



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

(Stock Code: 8011)



2018 Interim Report

Room 801-802, 8/F, Shanghai Industrial Investment Building,
48-62 Hennessy Road, Wan Chai, Hong Kong
www.pplg.com.hk

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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 2018, together with the comparative unaudited figures for the corresponding period in 2017, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2018

	<i>Notes</i>	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2018	2017	2018	2017
		HK\$'000	<i>HK\$'000</i>	HK\$'000	<i>HK\$'000</i>
Turnover		—	—	—	—
Other revenue		631	1	971	39
Administrative and other operating expenses		(6,651)	(6,156)	(12,805)	(13,862)
Finance costs	4	(3,767)	(4,914)	(7,713)	(9,739)
Impairment losses recognised on deferred exploration expenditure		201	466	—	(431)

	Notes	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2018	2017	2018	2017
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss before tax	5	(9,586)	(10,603)	(19,547)	(23,993)
Income tax	6	—	193	36	378
LOSS FOR THE PERIOD		(9,586)	(10,410)	(19,511)	(23,615)
Attributable to:					
Owners of the Company		(9,395)	(10,285)	(19,223)	(23,084)
Non-controlling interests		(191)	(125)	(288)	(531)
		(9,586)	(10,410)	(19,511)	(23,615)
Loss per share	7				
Basic (in HK cents)		(0.32)	(0.35)	(0.65)	(0.79)
Diluted (in HK cents)		(0.32)	(0.35)	(0.65)	(0.79)
Dividend	8	—	—	—	—

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2018	2017	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Loss for the period	(9,586)	(10,410)	(19,511)	(23,615)
Other comprehensive income:				
Item that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of foreign operations	1,084	873	1,624	1,259
TOTAL COMPREHENSIVE EXPENSE FOR THE PERIOD	(8,502)	(9,537)	(17,887)	(22,356)
Attributable to:				
Owners of the Company	(8,510)	(9,739)	(17,892)	(22,302)
Non-controlling interests	8	202	5	(54)
TOTAL COMPREHENSIVE EXPENSE FOR THE PERIOD	(8,502)	(9,537)	(17,887)	(22,356)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

		Unaudited 30 June 2018	Audited 31 December 2017
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT ASSETS			
Property, plant and equipment		505	637
Interests in joint ventures		360,388	357,470
		360,893	358,107
CURRENT ASSETS			
Other receivables	10	40,762	39,307
Cash and bank balances		3,270	4,894
		44,032	44,201
CURRENT LIABILITIES			
Other payables	11	(2,676)	(20,283)
Amounts due to directors		(8,144)	(6,054)
Convertible bonds		(150,000)	(149,781)
Obligations under finance lease current portion		(130)	(171)
		(160,950)	(176,289)

		Unaudited 30 June 2018	Audited 31 December 2017
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NET CURRENT LIABILITIES		(116,918)	(132,088)
TOTAL ASSETS LESS CURRENT LIABILITIES		243,975	226,019
NON-CURRENT LIABILITIES			
Amount due to a shareholder		(76,793)	(40,870)
Deterred tax liabilities		—	(36)
Obligations under finance lease – non-current portion		—	(44)
		(76,793)	(40,950)
NET ASSETS		167,182	185,069
CAPITAL AND RESERVES			
Share capital	12	117,502	117,502
Reserves		(980)	16,912
Equity attributable to owners of the Company		116,522	134,414
Non-controlling interests		50,660	50,655
TOTAL EQUITY		167,182	185,069

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

	Unaudited									
	Attributable to owners of the Company									
	Share capital	Share premium	Special reserve	Exchange reserve	Convertible bonds		Accumulated losses	Sub-total	Non-controlling interests	Total
					reserve	losses				
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
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	-	-	-	-	-	(23,084)	(23,084)	(531)	(23,615)	
Other comprehensive income for the period	-	-	-	782	-	-	782	477	1,259	
Total comprehensive expense for the period	-	-	-	782	-	(23,084)	(22,302)	(54)	(22,356)	
At 30 June 2017	117,502	998,012	985	(778)	3,285	(976,477)	142,529	43,112	185,641	
At 1 January 2018 (Audited)	117,502	998,012	985	15	3,285	(985,385)	134,414	50,655	185,069	
Loss for the period	-	-	-	-	-	(19,223)	(19,223)	(288)	(19,511)	
Other comprehensive income for the period	-	-	-	1,331	-	-	1,331	293	1,624	
Total comprehensive income for the period	-	-	-	1,331	-	(19,223)	(17,892)	5	(17,887)	
At 30 June 2018	117,502	998,012	985	1,346	3,285	(1,004,608)	116,522	50,660	167,182	

