



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

(Stock Code: 8011)



2015

First Quarterly Report

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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.

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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.*

FIRST QUARTERLY 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 three months ended 31 March 2015, together with the comparative unaudited figures for the corresponding period in 2014, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three months ended 31 March 2015

	Notes	Unaudited Three months ended 31 March	
		2015 HK\$'000	2014 HK\$'000
Turnover		—	—
Administrative and other operating expenses		(5,778)	(3,908)
Finance costs	3	(265)	(3,574)
Share of results of associates		(2)	(3)
Loss before tax	4	(6,045)	(7,485)
Income tax	5	—	555
LOSS FOR THE PERIOD		(6,045)	(6,930)
Attributable to:			
Owners of the Company		(6,025)	(6,883)
Non-controlling interests		(20)	(47)
		(6,045)	(6,930)
Loss per share	6		
Basic (in HK cents)		0.308	0.376
Diluted (in HK cents)		N/A	N/A
Dividend	7	—	—

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2015

	Unaudited Three months ended 31 March	
	2015	2014
	HK\$'000	HK\$'000
Loss for the period	(6,045)	(6,930)
Other comprehensive income/(expense):		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(13)	(190)
TOTAL COMPREHENSIVE EXPENSE FOR THE PERIOD	(6,058)	(7,120)
Attributable to:		
Owners of the Company	(6,036)	(7,077)
Non-controlling interests	(22)	(43)
TOTAL COMPREHENSIVE EXPENSE FOR THE PERIOD	(6,058)	(7,120)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2015

	Unaudited									
	Attributable to owners of the Company									
	Share capital	Share premium	Special reserve	Exchange reserve	Capital reserve	Convertible bonds reserve	Retained profits/ (Accumulated losses)	Subtotal	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 2014 (Audited)	73,320	779,742	985	(217)	49,319	13,013	201,696	1,117,858	126,200	1,244,058
Total comprehensive expense for the period	—	—	—	(194)	—	—	(6,883)	(7,077)	(43)	(7,120)
At 31 March 2014	73,320	779,742	985	(411)	49,319	13,013	194,813	1,110,781	126,157	1,236,938
At 1 January 2015 (Audited)	77,502	797,182	985	(141)	49,319	—	(851,435)	73,412	51,656	125,068
Total comprehensive expense for the period	—	—	—	(11)	—	—	(6,025)	(6,036)	(22)	(6,058)
Issue of shares	4,000	15,475	—	—	—	—	—	19,475	—	19,475
At 31 March 2015	81,502	812,657	985	(152)	49,319	—	(857,460)	86,851	51,634	138,485

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 Financial Reporting Standards 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 joint ventures 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 2014.

3. Finance costs

	Unaudited Three months ended 31 March	
	2015	2014
	HK\$'000	HK\$'000
Imputed interest on convertible bonds	—	3,483
Imputed interest on promissory note	258	—
Bank interest	—	91
Finance lease interest	7	—
	265	3,574

4. Loss before tax

Loss before tax is arrived at after charging:

	Unaudited Three months ended 31 March	
	2015	2014
	HK\$'000	HK\$'000
Staff costs (including directors' remuneration)		
— Salaries and other benefits	3,671	1,871
— Retirement scheme contributions	76	66
Depreciation of property, plant and equipment	80	47

5. Income tax

	Unaudited Three months ended 31 March	
	2015	2014
	HK\$'000	HK\$'000
Current tax		
— Hong Kong	—	—
— PRC enterprise income tax	—	—
— Other jurisdictions	—	—
Deferred tax	—	555
Income tax credit for the period	—	555

Hong Kong profits tax is calculated at the rate of 16.5% (2014: 16.5%) on the estimated assessable profit for the period. PRC subsidiaries are subject to PRC enterprise income tax at the rate of 25% (2014: 25%). 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 2014 represented income tax recognised on reversal of temporary differences arising from convertible bonds.

No deferred tax has been recognised on loss for the period (2014: Nil) due to unpredictability of future taxable profits that will be available against which the tax losses can be utilised.

6. Loss per share

The calculation of the basic loss per share is based on the following data:

	Unaudited Three months ended 31 March	
	2015	2014
	HK\$'000	HK\$'000
Loss for the period attributable to owners of the Company	(6,025)	(6,883)
Loss for the period for calculation of basic loss per share	(6,025)	(6,883)
	'000	'000
Weighted average number of ordinary shares in issue for the period	1,953,093	1,832,991

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

7. Dividend

The Board does not recommend the payment of a dividend for the period (2014: Nil).

