



POLYARD PETROLEUM INTERNATIONAL GROUP LIMITED
百田石油國際集團有限公司

(Stock Code : 8011)



2010
Interim Report

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CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

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This report, for which the directors (the “Directors”) of Polyard Petroleum International Group Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the GEM of the Stock Exchange (the “GEM 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:

- 1 the information contained in this report is accurate and complete in all material respects and not misleading;*
- 2 there are no other matters the omission of which would make any statement in this report misleading; and*
- 3 all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

INTERIM RESULTS

The board of Directors (the “Board”) of Polyard Petroleum International Group Limited (the “Company”) would like to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the six months ended 30 June 2010, together with the comparative unaudited figures for the corresponding period in 2009, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2010

| | Notes | Unaudited | | Unaudited | |
|--------------------------------|-------|--------------------|----------------|------------------|-----------------|
| | | Three months ended | | Six months ended | |
| | | 30 June | | 30 June | |
| | | 2010 | 2009 | 2010 | 2009 |
| | | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Turnover | 3 | 818 | — | 818 | 1,689 |
| Cost of sales | | (807) | — | (807) | (1,648) |
| Gross profit | | 11 | — | 11 | 41 |
| Other revenues | | 31 | 537 | 62 | 737 |
| Administrative expenses | | (6,505) | (3,585) | (11,364) | (7,409) |
| Share of results of associates | | (6) | (1,355) | (11) | (1,355) |
| Operating loss | 5 | (6,469) | (4,403) | (11,302) | (7,986) |
| Finance costs | 4 | (6,686) | (6,262) | (13,311) | (12,368) |
| Loss before tax | | (13,155) | (10,665) | (24,613) | (20,354) |
| Income tax | 6 | 722 | 690 | 1,474 | 1,360 |
| LOSS FOR THE PERIOD | | (12,433) | (9,975) | (23,139) | (18,994) |

| | Notes | Unaudited Three months ended 30 June | | Unaudited Six months ended 30 June | |
|---------------------------|-------|--|----------|--|----------|
| | | 2010 | 2009 | 2010 | 2009 |
| | | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Attributable to: | | | | | |
| Owners of the Company | | (12,193) | (9,950) | (22,702) | (18,965) |
| Non-controlling interests | | (240) | (25) | (437) | (29) |
| | | (12,433) | (9,975) | (23,139) | (18,994) |
| Loss per share | | | | | |
| Basic (in HK cents) | 8 | (0.77) | (0.92) | (1.70) | (1.75) |
| Diluted (in HK cents) | | N/A | N/A | N/A | N/A |
| Dividend | 7 | — | — | — | — |

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

| | Unaudited Three months ended 30 June | | Unaudited Six months ended 30 June | |
|--|--|----------------|--|-----------------|
| | 2010 | 2009 | 2010 | 2009 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Loss for the period | (12,433) | (9,975) | (23,139) | (18,994) |
| Other comprehensive income: | | | | |
| Exchange difference arising on translation of foreign operations | 48 | — | — | — |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | (12,385) | (9,975) | (23,139) | (18,994) |
| Attributable to: | | | | |
| Owners of the Company | (12,145) | (9,950) | (22,702) | (18,965) |
| Non-controlling interests | (240) | (25) | (437) | (29) |
| | (12,385) | (9,975) | (23,139) | (18,994) |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

| | | Unaudited | Audited |
|--|--------------|------------------|-----------------|
| | | 30 June | 31 December |
| | | 2010 | 2009 |
| | <i>Notes</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 1,021 | 840 |
| Interests in associates | | 47,633 | 47,645 |
| Interests in jointly controlled entities | | 868,482 | 858,151 |
| Deferred exploration expenditure | | 8,106 | 6,384 |
| | | 925,242 | 913,020 |
| CURRENT ASSETS | | | |
| Amounts due from associates | | 9,762 | 7,603 |
| Trade and other receivables | 10 | 2,883 | 1,005 |
| Cash and bank balances | | 28,828 | 3,212 |
| | | 41,473 | 11,820 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 11 | (39,264) | (88,466) |
| | | (39,264) | (88,466) |
| NET CURRENT ASSETS/(LIABILITIES) | | 2,209 | (76,646) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 927,451 | 836,374 |

