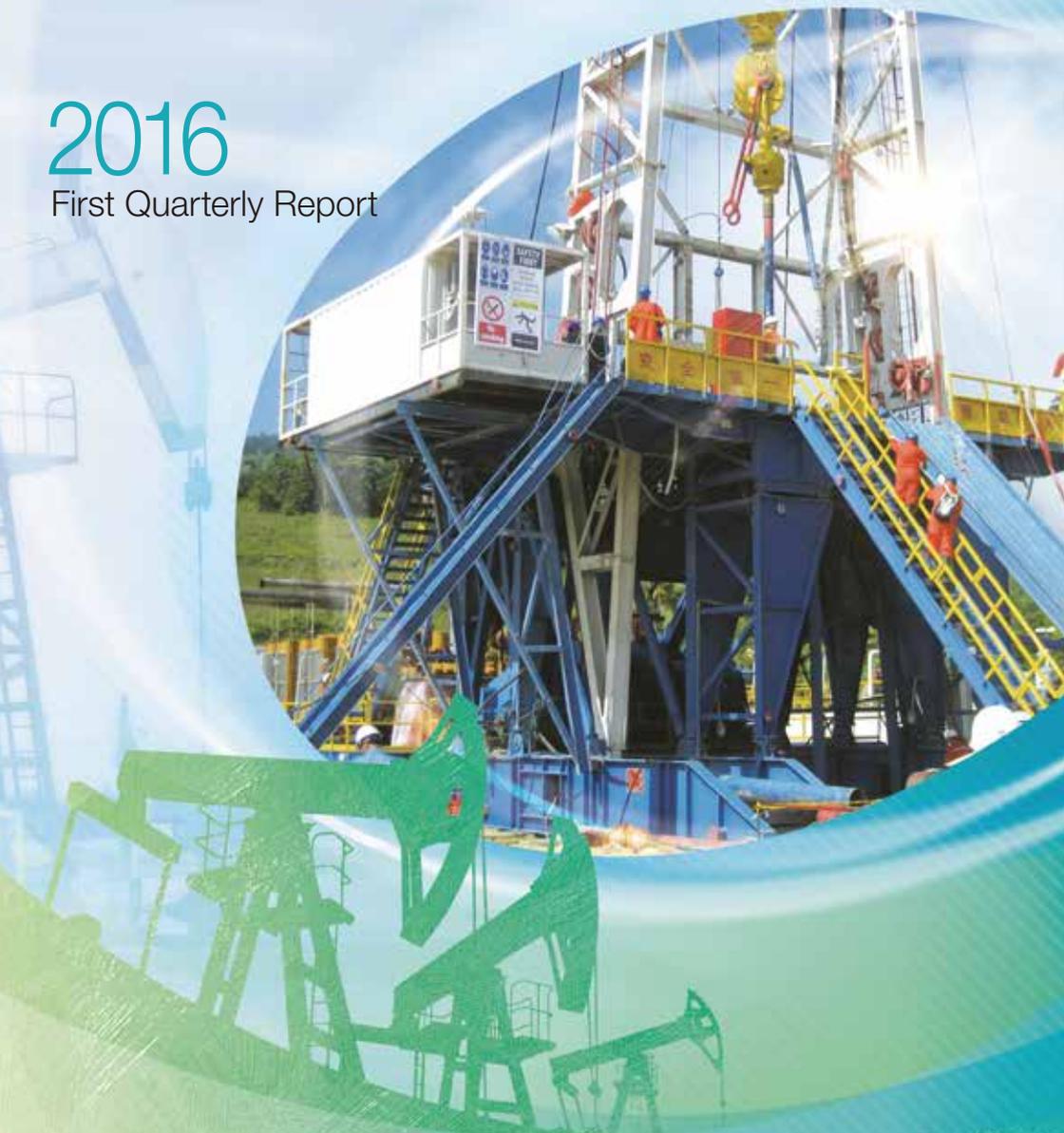


2016

First Quarterly Report



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

(Stock Code: 8011)

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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.

