

6. In any event, we are not persuaded that the various and varied reasons set out in the Announcement or the draft announcements form a reasonable and cogent basis on which to replace the lead joint auditor at such a late stage of the financial reporting and auditing process nor that they outweigh the potential damage to the interests of shareholders of such a late change.
7. As we have reported to the Directors on a number of occasions in our discussions and correspondence, we are concerned about the potential effect on the interests of shareholders should the Company be unable to meet the reporting deadline under the SEHK Listing Rules because of the delays in beginning the main audit work caused by the Directors’ late proposal to replace the lead joint auditor.
8. We further note that a factor reported in the Announcement for the change is that the Directors wish to appoint an audit firm which, in their view, has relatively greater specialisation in the natural resource industry into which the Group is expanding.

We point out that the Company’s email to our firm of 12 May 2010 stated that the Group’s recent expansion in this industry was still “under preliminary stage” and stated that there has been “no material change” in the Group’s operations from the previous year.

Whilst the Directors’ wish to change to an auditor which they claim to have a relatively greater specialisation in the natural resource industry may arguably be a reason for future years, by the Directors’ own submission as set out above, the basis of that wish is not applicable for the current 2009–10 financial report and audit.

#### **Matters of Good Governance and Fair Dealing**

9. We note that in all the various communications and in the Announcement, the Directors have expressed satisfaction with the professionalism and work quality of Baker Tilly Hong Kong Limited (“BTHK”).
10. In recognition of this satisfaction and in the interests of good governance and fair dealing, we request that the Directors extend to us the entitlement for us to attend and be heard at the General Meeting which would be due to us under Section 132 of the Hong Kong Companies Ordinance if the Company was incorporated under that law rather than the laws of the Cayman Islands.

11. If the Directors refuse to allow us the entitlement due under the Hong Kong Companies Ordinance, we request that the business of the General Meeting include a resolution, to be voted upon by the holders of securities of the Company, to allow us to attend and address the General Meeting as we would be entitled to under Hong Kong Law.

### **Matters of Due Process and Transparency**

12. In addition to the matters above, there are a number of other matters relating to due process and transparency which, we believe, need to be brought to the attention of holders of securities of the Company as being relevant to their decision on whether to replace us as joint auditors.

These include:

- a) our first intimation that the Directors wished to replace us was on or about 29 March 2010 when we contacted an Executive Director of the Company to make arrangements for commencing the 2009–10 audit work including arranging attendance at a year-end stock take and access to management accounts etc. We were informed orally that there was no need for these arrangements as the Directors intended to replace us for the 2009–10 audit;
- b) the first formal indication we received of this intention was on 7 April 2010 in a standard “professional courtesy” letter (dated 31 March 2010, prior to the Easter holidays) from the putative replacement auditors which professional standards require. This letter reported that the Directors had invited that audit firm “**to accept nomination to be appointed as joint auditor from the conclusion of the next annual general meeting**”... and that they “**understand that directors have authorised you (BTHK) to discuss the company’s affairs with us.**” (our emphasis);

There are at least three points for consideration:

- i) the other auditor’s letter refers to their appointment from “the next annual general meeting”, which would be for the 2010–11 audit, not the 2009–10 audit;
  - ii) we were not authorised by the directors to discuss the Company’s affairs with the other auditor until 17 May 2010; and
  - iii) it appears that the other auditor received notice of the Directors’ intentions before ourselves, the other joint auditor or the shareholders and SEHK;
- c) regarding fee proposals: we were only invited to submit a fee proposal for the joint audit on 12 May 2010, which was six weeks after we were informed of the Directors’ wishes to replace us and six weeks after the Company’s year end of 31 March 2010 and was also after we had been shown various draft announcements to the SEHK which were to state that we had resigned. We submitted this fee proposal on 14 May 2010;
  - d) the Announcement and its drafts make reference to:
    - i) the relative strengths, experience, resources etc. of the audit firms involved in this matter. We, and we believe our joint auditor Lau & Au Yeung, have never been invited or allowed, despite a number of requests to the Directors, to make a presentation on the strengths, resources etc. of ourselves and the international network of Baker Tilly International. We disagree with the Directors assessment.

In any event, as stated above in paragraph 8, the Company has already informed us that the Company's activities in this industry are still preliminary and that there has been no material change in the Group's operation over the previous year. Consequently, we can see no relevance of this point to the 2009–10 audit; and

- ii) fees being an issue in the Directors' decision. Our reading of these references is that the fee proposal accepted by the Directors is lower than that in which we participated with the joint auditor. It seems to us that it is unusual for a joint auditor to be invited to be a party to two different fee proposals and that the two fee proposals, each of which would include a substantial proportion of the fees due to that joint auditor, could result in two different fees. In our view, shareholders need to understand the relative levels of the two proposals and how they were sought and obtained.
- e) we have requested that the Directors provide us with copies of the minutes of the various meeting of the Board and Audit Committee dating from March 2010 when, according to oral communications from a Director and the Chair of the Audit Committee, the decisions were made that we be replaced or be asked to resign and another audit firm was selected to replace us.