| | | Unaudited 30 June 2010 HK\$'000 | Audited 31 December 2009 HK\$'000 |
|--|--------------|--|--|
| | <i>Notes</i> | | |
| NON-CURRENT LIABILITIES | | | |
| Convertible bonds | | (348,380) | (339,205) |
| Deferred tax liabilities | | (7,580) | (9,056) |
| | | (355,960) | (348,261) |
| NET ASSETS | | | |
| | | 571,491 | 488,113 |
| CAPITAL AND RESERVES | | | |
| Share capital | 12 | 16,224 | 10,816 |
| Reserves | | 555,140 | 476,733 |
| Equity attributable to owners of the Company | | 571,364 | 487,549 |
| Non-controlling interests | | 127 | 564 |
| TOTAL EQUITY | | | |
| | | 571,491 | 488,113 |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

| | Unaudited | | | | | | | | | |
|---|---------------|---------------|-----------------|-----------------|---------------------------|------------------|------------------|---------------------------------------|---------------------------|----------|
| | Share capital | Share premium | Special reserve | Warrant reserve | Convertible bonds reserve | Exchange reserve | Retained profits | Attributable to owners of the Company | Non-controlling interests | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| At 1 January 2009 (Audited) | 10,816 | 359,974 | 985 | 4,423 | 62,370 | 15 | 140,039 | 578,622 | 591 | 579,213 |
| Loss for the period | — | — | — | — | — | — | (18,965) | (18,965) | (29) | (18,994) |
| Other comprehensive income for the period | — | — | — | — | — | — | — | — | — | — |
| Total comprehensive income for the period | — | — | — | — | — | — | (18,965) | (18,965) | (29) | (18,994) |
| Issue of convertible bonds for settlement of balance of consideration payable on acquisition of interests in a subsidiary | — | — | — | — | 4,890 | — | — | 4,890 | — | 4,890 |
| Deferred tax liability on issue of convertible bonds | — | — | — | — | (806) | — | — | (806) | — | (806) |
| Non-controlling interests arising on issue of shares by a subsidiary | — | — | — | — | — | — | — | — | 40 | 40 |
| At 30 June 2009 | 10,816 | 359,974 | 985 | 4,423 | 66,454 | 15 | 121,074 | 563,741 | 602 | 564,343 |
| At 1 January 2010 (Audited) | 10,816 | 359,974 | 985 | — | 66,454 | 15 | 49,305 | 487,549 | 564 | 488,113 |
| Loss for the period | — | — | — | — | — | — | (22,702) | (22,702) | (437) | (23,139) |
| Other comprehensive income for the period | — | — | — | — | — | — | — | — | — | — |
| Total comprehensive income for the period | — | — | — | — | — | — | (22,702) | (22,702) | (437) | (23,139) |
| Issue of rights shares | 5,408 | 102,752 | — | — | — | — | — | 108,160 | — | 108,160 |
| Issuing expenses relating to a rights issue | — | (1,643) | — | — | — | — | — | (1,643) | — | (1,643) |
| At 30 June 2010 | 16,224 | 461,083 | 985 | — | 66,454 | 15 | 26,603 | 571,364 | 127 | 571,491 |

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010

| | Unaudited Six months ended 30 June | |
|---|--|------------------|
| | 2010 HK\$'000 | 2009 HK\$'000 |
| Net cash generated from/(used in) operating activities | (26,935) | 7,709 |
| Net cash used in investing activities | (12,373) | (3,852) |
| Net cash generated from/(used in) financing activities | 64,924 | (4,073) |
| Net increase/(decrease) in cash and cash equivalents | 25,616 | (216) |
| Cash and cash equivalents at 1 January | 3,212 | 6,600 |
| Cash and cash equivalents at 30 June | 28,828 | 6,384 |
| Analysis of cash and cash equivalents | | |
| Cash and bank balances | 28,828 | 6,384 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. General information

The Company was incorporated in the Cayman Islands on 6 March 2002 as an exempted company under the Companies Law of the Cayman Islands. The shares of the Company were listed on GEM on 12 July 2002.

The Group is principally engaged in the exploration, exploitation and production of coal, oil and natural gas and trading of petroleum-related products.

2. Basis of preparation

The unaudited condensed consolidated results have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the applicable disclosure requirements of Chapters 18 and 18A of the GEM Listing Rules.

