



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

(Stock Code : 8011)

2011

Interim Report

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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 2011, together with the comparative unaudited figures for the corresponding period in 2010, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2011

	Notes	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2011	2010	2011	2010
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	3	—	818	—	818
Cost of sales		—	(807)	—	(807)
Gross profit		—	11	—	11
Other revenues		50	31	51	62
Administrative expenses		(6,241)	(6,505)	(12,858)	(11,364)
Share of results of associates		(1)	(6)	(1)	(11)
Operating loss	5	(6,192)	(6,469)	(12,808)	(11,302)
Finance costs	4	(8,968)	(6,686)	(17,782)	(13,311)
Loss before tax		(15,160)	(13,155)	(30,590)	(24,613)
Income tax	6	1,139	722	2,256	1,474
LOSS FOR THE PERIOD		(14,021)	(12,433)	(28,334)	(23,139)

	Notes	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2011	2010	2011	2010
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Attributable to:					
Owners of the Company		(13,857)	(12,193)	(28,022)	(22,702)
Non-controlling interests		(164)	(240)	(312)	(437)
		(14,021)	(12,433)	(28,334)	(23,139)
Loss per share					
Basic <i>(in HK cents)</i>	8	(1.05)	(1.54)	(2.21)	(3.40)
Diluted <i>(in HK cents)</i>		N/A	N/A	N/A	N/A
Dividend	7	—	—	—	—

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Loss for the period	(14,021)	(12,433)	(28,334)	(23,139)
Other comprehensive income:				
Exchange difference arising on translation of foreign operations	(14)	48	38	—
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	(14,035)	(12,385)	(28,296)	(23,139)
Attributable to:				
Owners of the Company	(13,856)	(12,145)	(27,957)	(22,702)
Non-controlling interests	(179)	(240)	(339)	(437)
	(14,035)	(12,385)	(28,296)	(23,139)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

		Unaudited 30 June 2011	Audited 31 December 2010
	Notes	HK\$'000	HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		881	965
Interests in associates		74,478	74,478
Interests in jointly controlled entities		866,787	866,382
Deferred exploration expenditure		15,211	11,347
		957,357	953,172
CURRENT ASSETS			
Amounts due from associates		12,042	10,155
Trade and other receivables	10	28,224	3,140
Cash and bank balances		29,779	16,646
		70,045	29,941
CURRENT LIABILITIES			
Trade and other payables	11	(2,859)	(10,135)
Amount due to a Director		—	(1)
		(2,859)	(10,136)
NET CURRENT Assets		67,186	19,805
TOTAL ASSETS LESS CURRENT LIABILITIES		1,024,543	972,977
NON-CURRENT LIABILITIES			
Convertible bonds		(358,565)	(344,894)
Deferred tax liabilities		(3,489)	(5,746)
		(362,054)	(350,640)
NET ASSETS		662,489	622,337
CAPITAL AND RESERVES			
Share capital	12	33,491	24,336
Reserves		614,550	597,914
Equity attributable to owners of the Company		648,041	622,250
Non-controlling interests		14,448	87
TOTAL EQUITY		662,489	622,337

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

	Unaudited									
	Attributable to owners of the Company									
	Share capital	Share premium	Special reserve	Exchange reserve	Capital reserve	Convertible bonds reserve	Retained profits/ losses	Total	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 2010 (Audited)	10,816	359,974	985	15	—	66,454	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	15	—	66,454	26,603	571,364	127	571,491
At 1 January 2011 (Audited)	24,336	531,831	985	57	15,392	48,689	960	622,250	87	622,337
Loss for the period	—	—	—	—	—	—	(28,022)	(28,022)	(312)	(28,334)
Other comprehensive income for the period	—	—	—	65	—	—	—	65	(27)	38
Total comprehensive income for the period	—	—	—	65	—	—	(28,022)	(27,957)	(339)	(28,296)
Non-controlling interests arising on acquisition of a subsidiary	—	—	—	—	—	—	—	—	14,700	14,700
Issue of rights shares	9,155	45,776	—	—	—	—	—	54,931	—	54,931
Issuing expenses relating to a rights issue	—	(1,183)	—	—	—	—	—	(1,183)	—	(1,183)
At 30 June 2011	33,491	576,424	985	122	15,392	48,689	(27,062)	648,041	14,448	662,489

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2011

	Unaudited Six months ended 30 June	
	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Net cash used in operating activities	(32,133)	(26,935)
Net cash used in investing activities	(4,370)	(12,373)
Net cash generated from financing activities	49,636	64,924
Net increase in cash and cash equivalents	13,133	25,616
Cash and cash equivalents at 1 January	16,646	3,212
Cash and cash equivalents at 30 June	29,779	28,828
Analysis of cash and cash equivalents		
Cash and bank balances	29,779	28,828

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 oil, natural gas and coal, 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 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 2010.