We have not received these minutes nor those of subsequent meetings of the Board and Audit Committee where the matter was considered and which emails from the Company state were held on 17 and on 24 May 2010.

Attention is drawn to paragraph 59 (*sic*) of the Company's Articles of Association which empower us to call on the Directors and officers of the Company for any information relating to the affairs of the Company.

- 13. We would like to assure the shareholders that we have brought these matters to their attention on the basis of our professional and legal responsibilities to the shareholders, who appointed us.

As, however, we indicated to the Directors in our early discussions of this matter, we would be prepared not to be considered as a candidate for joint auditors for next year, 2010–11.

We confirm that we would not offer ourselves for appointment as joint auditors for the 2010–11 financial reporting period at the relevant General Meeting of the Company.

Yours faithfully,

(s.d.)  
Paul Phenix  
Director — Technical and Regulatory Affairs  
For and on behalf of  
Baker Tilly Hong Kong Limited

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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)

**CHANGE OF JOINT AUDITORS**

The Board announces that Baker Tilly Hong Kong Limited has resigned as one of the joint auditors of the Company with effect from [\*], Lau & Au Yeung C.P.A. Limited, being the other joint auditor of the Company, continues to remain in office. To fill the vacancy left by the resignation of Baker Tilly Hong Kong Limited as one of the joint auditors of the Company, the Board proposes to appoint Messrs. Deloitte & Touche Tohmatsu together with Lau & Au Yeung C.P.A. Limited (being the remaining joint auditor of the Company), as the new joint auditors of the Company.

刪除:

The Board of Directors (the “**Board**”) of PetroAsian Energy Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) announces that Baker Tilly Hong Kong Limited (the “**Baker Tilly**”) has tendered its resignation as one of the joint auditors of the Company with effect from [\*], Lau & Au Yeung C.P.A. Limited, being the other joint auditor of the Company, continues to remain in office.

To fill the vacancy left by the resignation of Baker Tilly as one of the joint auditors of the Company, the Board proposes to appoint Messrs. Deloitte & Touche Tohmatsu (“**Deloitte**”), together with Lau & Au Yeung C.P.A. Limited (“**Lau & Au Yeung**”) (being the remaining joint auditor of the Company), as the new joint auditor of the Company. Deloitte and Lau & Au Yeung will become the joint auditors of the Company with effect from [\*] and to hold office until the conclusion of the next annual general meeting of the Company.

刪除: C.P.A. Limited

刪除: happy with the performance

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The reason for the change in auditors is that, while the Company and the audit committee of the Board are always satisfied with the professionalism and work quality of Baker Tilly as one of the joint auditors of the Company in the past, [“after considering and having weighed the respective strengths of Baker Tilly, Deloitte and Lau & Au Yeung in respect of, amongst other matters, the human resources availability both globally and locally, the depth of their experience and exposure in the industry which the Group is currently engaged in, the range of and the strength in other services which the Group can draw upon as well as the fee proposals, the Board (including the members of the audit committee) resolved to propose to appoint Deloitte and Lau & Au Yeung as the new joint auditors of the Company] (PAEH: alternative to “However, as the Group has been shifting its operation emphasis to resources industries in recent years, the Board considers it more appropriate to engage audit firms which have more exposure in those industries”). The Board considers that such decision would be in the best interests of the Company and its shareholders as a whole and could facilitate its future development plans to meet medium to long-term business strategies of the Group.

刪除: the Board has received a number of preferences from various prospective investors and the shareholders of the Company that the Company shall consider to shift to one of the Big-Four international audit firms as the auditors of the Company. After due consideration of the Board and discussions between the Company and Baker Tilly, both of them

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刪除: , and Baker Tilly has therefore agreed to tender its resignation as one of the joint auditors of the Company

Baker Tilly Hong Kong Limited has confirmed in its resignation letter that there are no circumstances connected with its resignation which it considers should be brought to the attention of the members or creditors of the Company. Besides, the Board was not aware of any other matters relating to such resignation that should be brought to the attention of the members or creditors of the Company.

By Order of the Board  
**PetroAsian Energy Holdings Limited**  
**POON SUM**  
*Chairman*

[\*] May 2010, Hong Kong

*As at the date of this announcement, the Board consists of (i) three executive Directors namely Mr. POON Sum (Chairman), Mr. WONG Kwok Leung and Mr. POON Wai Kong; (ii) ~~three~~ independent non-executive directors, namely Mr. CHAN Shu Kin, Mr. CHAN Kam Ching, Paul and Mr. CHEUNG Kwan Hung.*

刪除: ere

*The following is a reproduction of the full text of the Response Letter:*

Date: 4 June 2010

Baker Tilly Hong Kong Limited  
12th Floor, China Merchants Tower  
Shun Tak Centre  
168–200 Connaught Road Central  
Hong Kong  
Attn: Mr. Paul Phenix, Director — Technical and Regulatory Affairs

Dear Sirs

**Re: PetroAsian Energy Holdings Limited (the “Company”):  
Proposed removal of one of the joint auditors of the Company**

We refer to your letter (the “**Letter**”) dated 28 May 2010, which was received by us after 7:30 p.m. on that day. We also refer to the announcement (the “**Announcement**”) of the Company dated 24 May 2010 in relation to the change of auditors of the Company.