The unaudited condensed consolidated results have been prepared under the historical cost convention, except for interests in associates and jointly controlled entities and certain financial instruments which are measured at fair value.

The accounting policies adopted for preparing the unaudited condensed consolidated results are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2009.

3. Turnover

Turnover represents the net invoice value of products sold after allowances for returns and trade discounts.

| | Unaudited Three months ended 30 June | | Unaudited Six months ended 30 June | |
|-------------------------------------|--|------------------|--|------------------|
| | 2010 HK\$'000 | 2009 HK\$'000 | 2010 HK\$'000 | 2009 HK\$'000 |
| Sales of petroleum-related products | 818 | — | 818 | 1,689 |

4. Finance costs

| | Unaudited Three months ended 30 June | | Unaudited Six months ended 30 June | |
|---|--|--------------|--|---------------|
| | 2010 | 2009 | 2010 | 2009 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Effective interest on convertible bonds | 6,682 | 6,262 | 13,287 | 12,368 |
| Bank interest | 4 | — | 24 | — |
| | 6,686 | 6,262 | 13,311 | 12,368 |

5. Operating loss

Operating loss is arrived at after charging:

| | Unaudited Three months ended 30 June | | Unaudited Six months ended 30 June | |
|---|--|----------|--|----------|
| | 2010 | 2009 | 2010 | 2009 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Staff costs (including directors' remuneration) | | | | |
| — Salaries and other benefits | 2,831 | 1,561 | 5,176 | 3,097 |
| — Retirement scheme contributions | 19 | 16 | 48 | 29 |
| Depreciation of property, plant and equipment | 79 | 70 | 150 | 139 |

6. Income tax

| | Unaudited Three months ended 30 June | | Unaudited Six months ended 30 June | |
|----------------------------------|--|----------|--|----------|
| | 2010 | 2009 | 2010 | 2009 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Current tax | | | | |
| — Hong Kong | — | — | — | — |
| — Other jurisdictions | — | (2) | — | (2) |
| Deferred tax | 722 | 692 | 1,474 | 1,362 |
| Income tax credit for the period | 722 | 690 | 1,474 | 1,360 |

No provision for Hong Kong profits tax has been provided as there was no assessable income in Hong Kong during the period (2009: Nil). Taxes on profits assessable in other jurisdictions are calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

Deferred tax for the period represents income tax recognised on reversal of temporary differences arising from convertible bonds.

No deferred tax has been recognised on loss for the period (2009: Nil) due to unpredictability of future taxable profits that will be available against which the tax losses can be utilised.

7. Dividend

The Board does not recommend the payment of a dividend for the period (2009: Nil).

8. Loss per share

The calculations of the basic loss per share are based on the following data:

Basic loss per share

| | Unaudited Three months ended 30 June | | Unaudited Six months ended 30 June | |
|--|--|------------------|--|------------------|
| | 2010 HK\$'000 | 2009 HK\$'000 | 2010 HK\$'000 | 2009 HK\$'000 |
| Loss for the period attributable to owners of the Company | 12,193 | 9,950 | 22,702 | 18,965 |
| Loss for the period for calculation of basic loss per share | 12,193 | 9,950 | 22,702 | 18,965 |
| | '000 | '000 | '000 | '000 |
| Weighted average number of ordinary shares in issue for the period | 1,580,800 | 1,081,600 | 1,332,579 | 1,081,600 |

Pursuant to an ordinary resolution passed on 15 March 2010, every five ordinary shares of HK\$0.002 each in the issued and unissued share capital of the Company were consolidated into one consolidated ordinary share of HK\$0.01 each in the issued and unissued share capital of the Company. The calculation of the basic loss per share is based on the number of ordinary shares which are assumed to have been consolidated throughout the periods ended 31 March and 30 June 2010 and 2009.

No diluted loss per share is presented as the conversion of the outstanding convertible bonds of the Company is anti-dilutive.

9. Segment information

For the six months ended 30 June 2010, the Group has 2 reportable segments — (1) exploration of coal, oil and natural gas and (2) trading of petroleum related products. These segments are managed separately as they belong to different industries and require different operating systems and strategies. There are no sales or other transactions between these reporting segments.