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Unaudited	
	Six months ended 30 June	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash used in operating activities	(36,853)	(15,241)
Net cash used in investing activities	(2,918)	(2,797)
Net cash generated from financing activities	38,147	13,929
Net decrease in cash and cash equivalents	(1,624)	(4,109)
Cash and cash equivalents at 1 January	4,894	4,698
Cash and cash equivalents at 30 June	3,270	589
Analysis of cash and cash equivalents		
Cash and bank balances	3,270	589

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 condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (“HKAS 34”) “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

The condensed consolidated financial statements do not include all the information and disclosures required in the annual consolidated financial statements, and should be read in conjunction with the Company’s annual consolidated financial statements for the year ended 31 December 2017.

The condensed consolidated financial statements are unaudited, but have been reviewed by the Company’s audit committee (the “Audit Committee”). The condensed consolidated financial statements for the six months ended 30 June 2018 were approved and authorised for issue by the Directors on 18 December 2018.

3. Significant accounting policies

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as appropriate, at the end of reporting period.

The accounting policies used in the preparation of the unaudited condensed consolidated financial statements for the six months ended 30 June 2018 are consistent with those adopted by the Group in its audited consolidated financial statements for the year ended 31 December 2017 except for the adoption of the new and revised Hong Kong Financial Reporting Standards (the “New and Revised HKFRSs”) (which include all HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the HKICPA that are effective for the first time for the current period’s financial statements. This is the first set of the Group’s financial statements in which HKFRS 9 and HKFRS 15 have been adopted.

The Group has not applied any New and Revised HKFRSs that have been issued but are not yet effective. The Group is currently assessing the impact of the adoption of such New and Revised HKFRSs to the Group but is yet in a position to state whether they would have any material financial impact on the Group’s results of operations and financial position.

Details of the changes in accounting policies are set out as below:

Changes in Hong Kong Financial Reporting Standards (“HKFRSs”)

(a) HKFRS 9 “Financial Instruments”

In the Period, the Group has adopted HKFRS 9 “Financial Instruments”, which becomes effective for accounting periods beginning on or after 1 January 2018. The Group applied the transition provisions set out in HKFRS 9 to adjust the accumulated losses or other reserves as at 1 January 2018, without restating comparative information retrospectively, for any adjustments to the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9. The principal effects resulting from the application of HKFRS 9 on the Group’s assets or liabilities are summarised below.

Classification and measurement of financial assets and financial liabilities

HKFRS 9 “Financial Instruments” introduces a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics, and the new requirements on accounting for financial liabilities that are designated at fair value through profit or loss.

Impairment of financial assets

HKFRS 9 replaces the “incurred loss” impairment model in HKAS 39 with a forward-looking “expected credit loss” model. The Group applies simplified approach to recognise lifetime expected losses for all debtors and other receivables, and expected losses for investments in securities. The credit losses calculated pursuant to the new requirements are not significantly different from the amount recognised under the current practices. Therefore, the Group considered no adjustment is necessary.

(b) HKFRS 15 “Revenue from Contracts with Customers”

HKFRS 15 “Revenue from Contracts with Customers” establishes a single comprehensive model in accounting for revenue arising from contracts with customers which are recognised when a performance obligation is satisfied. It replaces existing revenue recognition guidance, including HKAS 18 “Revenue”, HKAS 11 “Construction Contracts” and the related Interpretations.

The Group has elected to adopt HKFRS 15 using the modified retrospective approach, with the effect of initially applying this standard recognised at the date of initial application. Accordingly, the information presented for 2017 has not been restated. The application of HKFRS 15 does not have a material impact on the timing and amounts of revenue recognition of the Group. Therefore, the Group considered no adjustment is necessary.