Unless the context requires otherwise, capitalised terms used herein shall have the same meanings as those defined in the Announcement.

Whilst the Company has duly noted that your Firm is not “*persuaded*” that the various and varied reasons set out in the Announcement form a reasonable and cogent basis for the proposed change of auditors of the Company, we consider we have, to the extent not prejudicing the interests of the Company and its shareholders as a whole, duly taken into account and considered the comments conveyed to us by your Firm at all material times leading to the Announcement in relation to such change of auditors.

As you have rightly pointed out, as directors of the Company, we would owe a fiduciary duty to the Shareholders and should act in the best interests of the Company and the shareholders as a whole. In arriving at our decision for the change of auditors, we considered we have acted in accordance with the relevant laws, rules, regulations and constitutional documents of the Company. We also hold the view that we have acted in the best interests of the Company and its shareholders as a whole. You would appreciate that, with respect, whether you are persuaded or not by our management decision would be outweighed by our view on what is in the best interests of the Company and the shareholders as a whole which should be our core consideration in arriving at our management decision for the proposed change of the auditors.

Against the above, we feel obliged to reply and put records straight on certain points and issues raised in the Letter as follows:

1. You mentioned in the Letter that you were not provided with a copy of the Announcement prior to its publication. However, according to our records, a copy of the Announcement had been provided to your Mr. Danny Choi (via email) with copy to Mr. Paul Phenix and Mr. Andrew Ross at or around 10:04 p.m. on 24 May 2010.

In or about late March 2010, our Director had indeed orally communicated to your Firm of the intention of the Company to change the auditors of the Company, and had discussed with your Firm to explore the possibility of your Firm resigning from your post



as one of the joint auditors of the Company. In fact and as stated also in your Letter, various drafts of the Announcement prepared on the basis of your voluntary resignation had been provided to you for comments during early April 2010 to late May 2010.

Regrettably, for the period between on or about 1 April 2010 and on or about 19 May 2010, your Firm repeatedly refused to confirm whether your Firm will resign as one of the joint auditor of the Company.

Instead, your Firm had kept requesting for further revised Announcement for review. Various comments on the draft Announcement had been provided by your Firm during the above period, in particular, your Firm suggested that the reasons for the proposed change of auditors to be stated in the Announcement should include “pressure from financial institutions”. The Announcement was therefore revised accordingly for further discussion purpose and a copy was then passed to the Board for review.

However, the Board considered that comments made by certain financial institutions on unofficial occasions should not be and had never been treated as a factor for the consideration of change of auditors. Accordingly, such a reason was deleted from the next draft Announcement.

We regret to say that the Appendix attached to your Letter, which shows only the comparisons made against the two selected drafts of the Announcement (one of which being the draft prepared based on your comments), projects an utterly unfair and misleading picture to the public.

2. We noted your concerns about the potential effect on the interests of the Shareholders should the Company be unable to meet the reporting deadline under the Listing Rules. As mentioned in the Announcement and despite the delay in starting the audit work of our company for the year ended 31 March 2010 resulting from the protracted negotiations on our request for your resignation as mentioned above, we have managed to obtain assurance from Deloitte and Lau & Au Yeung that the stipulated timeframe is achievable. Provided that the appointment of Deloitte as one of the joint auditors is approved at the EGM which would be held on or about 21 June 2010, it is expected that the change of joint auditors of the Company will not affect the audit and the release of annual results of the Company in compliance with the Listing Rules.
3. While the Group’s recent expansion in the natural resource industry is still in a preliminary stage, as disclosed in the Announcement, various natural resource projects had been secured by the Group since April 2009. In order to ensure a smooth operation of the financial management of the Group, the Directors consider it to be essential for the Group to engage an audit firm with relatively greater exposure in natural resource industry and wider geographical coverage and international network as the auditors of the Company at early stage.
4. As advised by our Cayman Islands legal adviser, there is no provision under the Cayman Islands law nor the articles of association of the Company which obliges the Company to allow attendance of general meeting by auditors of the Company or affords the auditors of the Company right to propose a resolution for consideration and approval by Shareholders at the general meeting. As such, after due and careful consideration of the Board, it was resolved that your requests under paragraphs 10 and 11 of your Letter will not be entertained by the Company.

5. As stated in the Announcement, various factors, including fees, have been taken into account by the Directors when considering the proposed change of joint auditors. While the Directors trust that no inference could be drawn upon by the public that the decision of the Directors implies that the fee proposal offered jointly by Deloitte and Lau & Au Yeung is lower than the one being offered by your Firm and Lau & Au Yeung, we would like to clarify that the proposed amount of fees to be charged in the two proposals are the same.

Yours faithfully  
For and on behalf of  
**PetroAsian Energy Holdings Limited**  
**Anson Poon**  
*Director*