9. Segment information (Continued)

An analysis of the Group's reportable segment revenues, results, assets, liabilities and other selected financial information is presented below:

(a) Reportable Segments

Segment revenues and results

| | Unaudited Six months ended 30 June 2010 | | | Unaudited Six months ended 30 June 2009 | | |
|--|---|---|-----------------|---|--|-----------------|
| | Exploration of coal, oil and natural gas | Trading of petroleum- related products | Total | Exploration of coal, oil and natural gas | Trading of petroleum related products | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Turnover: | | | | | | |
| Revenues from external customers | — | 818 | 818 | — | 1,689 | 1,689 |
| Interest income | — | 1 | 1 | — | 2 | 2 |
| Other revenues | — | — | — | 221 | — | 221 |
| Total income | — | 819 | 819 | 221 | 1,691 | 1,912 |
| Reportable segment profit/(loss) before tax | (3,604) | (63) | (3,667) | (2,917) | 59 | (2,858) |
| Unallocated corporate income | | | 61 | | | 514 |
| Unallocated corporate expenses | | | (7,685) | | | (4,287) |
| Unallocated interest expense | | | (13,311) | | | (12,368) |
| Share of results of associates | | | (11) | | | (1,355) |
| Loss before tax | | | (24,613) | | | (20,354) |
| Income tax | | | 1,474 | | | 1,360 |
| Loss for the period | | | (23,139) | | | (18,994) |

9. Segment information (Continued)

(a) Reportable Segments (Continued)

Segment assets and liabilities

| | Unaudited As at 30 June 2010 | | | Audited As at 31 December 2009 | | |
|---|---|---|----------------|---|---|----------------|
| | Exploration of coal, oil and natural gas | Trading of petroleum- related products | Total | Exploration of coal, oil and natural gas | Trading of petroleum- related products | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Assets: | | | | | | |
| Segment assets | 2,698 | 2,070 | 4,768 | 9,081 | 1,096 | 10,177 |
| Interests in associates | 47,633 | | 47,633 | 47,645 | | 47,645 |
| Interest in jointly controlled entities | 868,482 | | 868,482 | 858,151 | | 858,151 |
| Unallocated corporate assets | | | 45,832 | | | 8,867 |
| Total assets | | | 966,715 | | | 924,840 |
| Liabilities: | | | | | | |
| Segment liabilities | 1,071 | 1,056 | 2,127 | 61,501 | — | 61,501 |
| Unallocated corporate liabilities | | | 393,097 | | | 375,226 |
| Total liabilities | | | 395,224 | | | 436,727 |

Other segment information

| | Unaudited Six months ended 30 June 2010 | | | | Unaudited Six months ended 30 June 2009 | | | |
|---------------------|---|---|-------------|----------|---|---|-------------|----------|
| | Exploration of coal, oil and natural gas | Trading of petroleum- related products | Unallocated | Total | Exploration of coal, oil and natural gas | Trading of petroleum- related products | Unallocated | Total |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Depreciation | 117 | — | 33 | 150 | 105 | — | 34 | 139 |
| Capital expenditure | 250 | — | 81 | 331 | 43 | — | 11 | 54 |

9. Segment information (Continued)

(b) Geographical Information

The following table sets out information about the geographical location of (i) the Group's revenues from external customers and (ii) the Group's property, plant and equipment, intangible assets, goodwill and interests in associates and jointly controlled entities ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the physical location of the assets in the case of property, plant and equipment, the location of the operation to which they are allocated in the case of intangible and goodwill, and the location of operations in the case of interests in associates and jointly controlled entities.

| | Revenues from external customers | | Specified non-current assets | |
|--|-------------------------------------|----------|---------------------------------|------------------------|
| | Unaudited | | Unaudited 30 June 2010 | Audited |
| | Six months ended 30 June | | | 31 December 2009 |
| | 2010 | 2009 | 2010 | 2009 |
| HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | |
| Mainland China, including Hong Kong and Macau | 818 | 1,689 | 1,021 | 840 |
| Brunei | — | — | 868,482 | 858,151 |
| Philippines | — | — | 55,739 | 54,029 |
| | 818 | 1,689 | 925,242 | 913,020 |

10. Trade and other receivables

The Group has a policy of allowing average credit period ranging from 2 weeks to 1 month to its trade customers. In addition, for certain customers with long-established relationship and good past repayment histories, a longer credit period may be granted.