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.*

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 2016, together with the comparative unaudited figures for the corresponding period in 2015, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three months ended 31 March 2016

	Notes	Unaudited Three months ended 31 March	
		2016 HK\$'000	2015 HK\$'000
Turnover		—	—
Other revenue		9	—
Administrative and other operating expenses		(8,297)	(5,778)
Finance costs	3	(4,194)	(265)
Share of results of associates		(1)	(2)
Loss before tax	4	(12,483)	(6,045)
Income tax	5	136	—
LOSS FOR THE PERIOD		(12,347)	(6,045)
Attributable to:			
Owners of the Company		(11,723)	(6,025)
Non-controlling interests		(624)	(20)
		(12,347)	(6,045)
Loss per share	6		
Basic (in HK cents)		0.421	0.308
Diluted (in HK cents)		0.421	0.308
Dividend	7	—	—

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2016

	Unaudited Three months ended 31 March	
	2016	2015
	HK\$'000	HK\$'000
Loss for the period	(12,347)	(6,045)
Other comprehensive income/(expense):		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	258	(13)
TOTAL COMPREHENSIVE EXPENSE FOR THE PERIOD	(12,089)	(6,058)
Attributable to:		
Owners of the Company	(11,565)	(6,036)
Non-controlling interests	(524)	(22)
TOTAL COMPREHENSIVE EXPENSE FOR THE PERIOD	(12,089)	(6,058)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2016

	Unaudited										
	Attributable to owners of the Company									Non-controlling interests	Total
	Share capital	Share premium	Special reserve	Exchange reserve	Capital reserve	Convertible bonds reserve	Accumulated losses	Subtotal			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
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	
At 1 January 2016 (Audited)	111,502	941,937	985	(23)	49,319	634	(951,018)	153,336	13,285	166,621	
Total comprehensive expense for the period	—	—	—	158	—	—	(11,723)	(11,565)	(524)	(12,089)	
Recognition of equity component of convertible bonds	—	—	—	—	—	3,488	—	3,488	—	3,488	
Deferred tax liability on recognition of equity component of convertible bonds	—	—	—	—	—	(837)	—	(837)	—	(837)	
At 31 March 2016	111,502	941,937	985	135	49,319	3,285	(962,741)	144,422	12,761	157,183	

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 and natural gas, trading of petroleum-related products and provision of technical services.

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 on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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 2015.

3. Finance costs

	Unaudited Three months ended 31 March	
	2016	2015
	HK\$'000	HK\$'000
Imputed interest on convertible bonds	4,188	—
Imputed interest on promissory note	—	258
Finance lease interest	6	7
	4,194	265

4. Loss before tax

Loss before tax is arrived at after charging:

	Unaudited Three months ended 31 March	
	2016	2015
	HK\$'000	HK\$'000
Staff costs (including directors' remuneration)		
— Salaries and other benefits	4,732	3,671
— Retirement scheme defined contributions	73	76
Depreciation of property, plant and equipment	61	80

5. Income tax

	Unaudited Three months ended 31 March	
	2016	2015
	HK\$'000	HK\$'000
Current tax		
— Hong Kong	—	—
— PRC enterprise income tax	—	—
— Other jurisdictions	—	—
Deferred tax	136	—
Income tax credit for the period	136	—

Hong Kong profits tax is calculated at the rate of 16.5% (2015: 16.5%) on the estimated assessable profit for the period. PRC subsidiaries are subject to PRC enterprise income tax at the rate of 25% (2015: 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 the period represented income tax recognised on reversal of temporary differences arising from convertible bonds.

No deferred tax has been recognised on loss for the period (2015: 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 calculations of the basic loss and diluted loss per share are based on the following data:

	Unaudited Three months ended 31 March	
	2016	2015
	HK\$'000	HK\$'000
Loss for the period attributable to owners of the Company	(11,723)	(6,025)
Loss for the period for calculation of basic loss and diluted loss per share	(11,723)	(6,025)
	'000	'000
Weighted average number of ordinary shares in issue for the period	2,787,538	1,953,093

The computation of diluted loss per share does not assume the conversion of the outstanding convertible bonds since it would result in a decrease in loss per share, and is regarded as anti-dilutive.

7. Dividend

The Board does not recommend the payment of a dividend for the period (2015: Nil).

8. Event after the end of the reporting period

Subscription of new shares

On 9 May 2016, the Company entered into a subscription agreement with the subscriber, an independent third party and pursuant to which, the subscriber agreed to subscribe for and the Company agreed to allot and issue a total of 150,000,000 new shares at a subscription price of HK\$0.414 per new share. The gross proceeds from the subscription will be approximately HK\$62,100,000.

Further details of the above are explained in the Company's announcement dated 9 May 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

The Group did not generate any turnover for the period ended 31 March 2016 (2015: Nil).

The Group recorded a net loss attributable to owners of the Company of approximately HK\$11,723,000 for the period as compared to a net loss attributable to owners of the Company of approximately HK\$6,025,000 for the corresponding period last year.

Administrative expenses for the period amounted to approximately HK\$8,297,000 representing an increase of approximately HK\$2,519,000 or 44%, as compared with the corresponding period last year. The increase was mainly attributable to increase in business development activities and employee costs.