Summary of effects of changes in accounting policies

The following table illustrates the classification of financial assets under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

Analysis of financial assets items

	Original Classification Under HKAS 39	Original Carrying amount under HKAS 39 <i>HK\$'000</i>	New classification under HKFRS 9	New carrying Amount under HKFRS 9 <i>HK\$'000</i>
Financial assets				
Other receivables	Loan and receivables	39,307	Financial assets at amortised cost	39,307
Cash and cash equivalents	Loan and receivables	4,894	Financial assets at amortised cost	4,894
Total financial assets		44,201		44,201

4. Finance costs

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Imputed interest on convertible bonds	3,740	4,910	7,657	9,731
Bank and other interest	25	–	51	–
Finance lease interest	2	4	5	8
	3,767	4,914	7,713	9,739

5. Loss before tax

Loss before tax is arrived at after charging:

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Staff costs (including directors' emoluments)				
– Salaries, allowances and benefits in kind	3,763	3,882	7,302	8,521
– Retirement scheme defined contributions	34	52	66	117
Depreciation of property, plant and equipment	81	56	132	111

6. Income tax

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax				
– Hong Kong	–	–	–	–
– PRC enterprise income tax	–	–	–	–
– Other jurisdictions	–	–	–	–
Deferred tax	–	193	36	378
Income tax credit for the period	–	193	36	378

Hong Kong profits tax is calculated at the rate of 16.5% (2017: 16.5%) on the estimated assessable profit for the period. PRC subsidiaries are subject to PRC enterprise income tax at the rate of 25% (2017: 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 (2017: Nil) due to unpredictability of future taxable profits that will be available against which the tax losses can be utilised.

7. Loss per share

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

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Loss for the period attributable to owners of the Company	9,395	10,285	19,223	23,084
	'000	'000	'000	'000
Issued ordinary shares at beginning of period	2,937,538	2,937,538	2,937,538	2,937,538
Effect of ordinary shares issued	–	–	–	–
Weighted average number of ordinary shares in issue for the period	2,937,538	2,937,538	2,937,538	2,937,538

During the period ended 30 June 2018 and 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.

8. Dividend

The Board does not recommend the payment of a dividend for the period (2017: Nil).

9. Segment information

The Group determines its operating segments based on the reports reviewed by the chief operating decision-makers that are used to make strategic decisions.

For the six months ended 30 June 2018, the Group has 3 reportable segments – (1) exploration of oil, natural gas and coal, (2) trading of petroleum related products and (3) provision of technical services for oil and gas exploration and development. These segments are managed separately as they belong to different industries and require different operating systems and strategies.

The Group accounts for inter-segment revenue and transfers as if revenue or transfers were to third parties.

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 2018				Unaudited Six months ended 30 June 2017			
	Exploration of oil, natural gas and coal	Trading of petroleum related products	Provision of technical services	Total	Exploration of oil, natural gas and coal	Trading of petroleum related products	Provision of technical services	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from external customers	-	-	-	-	-	-	-	-
Other revenue	-	-	971	971	-	-	39	39
Total income	-	-	971	971	-	-	39	39
Reportable segment loss before tax	(2,427)	-	(1,046)	(3,473)	(2,443)	-	(2,330)	(4,773)
Unallocated corporate expenses				(8,361)				(9,050)
Unallocated interest expense				(7,713)				(9,739)
Impairment losses recognised on deferred exploration expenditure				-				(431)
Loss before tax				(19,547)				(23,993)
Income tax				36				378
Loss for the period				(19,511)				(23,615)

Segment assets and liabilities

	Unaudited 30 June 2018				Audited 31 December 2017			
	Exploration of oil, natural gas and coal	Trading of petroleum related products	Provision of technical services	Total	Exploration of oil, natural gas and coal	Trading of petroleum related products	Provision of technical services	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets:								
Segment assets	41,783	40	1,622	43,445	41,506	-	1,662	43,168
Interests in joint ventures	360,388			360,388	357,470			357,470
Unallocated corporate assets				1,092				1,670
Total assets				404,925				402,308
Liabilities:								
Segment liabilities	1,915	-	21	1,936	2,525	-	7,101	9,626
Unallocated corporate liabilities				235,807				207,613
Total liabilities				237,743				217,239

Other segment information

	Unaudited Six months ended 30 June 2018					Unaudited Six months ended 30 June 2017				
	Exploration of oil, natural gas and coal	Trading of petroleum related products	Provision of technical services	Unallocated	Total	Exploration of oil, natural gas and coal	Trading of petroleum related products	Provision of technical services	Unallocated	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Depreciation	7	-	12	113	132	7	-	19	85	111
Capital expenditure	-	-	-	-	-	2,785	-	12	-	2,797

(b) Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, intangible assets, goodwill and interests in associates and joint ventures ("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 operations to which they are allocated in the case of intangible and goodwill, and the location of the operations in the case of interests in associates and joint ventures.