| | Unaudited 30 June 2010 | Audited 31 December 2009 |
|--|---------------------------------------|--------------------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Trade receivables | 1,022 | 65 |
| Other debtors, deposits and prepayments | 1,861 | 940 |
| | 2,883 | 1,005 |
| An aged analysis of trade receivables is as follows: | | |
| 31 to 60 days | — | 65 |
| 61 to 90 days | 1,022 | — |
| | 1,022 | 65 |

11. Trade and other payables

| | Unaudited 30 June 2010 | Audited 31 December 2009 |
|---|---------------------------------------|--------------------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Trade payables | 944 | — |
| Other creditors and accrued charges | 2,793 | 5,216 |
| Amounts due to related parties | 28,320 | 51,414 |
| Amounts due to shareholders | 7,061 | 31,662 |
| Amounts due to associates | 146 | 174 |
| | 39,264 | 88,466 |
| An aged analysis of trade payables is as follows: | | |
| 61 to 90 days | 944 | — |

The amounts due to related parties, shareholders and associates are unsecured, interest-free and have no fixed terms of repayment.

12. Share capital

| | 30 June 2010 | | 1 January 2010 | |
|--------------------------------------|---------------------|---------------|---------------------|---------------|
| | Number of shares | Amount | Number of shares | Amount |
| | '000 | HK\$'000 | '000 | HK\$'000 |
| <i>Authorised:</i> | | | | |
| Ordinary shares of HK\$0.01 | | | | |
| (1 January 2010: HK\$0.002) each | | | | |
| — At 30 June 2010 and 1 January 2010 | 2,000,000 | 20,000 | 10,000,000 | 20,000 |
| <i>Issued and fully paid:</i> | | | | |
| Ordinary shares of HK\$0.01 | | | | |
| (1 January 2010: HK\$0.002) each | | | | |
| — At 30 June 2010 and 1 January 2010 | 1,622,400 | 16,224 | 5,408,000 | 10,816 |

Pursuant to an ordinary resolution passed in the extraordinary general meeting on 15 March 2010, every five ordinary shares of HK\$0.002 each in the issued and unissued share capital of the Company were consolidated into one consolidated ordinary share of HK\$0.01 each in the issued and unissued share capital of the Company.

A rights issue was completed on 8 April 2010 and 540,800,000 rights shares were allotted and issued at a subscription price of HK\$0.20. The rights shares rank *pari passu* in all respects with the existing shares of the Company.

13. Commitments

(a) Capital commitments

The capital commitments outstanding contracted for but not provided for are as follows:

| | Unaudited 30 June 2010 HK\$'000 | Audited 31 December 2009 HK\$'000 |
|---|--|--|
| Contributions to jointly controlled entities and an associate | 202,514 | 122,166 |

(b) Operating lease commitments

The total future minimum lease payments under non-cancelable operating leases are as follows:

| | Unaudited 30 June 2010 HK\$'000 | Audited 31 December 2009 HK\$'000 |
|-----------------|--|--|
| Properties | | |
| — within 1 year | 546 | 1,428 |

14. Related party transactions

In addition to the transactions and balances disclosed elsewhere in these unaudited condensed consolidated financial statements, the Group had the following material transactions with related parties:

| | Notes | Unaudited Three months ended 30 June | | Unaudited Six months ended 30 June | |
|----------------------------|-------|--|----------|--|----------|
| | | 2010 | 2009 | 2010 | 2009 |
| | | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Licence fee income | I | 30 | 60 | 60 | 60 |
| Convertible bonds interest | II | 6,682 | 6,262 | 13,287 | 12,368 |

Notes:

- I The licence fee income was charged by the Company for usage of office with a related company in which Mr. Lam Nam ("Mr. Lam"), a major shareholder of the Company, held material interests.
- II The convertible bonds interest represented the effective interest charged on convertible bonds issued by the Company to Mr. Lam and a company beneficially owned by Mr. Lam.

15. Comparative figures

Certain comparative figures have been reclassified to conform with the current period's presentation.

