



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

(Stock Code 股份代號 : 8011)



First Quarterly Report
2008

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This report, for which 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 (“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: (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; and (iii) 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.

Highlights

- No turnover was generated from operations for the three months ended 31 March 2008, as compared with that of approximately HK\$11,464,000 for the corresponding period in last year (the "previous period").
- Unaudited net loss attributable to shareholders for the three months ended 31 March 2008 amounted to approximately HK\$6,395,000 whereas the unaudited net loss attributable to shareholders of approximately HK\$2,162,000 was recorded in the previous period.
- The Directors do not recommend the payment of an interim dividend for the three months ended 31 March 2008.

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 2008, together with the comparative unaudited figures for the corresponding period in 2007, as follows:

Unaudited Condensed Consolidated Income Statement

	Notes	Three months ended 31 March	
		2008 HK\$'000	2007 HK\$'000
Turnover	3	—	11,464
Cost of sales		—	(10,201)
Gross profit		—	1,263
Other revenue		6	613
Selling and distribution expenses		—	(391)
Administrative and other operating expenses		(4,712)	(2,858)
Operating loss	4	(4,706)	(1,373)
Finance costs	5	(3,915)	(459)
Share of loss of associates and jointly controlled entity		—	(330)
Loss before tax		(8,621)	(2,162)
Income tax	6	323	—
Loss for the period		(8,298)	(2,162)
Loss for the period attributable to:			
Equity holders of the Company		(6,395)	(2,162)
Minority interests		(1,903)	—
		(8,298)	(2,162)
		HK cents	HK cents
Loss per share	8		
— basic		(0.118)	(0.045)
— diluted		N/A	N/A

Unaudited Condensed Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company										
	Share capital	Share premium	Special reserve	Revaluation reserve	Exchange reserve	Warrant reserve	Convertible bonds reserve	Retained profits/ (acc- umulated losses)	Total	Minority interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At January 2007	9,600	259,770	985	14,508	42	—	—	(31,674)	253,231	—	253,231
Loss for the period	—	—	—	—	—	—	—	(2,162)	(2,162)	—	(2,162)
At 31 March 2007	9,600	259,770	985	14,508	42	—	—	(33,836)	251,069	—	251,069
At 1 January 2008	10,816	359,974	985	—	209	4,423	17,730	456,795	850,932	2,016,672	2,867,604
Loss for the period	—	—	—	—	—	—	—	(6,395)	(6,395)	(1,903)	(8,298)
At 31 March 2008	10,816	359,974	985	—	209	4,423	17,730	450,400	844,537	2,014,769	2,859,306

Notes:

1. General Information

The Company was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited.

The unaudited consolidated results are presented in Hong Kong dollars ("HK\$"), unless otherwise stated.

2. Basis of Preparation and Principal Accounting Policies

The unaudited consolidated results have been prepared in accordance with Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

The unaudited consolidated results have been prepared using the historical cost basis except for certain property, plant and equipment, interests in jointly controlled entity and financial instruments, which are measured at revalued amounts or fair values.

The accounting policies adopted in preparing the unaudited consolidated results are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2007.

The consolidated results are unaudited but have been reviewed by the Company's audit committee.

3. Turnover

Turnover represents revenue from the sales of pulp and paper products, net of discounts and returns, during the periods.

4. Operating Loss

Operating loss is arrived at after charging:

	Three months ended	
	31 March	
	2008	2007
	HK\$'000	HK\$'000
Depreciation of property, plant and equipment and amortization of lease payment on land	41	349

5. Finance Costs

	Three months ended	
	31 March	
	2008	2007
	HK\$'000	HK\$'000
Interest on bank and other borrowings wholly repayable within 5 years	—	459
Effective interest on convertible bonds	3,915	—
	3,915	459

6. Income Tax

	Three months ended	
	31 March	
	2008	2007
	HK\$'000	HK\$'000
Current tax:		
Hong Kong	—	—
Other jurisdictions	—	—
Deferred tax	323	—
	323	—

No provision for Hong Kong profits tax and income tax of other jurisdictions has been made as the Group had no assessable profit for the three months ended 31 March 2008 (three months ended 31 March 2007: Nil).

Deferred tax for the three months ended 31 March 2008 represents tax income recognised on reversal of temporary differences arising from convertible bonds (three months ended 31 March 2007: Nil).

No deferred tax has been recognised on loss for the three months ended 31 March 2008 (three months ended 31 March 2007: Nil) due to unpredictability stream of future taxable profits that will be available against which the tax losses can be utilised.

7. Dividend

The Board does not recommend the payment of an interim dividend for the three months ended 31 March 2008 (three months ended 31 March 2007: Nil).

