



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

(Stock Code: 8011)

# 2017

## Third Quarterly 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.*

## THIRD 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 nine months ended 30 September 2017, together with the comparative unaudited figures for the corresponding periods in 2016, as follows:

### CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the nine months ended 30 September 2017

	Notes	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
		2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Turnover		–	–	–	–
Other revenue		(19)	13	20	26
Administrative and other operating expenses		(5,404)	(9,786)	(19,266)	(27,349)
Finance costs	3	(4,568)	(4,846)	(14,307)	(13,794)
Share of results of associates		–	(5)	–	(6)
Share of results of joint venture		–	(19)	–	(19)
Impairment losses recognised on interests in a joint venture written back		–	–	–	62,914
Impairment losses recognised on deferred exploration expenditure		(103)	–	(534)	–
(Loss)/Profit before tax	4	(10,094)	(14,643)	(34,087)	21,772
Income tax	5	134	177	512	481
<b>(LOSS)/PROFIT FOR THE PERIOD</b>		<b>(9,960)</b>	<b>(14,466)</b>	<b>(33,575)</b>	<b>22,253</b>
<b>Attributable to:</b>					
Owners of the Company		(9,963)	(14,015)	(33,047)	665
Non-controlling interests		3	(451)	(528)	21,588
		<b>(9,960)</b>	<b>(14,466)</b>	<b>(33,575)</b>	<b>22,253</b>
<b>(Loss)/Earnings per share</b>	6				
Basic (in HK cents)		(0.34)	(0.48)	(1.13)	0.02
Diluted (in HK cents)		(0.34)	(0.48)	(1.13)	0.02
Dividend	7	–	–	–	–

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the nine months ended 30 September 2017

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Loss)/Profit for the period	(9,960)	(14,466)	(33,575)	22,253
Other comprehensive income/(expense):				
Item that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of foreign operations	6	(81)	1,265	173
<b>TOTAL COMPREHENSIVE (EXPENSE)/INCOME FOR THE PERIOD</b>	<b>(9,954)</b>	<b>(14,547)</b>	<b>(32,310)</b>	<b>22,426</b>
<b>Attributable to:</b>				
Owners of the Company	(10,005)	(14,065)	(32,307)	835
Non-controlling interests	51	(482)	(3)	21,591
<b>TOTAL COMPREHENSIVE (EXPENSE)/INCOME FOR THE PERIOD</b>	<b>(9,954)</b>	<b>(14,547)</b>	<b>(32,310)</b>	<b>22,426</b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2017

	Unaudited									
	Attributable to owners of the Company								Non-controlling interests	Total
	Share capital	Share premium	Special reserve	Exchange 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		
At 1 January 2016 (Audited)	111,502	941,937	985	(23)	634	(901,699)	153,336	13,285	166,621	
Profit for the period	-	-	-	-	-	665	665	21,588	22,253	
Other comprehensive income for the period	-	-	-	170	-	-	170	3	173	
Total comprehensive income for the period	-	-	-	170	-	665	835	21,591	22,426	
Issue of shares	6,000	56,075	-	-	-	-	62,075	-	62,075	
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 30 September 2016	117,502	998,012	985	147	3,285	(901,034)	218,897	34,876	253,773	
At 1 January 2017 (Audited)	117,502	998,012	985	(1,560)	3,285	(953,393)	164,831	43,166	207,997	
Loss for the period	-	-	-	-	-	(33,047)	(33,047)	(528)	(33,575)	
Other comprehensive income for the period	-	-	-	740	-	-	740	525	1,265	
Total comprehensive income/(expense) for the period	-	-	-	740	-	(33,047)	(32,307)	(3)	(32,310)	
At 30 September 2017	117,502	998,012	985	(820)	3,285	(986,440)	132,524	43,163	175,687	

## 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 principal activity of the Company is investment holding. The Group is principally engaged in the exploration, exploitation and production of oil, natural gas and coal, 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 2016.

### 3. Finance costs

	Unaudited		Unaudited	
	Three months ended		Nine months ended	
	30 September		30 September	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Imputed interest on convertible bonds	4,564	4,841	14,295	13,777
Finance lease interest	4	5	12	17
	4,568	4,846	14,307	13,794

## 4. (Loss)/Profit before tax

(Loss)/Profit before tax is arrived at after charging:

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Staff costs (including directors' emoluments)				
– Salaries, allowances and benefits in kind	3,204	5,081	11,725	14,958
– Retirement scheme defined contributions	31	70	148	221
Depreciation of property, plant and equipment	55	59	166	181

## 5. Income tax

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax				
– Hong Kong	–	–	–	–
– PRC enterprise income tax	–	–	–	–
– Other jurisdictions	–	–	–	–
Deferred tax	134	177	512	481
Income tax credit for the period	134	177	512	481

Hong Kong profits tax is calculated at the rate of 16.5% (2016: 16.5%) on the estimated assessable profit for the period. PRC subsidiaries are subject to PRC enterprise income tax at the rate of 25% (2016: 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 the unused tax losses (2016: Nil) due to unpredictability of future taxable profits that will be available against which the tax losses can be utilised.

## 6. (Loss)/Earnings per share

The calculations of the basic and diluted (loss)/earnings per share are based on the following data:

	Unaudited Three months ended 30 September 2017		Unaudited Nine months ended 30 September 2016	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Loss)/Profit for the period attributable to owners of the Company	(9,963)	(14,015)	(33,047)	665
	'000	'000	'000	'000
Issued ordinary shares at beginning of period	2,937,538	2,897,538	2,937,538	2,787,538
Effect of ordinary shares issued	–	27,826	–	57,409
Weighted average number of ordinary shares in issue for the period	2,937,538	2,925,364	2,937,538	2,844,947

During the period ended 30 September 2017, 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.