16. Event after the reporting date

The Company announced on 19 July 2010 that the trading in the Company's shares was suspended with effect from 9:30 am on 20 July 2010 pending the publication of an report in relation to a proposed rights issue. Suspension of trading in shares of the Company will continue until the report in relation to the proposed rights issue is published. For details, please refer to the Company's reports published on 19 July 2010 and 27 July 2010 respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

For the six months ended 30 June 2010, the Group generated an unaudited turnover of approximately HK\$818,000, as compared with approximately HK\$1,689,000 for the six months ended 30 June 2009 as a result of sluggish sales of petroleum-related products.

The Group recorded a net loss attributable to owners of the Company of approximately HK\$22,702,000 for the period as compared to a net loss attributable to owners of the Company of approximately HK\$18,965,000 for the corresponding period last year.

Administrative expenses for the period amounted to approximately HK\$11,364,000, representing an increase of approximately HK\$3,955,000, or 53%, as compared with the corresponding period last year. It was mainly attributable to the increase in overseas travelling expenses and staff costs necessitated by heightened project activities.

Finance costs for the period amounted to approximately HK\$13,311,000 (2009: approximately HK\$12,368,000). The increase in interest costs was mainly due to the fact that the HK\$12 million convertible bond, which was issued in early February 2009, was outstanding for the entire period in 2010.

The Group engages in the business of exploration and exploitation of energy and resources. As most of the projects are still in the exploratory phase, the Group would have to sustain losses. Profitability will commence when the projects progress to the exploitative phase with output of commercial quantity.

Share Consolidation and Rights Issue

Pursuant to an ordinary resolution passed in the extraordinary general meeting on 15 March 2010, every five ordinary shares of HK\$0.002 each in the issued and unissued share capital of the Company were consolidated into one consolidated ordinary share of HK\$0.01 each in the issued and unissued share capital of the Company. A rights issue at the subscription price of HK\$0.20 per rights share on the basis of one rights share for every two existing shares was completed on 8 April 2010. Details of the rights issue and share consolidation were published in the Company's circular and prospectus issued to shareholders on 26 February 2010 and 16 March 2010 respectively.

As a result of the share consolidation and rights issue, (i) the conversion price of convertible bond in the principal amount of HK\$276,352,231.22 was adjusted from HK\$0.43 per share to HK\$1.792 per consolidated share, and (ii) the conversion price of convertible bond in the principal amount of HK\$120,000,000 was adjusted from HK\$0.048 per share to HK\$0.216 per consolidated share, with effect from 16 March 2010. For details, please refer to the Company's report published on 16 March 2010.

Proposed Transfer of Listing

The Company submitted a formal application to the Stock Exchange on 6 January 2010 for the proposed transfer of listing of the shares from GEM to the Main Board of the Stock Exchange under Chapter 9A of the Listing Rules. On 11 March 2010, the application was rejected by the Stock Exchange on the ground that the Company did not fulfill the requirement under Rules 18.02(1) and 18.09(8). After due consideration, the Board decided not to apply for the review of the Listing Committee. However, the Board is committed to continue to further explore the feasibilities of the proposed transfer upon further progress of the Group's projects. For details, please refer to the Company's report published on 11 March 2010 and 1 April 2010.

Proposed Acquisition

The Board announced that on 19 April 2010, Win Easy International Limited (“Purchaser”), a wholly-owned subsidiary of the Company, entered into a Share Purchase Agreement with Mr. Lam Nam, a substantial shareholder of the Company, for the acquisition of the entire issued shares of Mass Leader Inc., which was beneficially owned by Mr. Lam Nam (“Vendor”), for a total consideration of HK\$80,000,000.

On 31 May 2010, the Vendor and the Purchaser entered into the Termination Agreement to terminate the Share Purchase Agreement.

The Directors are of the view that (i) the entering into of the Termination Agreement has no adverse effect to the Company and does not have any impact on the long term development of the Group; and (ii) the terms of the Termination Agreement are fair and reasonable to the Company.

For details, please refer to the Company’s report published on 31 May 2010.

Liquidity and Financial Resources

As at 30 June 2010, the Group had current assets of approximately HK\$41,473,000 (31 December 2009: HK\$11,820,000) which comprised cash and bank balances of approximately HK\$28,828,000 (31 December 2009: HK\$3,212,000) and current liabilities of approximately HK\$39,264,000 (31 December 2009: HK\$88,466,000). The current ratio was 105.6% (31 December 2009: 13.4%). There was no bank borrowing as at 30 June 2010 (31 December 2009: Nil).