	Revenue from external customers		Specified non-current assets	
	Unaudited		Unaudited	Audited
	Six months ended			
	30 June 2018	2017	30 June 2018	31 December 2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mainland China, including Hong Kong and Macau	–	–	262	404
Philippines	–	–	360,631	357,703
	–	–	360,893	358,107

10. Other receivables

	Unaudited	Audited
	30 June 2018	31 December 2017
	HK\$'000	HK\$'000
Other debtors, deposits and prepayments	40,762	39,307

Note:

Included in other receivables are amounts due from parties to a joint venture of approximately HK\$38,674,000 (31 December 2017: approximately HK\$36,605,000) representing capital contribution paid on behalf of parties to a joint venture. The amounts are interest-free, repayable on demand and secured by their participating interests in the joint venture.

11. Other payables

	Unaudited 30 June 2018 HK\$'000	Audited 31 December 2017 HK\$'000
Other creditors and accrued charges	2,676	20,283

12. Share capital

	30 June 2018		1 January 2018	
	Number of shares '000	Amount HK\$'000	Number of shares '000	Amount HK\$'000
Authorised: Ordinary shares of HK\$0.04 each				
– At 30 June 2018 and 1 January 2018	5,000,000	200,000	5,000,000	200,000
Issued and fully paid: Ordinary shares of HK\$0.04 each				
– At 30 June 2018 and 1 January 2018	2,937,538	117,502	2,937,538	117,502

13. Commitments

(a) Capital commitments

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

	Unaudited 30 June 2018 HK\$'000	Audited 31 December 2017 HK\$'000
Contributions to a joint venture	49,158	49,158
Contribution to a gas project in Central Luzon of the Philippines	21,100	21,100
	70,258	70,258

(b) Operating lease commitments

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

	Unaudited 30 June 2018 HK\$'000	Audited 31 December 2017 HK\$'000
Premises		
– due within 1 year	919	1,388
– due after 1 year but within 5 years	–	585
	919	1,973

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 related party transactions:

	Unaudited Three months ended 30 June 2018		Unaudited Six months ended 30 June 2018	
<i>Note</i>	HK\$'000	2017 HK\$'000	HK\$'000	2017 HK\$'000
Office rentals	141	137	274	267

Note:

The Group paid office rentals to a company controlled by Mr. Lam Nam, the controlling shareholder of the Company.

15. 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 June 2018 (2017: Nil).

The Group recorded a net loss attributable to owners of the Company of approximately HK\$19,223,000 for the period as compared to a net loss attributable to owners of the Company of approximately HK\$23,084,000 for the corresponding period last year.

Administrative and other operating expenses for the period amounted to approximately HK\$12,805,000 representing a decrease of approximately HK\$1,057,000 or 7.6%, as compared with the corresponding period last year. The decrease was mainly attributable to decrease in various business expenses such as employee costs, entertainment and overseas travelling expenses.

Finance costs for the period amounted to approximately HK\$7,713,000 (2017: approximately HK\$9,739,000). The decrease in interest costs was mainly resulted from the expiry of the convertible bonds and thus decrease in the imputed interest.

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.

Liquidity and Financial Resources

As at 30 June 2018, the Group had net assets amounted to approximately HK\$167.2 million (31 December 2017: approximately HK\$185.1 million) and net current liabilities amounted to approximately HK\$116.9 million (31 December 2017: approximately HK\$132.1 million). The current ratio was 27% (31 December 2017: 25%). As at 30 June 2018, gearing ratio of the Group based on net debt to the shareholders' equity was 140% (31 December 2017: 115%).

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

On 31 May 2018, the Company, Silver Star, Mr. Lam Nam, a ultimate controlling shareholder of the Company (“Personal Guarantor”) and the holder of Convertible Bonds A in principal amount of HK\$100,000,000 entered into a Deed of Undertaking; and the Company, the Personal Guarantor and the holder of CB A entered into the Supplemental Deed, together with the Deed of Undertaking, pursuant to which both parties had agreed that the maturity date of CB A to be been extended from 21 July 2017 to 21 May 2019, which is subject to the Stock Exchange’s listing approval.

On 15 October 2018, the Company and holder of Convertible Bonds B in principal amount of HK\$50,000,000 also entered into an amendment deed pursuant to which both parties had agreed that the maturity date of CB B to be extended from 28 January 2018 to 31 March 2019, which is subject to the Stock Exchange’s listing approval.