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	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Sales of petroleum-related products	—	818	—	818

4. Finance costs

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Effective interest on convertible bonds	8,968	6,682	17,782	13,287
Bank interest	—	4	—	24
	8,968	6,686	17,782	13,311

5. Operating loss

Operating loss is arrived at after charging:

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Staff costs (including directors' remuneration)				
— Salaries and other benefits	2,507	2,831	5,110	5,176
— Retirement scheme contributions	18	19	57	48
Depreciation of property, plant and equipment	92	79	186	150

6. Income tax

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax				
— Hong Kong	—	—	—	—
— Other jurisdictions	—	—	—	—
Deferred tax	1,139	722	2,256	1,474
Income tax credit for the period	1,139	722	2,256	1,474

No provision for Hong Kong profits tax has been provided as there was no assessable income in Hong Kong during the period (2010: 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 (2010: 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 (2010: 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	
	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Loss for the period attributable to owners of the Company	13,857	12,193	28,022	22,702
Loss for the period for calculation of basic loss per share	13,857	12,193	28,022	22,702
	'000	'000	'000	'000
Weighted average number of ordinary shares in issue for the period	1,322,438	790,400	1,269,911	666,290

Pursuant to an ordinary resolution passed on 19 May 2011, every two ordinary shares of HK\$0.01 each in the issued and unissued share capital of the Company were consolidated into one consolidated ordinary share of HK\$0.02 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 2011 and 2010.

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 2011, the Group has 2 reportable segments — (1) exploration of oil, natural gas and coal 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 2011			Unaudited Six months ended 30 June 2010		
	Exploration of oil, natural gas and coal	Trading of petroleum- related products	Total	Exploration of oil, natural gas and coal	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
Interest income	—	1	1	—	1	1
Other revenues	—	—	—	—	—	—
Total income	—	1	1	—	819	819
Reportable segment loss before tax	(10,064)	(82)	(10,146)	(3,604)	(63)	(3,667)
Unallocated corporate income			50			61
Unallocated corporate expenses			(2,711)			(7,685)
Unallocated interest expense			(17,782)			(13,311)
Share of results of associates			(1)			(11)
Loss before tax			(30,590)			(24,613)
Income tax			2,256			1,474
Loss for the period			(28,334)			(23,139)

9. Segment information (Continued)

(a) Reportable Segments (Continued)

Segment assets and liabilities

	Unaudited As at 30 June 2011			Audited As at 31 December 2010		
	Exploration of oil, natural gas and coal	Trading of petroleum- related products	Total	Exploration of oil, natural gas and coal	Trading of petroleum- related products	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets:						
Segment assets	20,504	1,053	21,557	24,690	1,994	26,684
Interests in associates	74,478		74,478	74,478		74,478
Interests in jointly controlled entities	866,787		866,787	866,382		866,382
Unallocated corporate assets			64,580			15,569
Total assets			1,027,402			983,113
Liabilities:						
Segment liabilities	359,122	151	359,273	355,772	1,035	356,807
Unallocated corporate liabilities			5,640			3,969
Total liabilities			364,913			360,776

Other segment information

	Unaudited Six months ended 30 June 2011				Unaudited Six months ended 30 June 2010			
	Exploration of oil, natural gas and coal	Trading of petroleum- related products	Unallocated	Total	Exploration of oil, natural gas and coal	Trading of petroleum- related products	Unallocated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation	131	—	55	186	117	—	33	150
Capital expenditure	54	—	48	102	250	—	81	331

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	Audited
	Six months ended 30 June		30 June	31 December
	2011	2010	2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mainland China, including Hong Kong and Macau	—	818	881	965
Brunei	—	—	866,787	866,382
Philippines	—	—	89,689	85,825
	—	818	957,357	953,172