8. Loss Per Share

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

	Three months ended	
	31 March	
	2008	2007
	HK\$'000	HK\$'000
Unaudited loss attributable to equity holders of the Company	(6,395)	(2,162)
Number of shares	'000	'000
Weighted average number of ordinary shares used in the calculation of basic loss per share	5,408,000	4,800,000
Effect of dilutive potential ordinary shares	492	75,115
Weighted average number of ordinary shares used in the calculation of diluted loss per share	5,408,492	4,875,115

The diluted loss per share has not been disclosed as the potential shares would decrease the loss per share and therefore are regarded as anti-dilutive.

Management Discussion and Analysis

Business and Financial Review

The Group has been facing intense competition and weak operational performance in the pulp and paper products industry and the situation became worse off during the period because the trading terms were getting unattractive and unprofitable. The Group generated no turnover for the three months ended 31 March 2008 (the "period") while the unaudited turnover for the three months ended 31 March 2007 (the "previous period") was approximately HK\$11,464,000.

The unaudited net loss for the period was approximately HK\$8,298,000. In previous period, the Group had recorded an unaudited net loss of approximately HK\$2,162,000. The increase in loss was mainly attributable to no generation of revenue from operations, increase in administrative and other operating expenses for the business of exploration and exploitation of energy resources and increase in interest expenses on convertible bonds issued in the last quarter of 2007.

The Directors of the Company do not recommend the payment of an interim dividend for the period (previous period: Nil).

Prospects

Pursuant to the Co-operative Agreement signed between a wholly-owned subsidiary, Polyard Petroleum (Hong Kong) Limited ("PPHK"), and North Petroleum & Chemical Group Company Limited, a company incorporated in the People's Republic of China ("PRC"), as disclosed in the Company's announcement dated 5 February 2008, a petroleum company named 西安百田石油化工有限公司 (Xian Polyard Petroleum & Chemicals Ltd.), of which 51% interest equity is owned by PPHK, has been established to carry on business in petroleum-related products in the PRC commenced on 1 May 2008. This would no doubt have a synergy effect to the existing oil and natural gas business of the Group and represents a mile stone for the Group to enter into the PRC energy market. The Directors of the Company expect the operations of 西安百田石油化工有限公司 will generate gross revenue of not less than RMB13 million for the next quarter and annual turnover of around RMB100 million for the first 12 months of operation.

A corporate restructuring of the Group, by acquiring the rest of the equity interest of Polyard Petroleum International Company Limited (Polyard Macau) and of Chinaoil USA (Macao) Co., Limited (Chinaoil Macao) from minority holders, was approved without objection by shareholders of the Company at an Extraordinary General Meeting held on 14 April 2008. Polyard Macau and Chinaoil Macao would then become wholly-owned indirect subsidiaries of the Company whereas the Company still beneficially owns 21% of the participating interest in the Oil Project in Brunei. By so doing, the intensive relationship between the Company and counter-parts would be relaxed and thus enabling the new operators of the Oil Project to concentrate their efforts on the exploitation and exploration works so as to speed up the expected revenue stream of the Oil Project.

By the setting up of a technical team, which possesses full expertise in oil projects, is responsible for the exploration of energy resources, the Group will endeavor and may explore more opportunities in natural energy resources business and ventures in oil exploitation and exploration projects.

Very Substantial and Connected Transactions

On 6 February 2008, the Group has entered into various agreements in respect of a proposed corporate restructuring, details in full were disclosed in a circular dated 28 March 2008, that also constituted connected transactions and was subsequently approved by shareholders of the Company at an Extraordinary General Meeting duly convened on 14 April 2008 as under:

1. The Group would acquire the rest of the 50% of the entire capital of Polyard Petroleum International Company Limited ("Polyard Macau") from Mr. Lam Nam, a substantial shareholder of the Company. The consideration would be satisfied by the Company to procure Chinaoil USA (Macao) Company Limited ("Chinaoil Macao"), an indirect non-wholly owned subsidiary of the Company, to unconditionally and irrevocably transfer to Mr. Lam 21% of the participating interest in the production sharing agreement relating to the Oil Project in Brunei (the "Oil Project").
2. The Group would acquire the rest of the 30% of the entire capital of Chinaoil Macao from Chinaoil USA Inc. The consideration would be satisfied by the Company to procure Chinaoil Macao to unconditionally and irrevocably transfer to Chinaoil USA Inc. 18% of the participating interest in the Oil Project.

Upon the completion of the above-mentioned transactions on 14 April 2008, Polyard Macau and Chinaoil Macao are now wholly-owned indirect subsidiaries of the Company.

Purchase, Sale or Redemption of Listed Securities

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

Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company or Any Associated Corporations

As at 31 March 2008, none of the Directors and Chief Executive of the Company has interests and short positions in the shares, the underlying shares and 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 notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) and required to be entered in the register maintained by the Company pursuant to section 352 of the SFO or which were notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

Substantial Shareholders' Interests and/or Short Positions in the Shares, Underlying Shares of the Company

The register of substantial shareholders required to be kept under section 336 of Part XV of the SFO shows that, as at 31 March 2008, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital, in addition to those disclosed above in respect of the Directors and Chief Executives.