8. Event after the end of the reporting period

On 13 April 2015, the Company early redeemed the promissory note issued to Mr. Lam Nam, the substantial shareholder at the principal amount of HK\$9,800,000. The promissory note accrued interest at the rate of 3% per annum and was due on 13 April 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

The Group did not generate any turnover for the period ended 31 March 2015 (2014: Nil).

The Group recorded a net loss attributable to owners of the Company of approximately HK\$6,025,000 for the period as compared to a net loss attributable to owners of the Company of approximately HK\$6,883,000 for the corresponding period last year.

Administrative expenses for the period amounted to approximately HK\$5,778,000 representing an increase of approximately HK\$1,870,000 or 48%, as compared with the corresponding period last year. The increase was mainly attributable to increase in legal and professional fees and employee costs.

Finance costs for the period amounted to approximately HK\$265,000 (2014: approximately HK\$3,574,000). The decrease in interest costs was mainly resulted from the cancellation of the convertible bonds in the amount of HK\$120,000,000 and conversion of the convertible bonds in the amount of HK\$16,000,000 in 2014.

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 continues to incur capitalizable and operating expenses, and sustain losses.

Subscription of New Shares

On 11 March 2015, the Company entered into a new shares subscription agreement (the “New Shares Subscription Agreement”) with an independent third party and pursuant to which, the independent third party agreed to subscribe for and the Company agreed to allot and issue a total of 100,000,000 new shares at the subscription price of HK\$0.195 per new share (the “Subscription”). On 18 March 2015, the New Shares Subscription Agreement was completed. The net proceeds from the subscription shares after deducting the related expenses in connection with the Subscription are approximately HK\$19,000,000.

Further details of the above are explained in the Company’s announcements dated 12 March 2015, 13 March 2015 and 18 March 2015.

Capitalization of Shareholder’s Loan and Increase of Authorized Share Capital of the Company

On 11 March 2015, the Company and Silver Star Enterprises Holdings Inc., (“Silver Star”) entered into a subscription agreement (the “Subscription Agreement”) whereby Silver Star agreed to subscribe for, and the Company agreed to issue and allot for an aggregate of 650,000,000 new shares at the subscription price of HK\$0.195 per new share to settle a loan of HK\$126,750,000 owed by the Group to Mr. Lam Nam (“Mr. Lam”), the controlling shareholder of the Company (the “Capitalization of Shareholder’s Loan”). Silver Star is a company incorporated under the laws of the British Virgin Islands and is wholly-owned by Mr. Lam.

In order to have sufficient authorised share capital to accommodate the allotment of new shares pursuant to the Subscription Agreement, and future expansion and growth of the Company, the directors of the Company proposed to increase the authorised share capital of the Company (the “Share Capital Increase”). The Capitalization of Shareholder’s Loan and the Share Capital Increase were approved at the extraordinary general meeting of the Company held on 4 May 2015.

As a result, the authorised share capital of the Company was increased from HK\$100,000,000 divided into 2,500,000,000 shares of HK\$0.04 each to HK\$200,000,000 divided into 5,000,000,000 shares of HK\$0.04 each by the creation of 2,500,000,000 new shares of HK\$0.04 each on 4 May 2015.

Upon completion of Capitalization of Shareholder's Loan, 650,000,000 ordinary shares were allotted and issued at HK\$0.195 per share to Silver Star by way of set off against a loan of HK\$126,750,000 owned by the Group to Mr. Lam on 8 May 2015.

Further details of the above are explained in the Company's announcement dated 12 March 2015, 13 March 2015 and 8 May 2015 and Company's circular dated 10 April 2015.

Prospects

Philippines Central Luzon Gas Project

The project's original 2012 work program was for reentry work at the Victoria-3 well and drilling a new well. However, the re-entry activity and the drilling a new well were delayed due to rig availability. In 2012, project management gave up the re-entry work and, instead, conducted a further support study for a new drilling plan. The support study, and new well design had continued into 2013. As a result of the above-described delay, applications for extensions of the current exploration subphase to 28 February 2016 have been granted by the Department of Energy, on condition that one exploration well will be drilled by end of this sub-phase. It is intended that the rig currently sourced for the Cebu project will be mobilized to Central Luzon to drill the well in 2015.