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 2011 <i>HK\$'000</i>	Audited 31 December 2010 <i>HK\$'000</i>
Trade receivables	84	1,051
Other debtors, deposits and prepayments	28,140	2,089
	28,224	3,140
An aged analysis of trade receivables is as follows:		
61 to 270 days	—	984
Over 360 days	84	67
	84	1,051

11. Trade and other payables

	Unaudited 30 June 2011 <i>HK\$'000</i>	Audited 31 December 2010 <i>HK\$'000</i>
Trade payables	—	970
Other creditors and accrued charges	2,170	3,181
Amounts due to related parties	—	4,510
Amounts due to shareholders	543	1,328
Amounts due to associates	146	146
	2,859	10,135
An aged analysis of trade payables is as follows:		
61 to 270 days	—	970

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 2011		1 January 2011	
	Number of shares	Amount HK\$'000	Number of shares	Amount HK\$'000
<i>Authorised:</i>				
Ordinary shares of HK\$0.02 (1 January 2011: HK\$0.01) each				
— At 30 June 2011 and 1 January 2011	5,000,000,000	100,000	4,000,000,000	40,000
<i>Issued and fully paid:</i>				
Ordinary shares of HK\$0.02 (1 January 2011: HK\$0.01) each				
— At 30 June 2011 and 1 January 2011	1,674,563,688	33,491	2,433,600,000	24,336

Pursuant to an ordinary resolution passed in the extraordinary general meeting on 19 May 2011, every two shares of HK\$0.01 each in the issued and unissued share capital of the Company were consolidated into one consolidated share of HK\$0.02 each in the issued and unissued share capital of the Company.

Pursuant to another ordinary resolution passed in the extraordinary general meeting on 19 May 2011, the authorised share capital of the Company was increased from HK\$40,000,000 divided into 2,000,000,000 (after the share consolidation) consolidated shares to HK\$100,000,000 divided into 5,000,000,000 consolidated shares by the creation of 3,000,000,000 new consolidated shares of HK\$0.02 each. Such new consolidated shares rank pari passu in all respects with the existing consolidated shares.

A rights issue was completed on 10 June 2011 and 457,763,688 rights shares were allotted and issued at a subscription price of HK\$0.12. 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 2011 HK\$'000	Audited 31 December 2010 HK\$'000
Contributions to jointly controlled entities and an associate	58,949	140,016

(b) Operating lease commitments

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

	Unaudited 30 June 2011 HK\$'000	Audited 31 December 2010 HK\$'000
Premises		
— due within 1 year	1,665	2,190
— due after 1 year but within 5 years	1,249	649
	2,914	2,839

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	
		2011	2010	2011	2010
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Licence fee income	I	—	30	50	60
Convertible bonds interest	II	8,968	6,682	17,782	13,287

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 8 July 2011:

(1) Share consolidation

The Company proposed to implement a share consolidation on the basis that every two issued and unissued shares will be consolidated into one consolidated share in compliance with Rule 17.76 of the GEM Listing Rules.

16. Event after the reporting date *(Continued)***(2) Debt restructuring**

On 30 June 2011, the Company entered into a conditional subscription agreement with Silver Star Enterprises Holdings Inc. ("Silver Star", a substantial shareholder of the Company which legally and beneficially owns 711,845,196 shares, or approximately 42.51%, of the entire issued share capital of the Company) and Mr. Lam Nam ("Mr. Lam", who legally and beneficially owns the entire issued share capital of Silver Star) pursuant to which (i) the Company will allot and issue to Silver Star 583,333,333 subscription shares at an issue price of HK\$0.240 per subscription share with an aggregate amount of approximately HK\$140,000,000; (ii) the Company will issue to Silver Star convertible notes in an aggregate principal amount of HK\$100,000,000; (iii) Mr. Lam will advance a loan up to HK\$36,352,231.22 to the Company which will be used solely for the redemption of the convertible bonds in the principal amount of HK\$276,352,231.22; and (iv) the Company will redeem all the outstanding convertible bonds which will be due on 10 October 2011.