For the period ended 30 June 2010, the Group financed its operations mainly with the funds provided by the substantial shareholder and proceeds from the rights issue.

As at 30 June 2010, the gearing ratio of the Group based on the net debt to the shareholders’ equity was 69% (31 December 2009: 89%).

Operations of the Group are mainly conducted in Renminbi (“RMB”), Hong Kong Dollars (“HK\$”) and United States Dollars (“US\$”) and its revenue, expenses, assets and liabilities and borrowings are principally denominated in RMB, HK\$ and US\$, which do not pose significant foreign currency risk at present.

Contingent Liabilities

The Group had no contingent liability as at 30 June 2010 (31 December 2009: Nil).

Employee Information

The Group had a total number of staff of approximately 50 (31 December 2009: approximately 50). Remuneration packages are reviewed on a periodical basis. Bonus is awarded to employees according to the assessment of individual performance. Besides, a share option scheme was adopted by the Company, pursuant to which the Directors may offer to any eligible employees (including executive Directors and independent non-executive Directors) of the Company and any of its subsidiaries, options to subscribe for shares in the Company in accordance with the terms of the share option scheme. However, save for the share options granted prior to the listing, no other options have been granted up to 30 June 2010. Staff cost was approximately HK\$5.2 million for the six months ended 30 June 2010 as compared with the corresponding period of approximately HK\$3.1 million in 2009.

Prospects

Brunei Block M Oil and Gas Project

This oil and gas project in Brunei has been progressing in accordance with the 2010 work program and its budget approved by Brunei National Petroleum Company Sdn. Bhd. A comprehensive basin analysis study was completed in the first quarter of 2010 and data interpretation was completed in the second quarter of 2010. The 2010 seismic program includes 3D acquisition which will cover approximately 136 square kilometers. The seismic crew mobilization began

in July and the program is expected to be completed by the end of 2010. The rig for drilling the first exploration well (Mawar-1) has arrived and the well drilling is expected to begin in mid-August. Site construction for the second well (Markisa-1) is in progress while topographical and geological surveys for additional sites with potentials are being performed. If Mawar-1 will prove to be successful, production test is expected to take place in the fourth quarter of 2010.

Philippines Central Luzon Gas Project

A regional comprehensive geological study of stratum classification, gas source rock features and structure characteristics of the basin in Central Luzon Area 2 was carried out in the second quarter and finished in June 2010. A comprehensive workover plan for well Victoria-3 has just been completed and will be provided to Department of Energy of the Philippines in mid-August for approval. Instead of drilling in a new location, our experts opted to take on a workover program which will take place in the third quarter of 2010.

Philippines San Miguel Coal Mine Project

The project has proceeded into the development phase. The phase-2 road construction, which will extend the vehicle-assessable road into the initial mining area, is under planning and geological assessment is being conducted. A large scale topographic survey and mapping have been processed and completed. Our experts are in the process to prepare the site for commercial production.

Summary of Expenditure Incurred for Projects

A summary of expenditure incurred for the above projects by the Group for the six months ended 30 June 2010 is as follow:

| | Unaudited | |
|--|-------------------------|-----------------|
| | Six months ended | |
| | 30 June | |
| | 2010 | 2009 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Brunei Block M Oil and Gas Project | 10,387 | 362 |
| Philippines Central Luzon Gas Project | 3,520 | 2,148 |
| Philippines San Miguel Coal Mine Project | 509 | 1,919 |

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND/OR SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS

As at 30 June 2010, none of the Directors and chief executives of the Company had any interests and/or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be entered in the register referred to therein pursuant to Section 352 of the SFO, or which were required, pursuant to Rules 5.48 to 5.67 of the GEM Listing Rules relating to the securities transactions by Directors, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND/OR SHORT POSITIONS IN THE SHARES AND/OR UNDERLYING SHARES OF THE COMPANY