Name	Number of shares held <i>(Note 1)</i>	Capacity	Approximate percentage of interest
Mr. Chim Kim Kiu, Jacky	1,300,000,000 (L) <i>(Note 2)</i>	Interest of a controlled corporation	24.04%
Siko Venture Limited <i>(Note 2)</i>	1,300,000,000 (L)	Beneficial owner	24.04%
Lam Nam	1,333,000,000 (L) <i>(Note 3)</i>	Interest of a controlled corporation	24.65%
	642,679,607 (L) <i>(Note 4)</i>	Beneficial owner	11.88%
Silver Star Enterprises Holdings Inc. <i>(Note 3)</i>	1,333,000,000 (L)	Beneficial owner	24.65%
Inwood Support Limited <i>(Note 5)</i>	500,700,000 (L) <i>(Note 6)</i>	Beneficial owner	9.26%
Wu Bo <i>(Note 5)</i>	500,700,000 (L)	Interest of a controlled corporation	9.26%
Lin Xuefang <i>(Note 7)</i>	500,700,000 (L)	Interest of spouse	9.26%

POLYARD PETROLEUM INTERNATIONAL GROUP LIMITED

First Quarterly Report 2008

Notes:

1. The letter "L" represents the person's interests in shares or underlying shares.
2. The entire issued share capital of Siko Venture Limited is beneficially owned by Mr. Chim Kim Kiu, Jacky, the previous chairman and a director of the Company.
3. The entire issued share capital of Silver Star Enterprises Holdings Inc. is beneficially owned by Mr. Lam Nam.
4. These shares may be allotted and issued upon exercise of the conversion rights attaching to the convertible bonds that were created and issued upon completion of the acquisition of a further 30% equity interest in Polyard Petroleum International Co., Ltd. by the Company.
5. Inwood Support Limited is wholly owned by Wu Bo.
6. These shares represent the shares to be allotted and issued upon exercise in full of the subscription rights attaching to the warrants held by Inwood Support Limited.
7. Lin Xuefang is the spouse of Wu Bo.

Save as disclosed above, as at 31 March 2008, the directors are not aware of any other person or corporation having an interest or short position in the shares and/or underlying shares of the Company representing 5% or more of the Company's issued share capital.

Share Option Schemes

Pursuant to the pre-IPO share option scheme (the "Pre-IPO Share Option Scheme") adopted by the Company on 26 June 2002, certain Directors and participants were granted options to subscribe for shares at an exercise price of HK\$0.002 per share, details of which are set out as follows:

Name of grantee	Date of grant	Exercisable period	Granted	Number of share options		
				Outstanding as at 1 January 2008	Exercised during the period under review	Outstanding as at 31 March 2008
Employees in aggregate	26 June 2002	12 July 2003 — 11 July 2008	48,750,000	500,000	—	500,000
Total				500,000	—	500,000

No share options under the share option scheme (the "Share Option Scheme") adopted by the Company on 26 June 2002 were granted during the period.

Details of the Pre-IPO Share Option Scheme and the Share Option Scheme were set out in the Prospectus issued by the Company on 5 July 2002.

Directors' and Chief Executives' Rights to Acquire Shares

At no time during the period was the Company, its subsidiaries or holding company a party to any arrangements to enable the Directors or Chief Executives (including their spouses or children under 18 years of age) of the Company to acquire benefits by means of acquisition of shares in the Company or any other body corporate.

Competing Interest

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) has, at any material time, an interest in a business that competed with or might compete with the business of the Group during the period.

Required Standard of Securities Dealings by Directors

During the period, the Company had complied with the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry with all the Directors, the Directors of the Company had complied with the required standard of dealings and the code of conduct for the Directors' securities transactions during the period.

Board Practices and Procedures

The Company had complied with Rules 5.34 to 5.45 of the GEM Listing Rules concerning board practices and procedures throughout the period.

Code on Corporate Governance Practices

Throughout the period, the Company had complied with the requirements of the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules.

Audit Committee

The Company has established an audit committee (the "Audit Committee") with written terms of reference according to the GEM Listing Rules. The duties of the Audit Committee include reviewing and monitoring the reporting process and internal control systems of the Group. As at 31 March 2008, the Audit Committee comprised three independent non-executive directors, namely Mr. Wang Yanhui, Mr. Chan Kin Cheong and Mr. Zhang Xiaobao.

The unaudited condensed consolidated results of the Group for the period have been reviewed by the Audit Committee. In the opinion of the Audit Committee, such unaudited results complied with the applicable accounting standards and requirements and contained adequate disclosures.

For and on behalf of the Board

Kuai Wei

Chairman

Hong Kong, 13 May 2008

At the date of this report, the Board comprises three executive directors, namely Mr. Kuai Wei, Mr. Lin Zhang and Mr. Cao Xuejun and three independent non-executive directors, namely Mr. Wang Yanhui, Mr. Chan Kin Cheong and Mr. Zhang Xiaobao.