The convertible notes will bear an interest rate of 3% per annum and will mature on the date falling on the third anniversary of the date of issue of the convertible notes. The loan will be interest free and mature on the date falling on the second anniversary of the date of drawdown of the loan. The issue price of the subscription shares is HK\$0.240 per subscription share and the initial conversion price is HK\$0.250 per conversion share.

For details, please refer to the Company's announcement published on 8 July 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

For the six months ended 30 June 2011, the Group had generated no turnover, as compared with approximately HK\$818,000 for the six months ended 30 June 2010.

The Group recorded a net loss attributable to owners of the Company of approximately HK\$28,022,000 for the period as compared to a net loss attributable to owners of the Company of approximately HK\$22,702,000 for the corresponding period last year.

Administrative expenses for the period amounted to approximately HK\$12,858,000, representing an increase of approximately HK\$1,494,000, or 13%, as compared with the corresponding period last year. It was mainly attributable to the increase in business development expenses.

Finance costs for the period amounted to approximately HK\$17,782,000 (2010: approximately HK\$13,311,000). The increase in interest costs was mainly due to increase in effective interest rate in amortizing a convertible bond which matured in October 2010 and was extended for one year.

The Group engages in the business of exploration and exploitation of energy and resources. Among the three ongoing projects, the oil and gas project in Brunei has completed drilling two exploratory wells while the coal mine project in the Philippines has entered into the development phase. As most of the projects are still in the exploratory phase, the Group continues to incur capitalizable and operating expenses, and sustain losses. Revenues will be generated when the projects progress to the exploitative phase with output of commercial quantity.

Formation of a Joint Venture

On 26 May 2011, a joint venture agreement was entered into between Kanstar Environmental Technology Group Limited (“Kanstar”, a direct wholly-owned subsidiary of the Company) and Dongying Haifa Technology Co., Ltd. (東營市海發科貿有限責任公司) (“Haifa”, a company established in the PRC) in relation to the formation of a joint venture company incorporated under the laws of Hong Kong, namely China New Star Petroleum Drilling Services Co., Ltd. (“China New Star”). The business of China New Star will be oil well drilling and provision of other related technologies and services. The issued share capital of China New Star is HK\$30,000,000, which is 51% owned by Kanstar and 49% by Haifa. For details, please refer to the Company’s announcement published on 26 May 2011.

Share Consolidation, Rights Issue, and Increase in Authorized Share Capital

Pursuant to ordinary resolutions passed in the extraordinary general meeting on 19 May 2011:

- (1) Every two shares of HK\$0.01 each in the issued and unissued share capital of the Company were consolidated into one consolidated share of HK\$0.02 each in the issued and unissued share capital of the Company.
- (2) A rights issue at the subscription price of \$0.12 per rights share on the basis of one rights share for every one consolidated share was completed on 10 June 2011.
- (3) The authorized share capital of the Company was increased from HK\$40,000,000 divided into 2,000,000,000 consolidated shares to HK\$100,000,000 divided into 5,000,000,000 consolidated shares by the creation of 3,000,000,000 new consolidated shares of HK\$0.02 each.

For details, please refer to the Company’s circular and prospectus issued to shareholders on 3 May 2011 and 20 May 2011, 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\$1.624 per share to HK\$2.873 per consolidated share, and (ii) the conversion price of convertible bond in the principal amount of HK\$120,000,000 was adjusted from HK\$0.200 per share to HK\$0.371 per consolidated share, with effect from 20 May 2011. For details, please refer to the Company's announcement published on 20 May 2011.

Liquidity and Financial Resources

As at 30 June 2011, the Group had current assets of approximately HK\$70,045,000 (31 December 2010: HK\$29,941,000) which comprised cash and bank balances of approximately HK\$29,779,000 (31 December 2010: HK\$16,646,000) and had current liabilities of approximately HK\$2,859,000 (31 December 2010: HK\$10,136,000). The current ratio was 2,450% (31 December 2010: 295%). There was no bank borrowing as at 30 June 2011 (31 December 2010: Nil). As at 30 June 2011, the gearing ratio of the Group based on the net debt to the shareholders' equity was 51% (31 December 2010: 55%).

For the period ended 30 June 2011, the Group financed its operations mainly with the funds provided by the substantial shareholder and proceeds from the rights issue.