As at 30 June 2010, the interests and short positions of persons, other than Directors or chief executives of the Company, in the shares and/or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or substantial shareholders as recorded in the register of substantial shareholders required to be kept by the Company under Section 336 of the SFO were as follows:

| Name of person | Number of shares held (Note 1) | Capacity | Approximate percentage of interest |
|--|--------------------------------|--|------------------------------------|
| Lam Nam | 474,563,464 (Note 2) | (L) Interest of a controlled corporation | 29.25% |
| | 154,214,415 (Note 4) | (L) Beneficial owner | 9.51% |
| | 555,555,556 (Notes 3 and 4) | (L) Interest of a controlled corporation | 34.24% |
| Silver Star Enterprises Holdings Inc. (Note 2) | 474,563,464 | (L) Beneficial owner | 29.25% |
| China International Mining Holding Company Limited (Note 3) | 555,555,556 (Note 4) | (L) Beneficial owner | 34.24% |

Notes:

- 1 The letter “L” denotes long positions in shares or underlying shares.
- 2 The entire issued share capital of Silver Star Enterprises Holdings Inc. is beneficially owned by Mr. Lam Nam.
- 3 The entire issued share capital of China International Mining Holding Company Limited is beneficially owned by Mr. Lam Nam.
- 4 These shares may be allotted and issued upon exercise of the conversion rights attaching to the convertible bonds issued by the Company.

Save as disclosed above, as at 30 June 2010, the Directors were not aware of any other person (other than the Directors or chief executives of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTION SCHEMES

Pursuant to the pre-IPO share option scheme (the “Pre-IPO Share Option Scheme”) adopted by the Company on 26 June 2002, certain Directors and participants have been granted options to subscribe for shares at an exercise price of HK\$0.002 per share. All of these share options granted were exercised or lapsed in or before 2008.

No share options under the share option scheme (the “Share Option Scheme”) adopted by the Company on 26 June 2002 were granted, exercised or lapsed during the period.

Details of the Pre-IPO Share Option Scheme and the Share Option Scheme are set out in the Prospectus issued by the Company on 5 July 2002.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the period were rights to acquire benefits by means of acquisition of shares in or debentures of the Company or of any other body corporate granted to any Directors, their respective spouses or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangements to enable the Directors, their respective spouses or children under 18 years of age to acquire such rights in the Company or any other body corporate.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company was not aware of any non-compliance with the required standard of dealings and the code of conduct regarding securities transactions throughout the period ended 30 June 2010.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the period.

PRE-EMPTIVE RIGHTS

There are no provision for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

COMPETING INTERESTS

During the period, none of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the business of the Group.

CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the period, the Company has complied with the requirements of the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules except that the number of the Company's independent non-executive Directors and that of the members of the Audit Committee have decreased below the minimum number as required respectively by the Rules 5.05(1) and 5.28 of the GEM Listing Rules following the resignation of Mr. Chan Kin Cheong on 4 May 2010. The deviation was rectified when the Board announced that Mr. Wong Kon Man Jason has been appointed as an independent non-executive Director and a member of the Audit Committee of the Company with effect from 12 May 2010, within the prescribed period set forth in Rules 5.06 and 5.33 of the GEM Listing Rules.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") with written terms of reference pursuant to the GEM Listing Rules. The duties of the Audit Committee include reviewing and monitoring the financial reporting procedures and internal control system of the Group. Following Mr. Chan Kin Cheong's resignation as an independent non-executive Director on 4 May 2010, the number of the Company's independent non-executive Directors and that of the Members of the Audit Committee have decreased below the minimum number as required respectively by the Rules 5.05(1) and 5.28 of the GEM Listing Rules. The deviation was rectified when the Board announced that Mr. Wong Kon Man Jason has been appointed as an independent non-executive Director and a member of the Audit Committee of the Company with effect from 12 May 2010, within the prescribed period set forth in Rules 5.06 and 5.33 of the GEM Listing Rules.

As at 30 June 2010, the Audit Committee comprised three independent non-executive Directors, namely Mr. Wang Yanhui, Mr. Wong Kon Man Jason and Mr. Pai Hsi-Ping.

The unaudited condensed consolidated financial statements of the Group for the period have been reviewed by the Audit Committee, which is of the opinion that such unaudited condensed consolidated financial statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

For and on behalf of the Board

Kuai Wei

Chairman

Hong Kong, 11 August 2010

At the date of this report, the board of Directors of the Company comprises:

Executive Directors

Mr. Kuai Wei

Mr. Lin Zhang

Mr. Cao Xuejun

Mr. Zhang Xiaobao

Independent Non-Executive Directors

Mr. Wang Yanhui

Mr. Pai Hsi-Ping

Mr. Wong Kon Man Jason