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 2011 but was suspended pending receipt of clearance from governmental agencies overseeing environmental protection. Construction can only be resumed upon the grant of tree cutting permit. A moratorium on the work commitments for the project has been granted by the Department of Energy to 31 December 2015.

Philippines South Cebu Oil and Gas Project

The project (“SC49”) is situated at the southern part of Cebu, central Philippines. Oil and gas had been discovered in previous drillings. China International Mining Petroleum Company Limited (“CIMP”) acquired 80% participating interests of SC49 and became the operator of SC49 in July 2009. The Group indirectly acquired 51% of CIMP’s issued capital in October 2012, and an additional 12% in April 2014, bringing the effective interest in the project to 50.4% after the latest acquisition.

CIMP signed a drilling service agreement with a contractor in March 2014 for SC49 and spudded its first appraisal well, Polyard-2 (“P2”), on 22 October, 2014. After 47 days of operations, drilling was completed at 1,252 meters. Subsequently, P2 well underwent wireline logging activities and completed oil testing operations on 2 February 2015. After carrying out different tests, it has proven that the block has tested gas with daily production capacity of over 80,000 cubic meters. The Group’s team now is conducting preparation work to turn the well into a production well.

The drilling rig has been moved to Block No. 6 in mid-February 2015 to drill Polyard-1 well ("P1"). Based on the geological design, P1 will explore mainly for oil zones. An extension of the current exploration sub-phase to 1 March 2016 has been granted by Department of Energy to allow CIMP to complete all pre-development activities necessary for evaluating the petroleum resource and initiating transition of the project to development/commercial production stage.

One of the major steps leading to development includes securing an Environment Compliance Certificate from Department of Environment and Natural Resources by demonstrating the project's benign impact to the environment and affected communities. Professionals have been retained to conduct scientific impact assessments and host public consultations with stakeholders in the field. Project production is expected to begin in the third quarter of 2015.

On 19 March 2015, the Group signed a memorandum of agreement with a leading petroleum distributor, Unioil Petroleum Philippines, Inc. to jointly develop and explore a potential strategic alliance for the sale of natural gas in the Philippines.

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

As at 31 March 2015, none of the Directors and chief executive of the Company had any interests or short positions in the shares, underlying shares or 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, 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.

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

As at 31 March 2015, the interests and short positions of persons, other than Directors or chief executive 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	Capacity	Approximate percentage of interest
	(Note 1)		
Lam Nam	1,244,255,931 (L) (Note 2)	Interest of a controlled corporation	61.07%
	11,900,000 (L)	Beneficial owner	0.58%
Silver Star Enterprises Holdings Inc. (Note 2)	1,244,255,931 (L)	Beneficial owner	61.07%

Notes:

- The letter "L" denotes long positions in shares or underlying shares.
- The entire issued share capital of Silver Star Enterprises Holdings Inc. is beneficially owned by Mr. Lam Nam. Mr. Lam Nam is deemed to be interested in 1,244,255,931 shares held by Silver Star Enterprises Holdings Inc.

Save as disclosed above, as at 31 March 2015, the Directors were not aware of any other person (other than the Directors or chief executive 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.

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 code of conduct and the required standard of dealings regarding securities transactions throughout the period ended 31 March 2015.

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 is 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 the 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 the Audit Committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the Audit Committee include reviewing the Company's annual report, half-year report and quarterly financial reports and providing advice and comments thereon to the Board. The Audit Committee is also responsible for reviewing and supervising the Company's financial reporting process and internal control procedures. It is also responsible for making recommendations to the Board on the appointment, re-appointment and removal of external auditor, approving the remuneration and terms of engagement of the external auditor, reviewing and monitoring the external auditor's independence and objectivity, and meeting the external auditor at least twice a year regarding the review of the financial reports and accounts.

The Audit Committee comprises the three independent non-executive Directors, namely Mr. Pai Hsi-Ping, Ms. Xie Qun and Mr. Kwan King Chi George. Mr. Kwan King Chi George is the Chairman of the Audit Committee.

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 May 2015

At the date of this report, the Board comprises:

Executive Directors

Mr. Kuai Wei
Mr. Lai Chun Liang
Mr. Lin Zhang

Independent Non-Executive Directors

Mr. Pai Hsi-Ping
Ms. Xie Qun
Mr. Kwan King Chi George