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

Contingent Liabilities

The Group had no contingent liability as at 30 June 2011 (31 December 2010: Nil).

Employee Information

The Group had a total number of staff of approximately 54 (31 December 2010: approximately 51). 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 2011. Staff cost was approximately HK\$5.1 million for the six months ended 30 June 2011 as compared with the corresponding period of approximately HK\$5.2 million in 2010.

Prospects

Brunei Block M Oil and Gas Project

Two exploration wells, the Mawar-1 and the Markisa-1, were drilled in the third quarter of 2010 and both wells encountered hydrocarbons. They have been cased and suspended pending results of ongoing studies on data acquired from the wells. Testing of the wells to confirm the potential of the discovery has been rescheduled to a later date in 2011 to combine the works of the third well for cost efficiency. Results of these studies will determine the commercial significance of the zone and the most appropriate future course of action. The joint venture has elected to enter into Phase 2 exploration period which will commence on 28 August 2011. The operator is carefully evaluating potential drilling sites for the third well of Phase 1 which is expected to be spudded in late 2011 or early 2012, in conjunction with appraising other potential fields for the drilling requirements of Phase 2.

Philippines Central Luzon Gas Project

The Manila Office is working on the Victoria-3 workover program. An exploration manager and a country manager who are rich in experience in oil and gas exploration and exploitation have joined the team at the end of the first quarter and early second quarter respectively. The project has engaged petrophysics and reservoir engineers to evaluate the Victoria structure of the Central Luzon Basin to ascertain the possibility of the presence of a low resistivity, thin bedded biogenic gas play within volcanoclastic turbidite deposits. Data to be captured will enable the project team to confirm gas shows of this area, help affirm the plan for re-entering Victoria-3 and locate site prospects for future drilling.

Philippines San Miguel Coal Mine Project

The project has progressed into the development phase. Construction of the phase-2 road, which will extend the vehicle-assessable road into the initial mining area, began in the second quarter and is expected to be completed in the third quarter of 2011. Project management has been surveying water-front properties which would allow construction of pier facilities for loading coal shipments and considering to lease an existing port nearby from the Philippine Ports Authority as an alternative. Meanwhile, trees are being counted to prepare for forest clearing; considerable volume of test bores were drilled to determine the depth and thickness of reserves, and samples of coal were sent to laboratories for quality assessment. In anticipating test production to take place in the fourth quarter, the project is recruiting a mining director who will be responsible for enlisting a production team and overseeing 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 2011 is as follow:

	Unaudited Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Brunei Block M Oil and Gas Project	382	10,387
Philippines Central Luzon Gas Project	3,813	3,520
Philippines San Miguel Coal Mine Project	1,003	509

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 2011, save as disclosed below, none of the Directors and chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporation (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 or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to the securities transactions by Directors.

Long positions in shares of an associated corporation

Name of Director	Associated corporation	Capacity	Number of shares	Approximate shareholding percentage
Zhang Xiaobao	Sinotech Polyard Petroleum Exploration & Development Research Institute Limited	Beneficial owner	9,900	9.9%

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

As at 30 June 2011, 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	711,845,196 (Note 2)	(L) Interest of a controlled corporation	42.51%
	96,189,429 (Note 4)	(L) Beneficial owner	5.74%
	323,450,135 (Notes 3 and 4)	(L) Interest of a controlled corporation	19.32%

Name of person	Number of shares held <i>(Note 1)</i>	Capacity	Approximate percentage of interest
Silver Star Enterprises Holdings Inc. <i>(Note 2)</i>	711,845,196	(L) Beneficial owner	42.51%
China International Mining Holding Company Limited <i>(Note 3)</i>	323,450,135 <i>(Note 4)</i>	(L) Beneficial owner	19.32%

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 2011, 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 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 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 2011.

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.

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.

The Audit Committee comprised three independent non-executive Directors, namely Mr. Wang Yanhui, Mr. Pai Hsi-Ping and Mr. Wong Kon Man Jason.

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, 9 August 2011

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

Executive Directors

Mr. Kuai Wei
Mr. Cao Xuejun
Mr. Zhang Xiaobao
Mr. Lin Zhang

Independent Non-Executive Directors

Mr. Wang Yanhui
Mr. Pai Hsi-Ping
Mr. Wong Kon Man Jason