Finance costs for the period amounted to approximately HK\$4,194,000 (2015: approximately HK\$265,000). The increase in interest costs was mainly resulted from the issuance of the convertible bonds in the amount of HK\$100,000,000 and HK\$50,000,000 in July 2015 and January 2016, respectively.

Subscription of convertible bonds

On 21 December 2015, the Company as the issuer, and CCB International Overseas Limited as the subscriber, entered into a subscription agreement pursuant to which the Company agreed to issue and the subscriber agreed to subscribe for the convertible bonds in the principal amount of HK\$50,000,000 (“CCB Convertible Bonds Subscription Agreement”).

The convertible bonds accrue interest at the rate of 10% per annum, mature on the second anniversary of the issue date, and may be converted to an aggregate of 120,772,946 conversion shares at an initial conversion price of HK\$0.414 per conversion share during the conversion period.

On 28 January 2016, the conditions precedent set out in the CCB Convertible Bonds Subscription Agreement had been fulfilled and completion took place. The convertible bonds in the principal amount of HK\$50,000,000 were issued to the subscriber on 28 January 2016. The net proceeds from the subscription after deducting the related expenses were approximately HK\$49,300,000.

Further details of the above are explained in the Company's announcements dated 21 December 2015 and 28 January 2016, and the Company's circular dated 12 January 2016.

Prospects

Philippines Central Luzon Gas Project

The project's original 2012 work program was for re-entry 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, application for consolidation of the work programs under exploration Sub-phases 1 and 2 has been granted by the Department of Energy to extend the expiry to 28 February 2017, on condition that (i) two exploration wells will be drilled or (ii) one exploration well will be drilled and 200 line-kilometer of 2D seismic data will be acquired, processed and interpreted by end of the new Sub-phase.

On 2 September 2015, Polyard Petroleum International Company Limited (“PPIC”), an indirect whollyowned subsidiary of the Company which owns 89% participating interests of the project, along with two other project owners owning the remaining 11% participating interests (together “Vendors”), entered into a sale and purchase agreement with an independent third party (“Purchaser”), pursuant to which the Vendors conditionally agreed to sell and the Purchaser agreed to purchase the entire participating interests of the Vendors, and the corresponding Vendors’ rights, interests, privileges, duties and obligations pursuant thereto, at an aggregate consideration of US\$4,995,000, among which the consideration payable to PPIC was US\$4,500,000 (the “Disposal”).

Completion of the Disposal would take place upon receiving total consideration in two installments on or before 30 September 2015. As at the date of this report, the Purchaser has not fulfilled its duties as set out under the sale and purchase agreement and further extension has been granted by PPIC to the Purchaser to complete the transaction.

Philippines South Cebu Oil and Gas Project

The project (“SC49”) is situated at the southern part of Cebu, central Philippines. 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.

Building on the discovery in the A6 and A8 Fault Blocks, during the quarter CIMP has been acquiring and installing production facilities, including civil construction in preparation for the production of Polyard-1. It has also been dedicating to complete the construction of the well site of the third appraisal well, Polyard-3, and actively procuring the required materials and equipment for the preparation of the drilling of Polyard-3 and the subsequent production well drillings. On 7 May 2016, Polyard-3 was successfully spudded.

The Group has also been organizing the well log details related to Polyard-1 and Polyard-2 oil and gas discoveries to be provided to the competent person for the purposes of re-evaluating resources of the project.

On 3 April 2016, CIMP entered into a sale and purchase agreement with an independent third party namely Tom's Power Petroleum Distributor Inc. ("TPPDI", a company incorporated under the laws of the Philippines specializing in fuels and lubricants distribution) for the sale and purchase of crude oil in the Philippines (the "Agreement"). Pursuant to the Agreement, CIMP would tentatively supply approximately 150 barrels of crude oil to TPPDI per day. Purchase price is determined with reference to international oil prices pursuant to terms of the Agreement. The Agreement shall last for one year unless extended by mutual consent. CIMP has commenced selling of crude oil to TPPDI in early May 2016.

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 2016, 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 2016, 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)		
Silver Star Enterprises Holdings Inc. (Note 2)	1,894,255,931 (L)	Beneficial owner	67.95%
Lam Nam	1,894,255,931 (L) (Note 2)	Interest of a controlled corporation	67.95%
	29,280,000 (L)	Beneficial owner	1.05%
Haitong International Securities Company Limited	250,000,000 (L) (Note 3)	Beneficial owner	8.97%

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. Mr. Lam Nam is deemed to be interested in 1,894,255,931 shares held by Silver Star Enterprises Holdings Inc.
- 3 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 31 March 2016, 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 2016.

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 the Company's financial controls, risk management and internal control systems. 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, 9 May 2016

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