Details were disclosed in the Company’s announcements dated 31 May 2018 and 15 October 2018.

Employee Information

The Group had a total number of staff of 51 (31 December 2017: 51). Remuneration packages are reviewed on a periodical basis. Bonus is awarded to employees according to the assessment of individual performance. In Hong Kong, the Group provides staff benefits including mandatory provident fund scheme. In overseas, the Group provides staff welfare for its employees in accordance with the prevailing labour legislations. Staff cost was approximately HK\$7.4 million for the six months ended 30 June 2018 as compared with the corresponding period of approximately HK\$8.6 million in 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 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. 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.

Although further extension was granted by Department of Energy, due to the delay of the development of the project, the recoverability of the gas project was still in doubt. 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 17 December 2018. The Group is in the process of applying the renewal of a moratorium on the work commitments for the project.

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.

During the reporting period, Polyard-9 Well was successfully spudded on 24 February 2018 and completed drilling on 6 March 2018 at the final depth of 860 meters. The well logging was completed on 11 March 2018. According to initial on-site logging interpretation, multiple oil and gas zones were discovered. The total thickness of oil and gas intervals is 78.1 meters, including 39.1 meters of oil zone and 39.0 of gas zone. Oil testing has completed and it has converted into a production well.

As part of the conditions stated in the approved Oil Plan of Development, on 12 March 2018 CIMP entered into a sales and purchase agreement (the “Crude Oil SPA”) with Tom’s Power Petroleum Distributor Inc. (“TPPDI”) for the sale and purchase of crude oil in the Philippines. TPPDI is a company incorporated under the laws of the Philippines and is a trading company which engages in the sales of petroleum products in the Philippines. Pursuant to the Crude Oil SPA, CIMP shall sell crude oil to TPPDI according to the increasing production quantity but actual quantity shall be determined upon loading. The purchase price shall be determined with reference to the international oil prices pursuant to the terms of the Crude Oil SPA. The Crude Oil SPA shall last for a period of one year from the date of the Crude Oil SPA, and the term shall automatically extend yearly unless otherwise specified under the Crude Oil SPA.

On 14 March 2018, the Department of Energy and CIMP have announced the Joint Declaration of Commerciality for oil of SC49 at Manila, the Philippines, and both parties have signed the Joint Declaration of Commerciality for oil, pursuant to which the parties jointly determine that the Alegria Oil Field located in Southern Cebu contains certified hydrocarbon reserves in commercial quantity.

CIMP as part of its appraisal and development plan for the development of the Alegria Gas Field, which was earlier jointly determined by the parties to contain commercial quantity of natural gas, discovered an oil accumulation in adjacent hydrocarbon traps within the Alegria Anticlines in 2016.

In view of the foregoing, the parties stipulated and agreed as follows:

1. That the Contractor shall comply with all the conditions stated in the approved Oil Plan of Development dated 19 December 2017;
2. That the Alegria Oil Field located in Southern Cebu which contains certified hydrocarbon reserves is hereby jointly determined by the parties to be in commercial quantity as contemplated under Section 9.01 to 9.04 of SC49; and
3. For consistency, the development of the oil resource will commence according to the timeline as stipulated in the submitted and approved Oil Plan of Development for the discovered oil resource which is designed to increase the oil production rates from the said Field.

The Department of Energy and CIMP discovered an estimated 27.93 million barrels of oil with a possible production recovery of 3.35 million barrels or a conservative estimate of 12% of total oil reserves. For natural gas, about 9.42 billion cubic feet reserves were found, with the recoverable resource estimated at 6.6 billion cubic feet or about 70% of total natural gas reserves.

Polyard-8 Well has commenced its trial production of crude oil on 4 April 2018 and Polyard-3 Well has commenced its trial production of crude oil on 21 May 2018.

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 June 2018, 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 June 2018, 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.	1,877,115,931 (L) (Note 2)	Beneficial owner	63.90%
Lam Nam	1,877,115,931 (L) (Note 2)	Interest of a controlled corporation	63.90%
	48,480,000 (L)	Beneficial owner	1.65%
Haitong International Securities Company Limited	250,000,000 (L) (Note 3)	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 1,877,115,931 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 June 2018, 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 June 2018.

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 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

Lai Chun Liang

Executive Director and Chief Executive Officer

Hong Kong, 18 December 2018

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