During the period ended 30 September 2016, effect of diluted potential ordinary shares on convertible bonds was considered to be nil as the average market price of ordinary shares was below the conversion price of the convertible bonds.

## 7. Dividend

The Board does not recommend the payment of a dividend for the period (2016: Nil).

## 8. Comparative figures

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



## MANAGEMENT DISCUSSION AND ANALYSIS

### Business and Financial Review

The Group did not generate any turnover for the period ended 30 September 2017 (2016: Nil).

The Group recorded a net loss attributable to owners of the Company of approximately HK\$33,047,000 for the period as compared to a net profit attributable to owners of the Company of approximately HK\$665,000 for the corresponding period last year. Profit for the corresponding period last year included a reversal of impairment losses on interests in a joint venture of approximately HK\$62,914,000 as a result of increased valuation due to rise in oil prices and increase in the resources of the Philippines South Cebu oil and gas project.

Administrative and other operating expenses for the period amounted to approximately HK\$19,266,000 representing a decrease of approximately HK\$8,083,000 or 30%, as compared with the corresponding period last year. The decrease was mainly attributable to decrease in various business expenses such as employee costs, legal and professional fees, entertainment and overseas travelling expenses.

Finance costs for the period amounted to approximately HK\$14,307,000 (2016: approximately HK\$13,794,000). The increase in interest costs was mainly resulted from the full effect of the interest cost of the convertible bonds in the amount of HK\$50,000,000 issued at end of January 2016.

### Memorandum of Understanding in respect of a Possible Subscription

On 11 March 2017, the Company and China Wheat (Shenzhen) Equity Investment Fund Management Limited (中麥田(深圳)股權投資基金管理有限公司) (the "Subscriber") entered into a memorandum of understanding pursuant to which the Company agreed to allot and issue 900,000,000 subscription shares to the Subscriber at a cash price of HK\$0.414 per share pursuant to the formal agreement to be negotiated between the Company and the Subscriber. According to the supplemental memorandums of understanding entered into between the Company and the Subscriber, all terms and conditions set out in the memorandum of understanding were extended and remained in effect until 30 June 2017. However, the Company and the Subscriber, after further negotiations, have agreed to terminate the memorandum of understanding with effect from 30 June 2017.

Further details of the above are explained in the Company's announcements dated 12 March 2017, 25 April 2017, 31 May 2017 and 30 June 2017.

## Prospects

### Philippines Central Luzon Gas Project

As described in previous reports, consolidation of the gas project's work programs under exploration Sub-phases 1 and 2 was granted by the Philippines Department of Energy to extend the expiry to 28 February 2017, on condition that (i) two exploration wells would be drilled, or (ii) one exploration well would be drilled and 200 line-kilometer of 2D seismic data would be acquired, processed and interpreted by end of the new Sub-phase. In October 2016, the project informed Department of Energy that the prescribed work program under Sub-phase 1 would not be timely completed upon expiration by reasons of force majeure, and further extension was requested. On 9 May 2017, Department of Energy granted an approval to extend the expiry of the consolidated Sub-phase 1 to 9 November 2019 with the condition to drill two exploration wells by end of the Sub-phase.

Management determined that it was appropriate to adopt a prudence approach to fully write down the carrying amount of the deferred exploration expenditure associated with the gas project. As a result, an impairment loss equal to the carrying value was made in respect of the Gas Project.

### 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 2017.

In view of the ongoing suspension for the development of the coal mine and the business outlook of the coal industry in the Philippines, management was in its view that the issue might not be resolved in the short term. As such, it was appropriate to adopt a prudence approach to fully write down the carrying amount of the project. As a result, an impairment loss equal to the carrying amount of the project was made in respect of the Coal Mine Project.

### **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.

Between 2014 and 2016, the project had drilled, wireline-logged, and cemented five appraisal wells, namely Polyard-1, Polyard-2, Polyard-3, Polyard-6 and Polyard-8. According to preliminary results of interpretation, all wells have different levels of oil and gas shows, with discoveries of multiple oil and gas layers. Given the commercial quantity of gas discovery by Polyard-2, on 22 December 2015 Department of Energy confirmed SC49 was converted from the exploration period to the production period effective 1 March 2015 for a period of 25 years. In March 2017, the project has submitted to Department of Energy a plan of development comprising Polyard-3 and Polyard-8 oil blocks and, upon its approval, oil production may officially commence and more development wells will be drilled. On the date of this report, Department of Energy was still in the process of reviewing the plan.

During the reporting period, the project team was carrying out preparation work for drilling Polyard-9, the sixth appraisal well, including drilling geological and engineering designs, land leasing and compensation negotiation, applying for tree-cutting permit from environmental protection authority, and tendering for site construction.

## **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 30 September 2017, 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 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.

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

As at 30 September 2017, 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
	<i>(Note 1)</i>		
Silver Star Enterprises Holdings Inc.	1,891,195,931 (L) <i>(Note 2)</i>	Beneficial owner	64.38%
Lam Nam	1,891,195,931 (L) <i>(Note 2)</i>	Interest of a controlled corporation	64.38%
	48,480,000	Beneficial owner	1.65%
Haitong International Securities Company Limited	250,000,000 (L) <i>(Note 3)</i>	Beneficial owner	8.51%
Shu Xin	152,580,000	Beneficial owner	5.19%

*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 1,891,195,931 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 30 September 2017, 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 30 September 2017.

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

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

## **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 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 auditors 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  
**Lai Chun Liang**  
*Executive Director*

Hong Kong, 13 November 2017

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

***Executive Directors***

Mr. Zhao Zhiyong  
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