



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

(Stock Code 股份代號：8011)



Third Quarterly Report
2008

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 and no assurance is given that there will be a liquid market in the securities traded on GEM.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this report, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the “Directors”) of Polyard Petroleum International Group Limited (the “Company”) collectively and individually accept 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

- Unaudited turnover was approximately HK\$20.4 million for the nine months ended 30 September 2008, representing a decrease of approximately 49.8% as compared with that of the corresponding period in last year.
- Unaudited net loss attributable to equity shareholders of the Company for the nine months ended 30 September 2008 amounted to approximately HK\$20.9 million whereas an unaudited net loss attributable to equity shareholders of the Company of approximately HK\$5.1 million was recorded for the corresponding period in last year.
- The Directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2008.

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 and nine months ended 30 September 2008, together with the comparative unaudited figures for the corresponding periods in 2007, as follows:

UNAUDITED CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
CONTINUING OPERATIONS					
Turnover	3	8,483	—	20,375	—
Cost of sales		(8,345)	—	(20,116)	—
Gross profit		138	—	259	—
Other income		791	390	810	1,539
Administrative and other operating expenses		(3,479)	(1,433)	(13,430)	(4,171)
Operating loss	5	(2,550)	(1,043)	(12,361)	(2,632)
Finance costs	6	(3,912)	(336)	(11,810)	(1,012)
Share of results of associates and jointly controlled entity		—	(479)	—	(1,646)
Loss before tax		(6,462)	(1,858)	(24,171)	(5,290)
Income tax	7	306	—	955	—
Loss for the period from continuing operations		(6,156)	(1,858)	(23,216)	(5,290)
DISCONTINUED OPERATIONS					
Profit/(loss) for the period from discontinued operations	8	415	(28)	401	181
LOSS FOR THE PERIOD		(5,741)	(1,886)	(22,815)	(5,109)

POLYARD PETROLEUM INTERNATIONAL GROUP LIMITED

Third Quarterly Report 2008

	Notes	Three months ended		Nine months ended	
		30 September		30 September	
		2008	2007	2008	2007
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Attributable to:					
Equity holders of the Company		(5,758)	(1,886)	(20,896)	(5,109)
Minority interests		17	—	(1,919)	—
		(5,741)	(1,886)	(22,815)	(5,109)
Loss per share for loss attributable to the equity holders of the Company 10					
Basic (in HK cents)					
— from continuing and discontinued operations		(0.106)	(0.039)	(0.386)	(0.105)
— from continuing operations		(0.114)	(0.038)	(0.394)	(0.109)
Diluted (in HK cents)					
— from continuing and discontinued operations		N/A	N/A	N/A	N/A
— from continuing operations		N/A	N/A	N/A	N/A

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company										
	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Revaluation reserve HK\$'000	Warrant reserve HK\$'000	Exchange reserve HK\$'000	Convertible bonds reserve HK\$'000	Retained profits/ (Accumulated losses) HK\$'000	Total HK\$'000	Minority interests HK\$'000	Total equity HK\$'000
At 1 January 2007	9,600	259,770	985	14,508	—	42	—	(31,674)	253,231	—	253,231
Issue of shares on exercise of share options	150	—	—	—	—	—	—	—	150	—	150
Issue of warrants	—	—	—	—	4,422	—	—	—	4,422	—	4,422
Exchange differences arising from translation of foreign operations	—	—	—	—	—	287	—	—	287	—	287
Loss for the period	—	—	—	—	—	—	—	(5,109)	(5,109)	—	(5,109)
At 30 September 2007	9,750	259,770	985	14,508	4,422	329	—	(36,783)	252,981	—	252,981
At 1 January 2008	10,816	359,974	985	—	4,422	209	17,730	456,795	850,931	2,016,672	2,867,603
Loss for the period	—	—	—	—	—	—	—	(20,896)	(20,896)	(1,919)	(22,815)
Exchange differences arising on translation of foreign operations	—	—	—	—	—	75	—	—	75	14	89
Minority interests arising from acquisition of subsidiary	—	—	—	—	—	—	—	—	—	545	545
Release of exchange reserve on disposal of subsidiaries	—	—	—	—	—	(269)	—	—	(269)	—	(269)
Minority interests eliminated on acquisition of additional interests in non-wholly owned subsidiaries under corporate restructuring	—	—	—	—	—	—	—	—	—	(2,014,704)	(2,014,704)
At 30 September 2008	10,816	359,974	985	—	4,422	15	17,730	435,899	829,841	608	830,449

NOTES TO THE CONDENSED 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 and its shares have been listed on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited since 12 July 2002.

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

2. Basis of preparation and principal accounting policies

The Group's unaudited consolidated results have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" 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 for the three months and nine months ended 30 September 2008 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 for the nine months ended 30 September 2008 represents revenue from sales of goods, net of discounts and returns, for both continuing and discontinued operations, as follows:

	Three months ended 30 September		Nine months ended 30 September	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Continuing operations				
Sales of petroleum-related products	8,483	—	20,375	—
Discontinued operations				
Sales of pulps and paper products	—	14,407	—	40,564

4. Segment Information

(a) Business Segments

For the nine months ended 30 September 2008, the Group is principally organized into 3 major business divisions — (1) trading of pulps and paper products, (2) exploration of oil and natural gas and (3) trading of petroleum-related products. During the three months ended 30 September 2008, the Group disposed of the trading of pulps and paper products business. There are no sales or other transactions between the business segments. These business divisions are the basis on which the Group reports its primary segment information for the nine months ended 30 September 2008 as presented below:

	Continuing operations			Discontinued operations	Consolidated HK\$'000
	Exploration of oil and natural gas HK\$'000	Trading of petroleum-related products HK\$'000	Total HK\$'000	Trading of pulps and paper products HK\$'000	
Turnover	—	20,375	20,375	—	20,375
Segment results	(7,701)	124	(7,577)	(14)	(7,591)
Unallocated corporate income			1	415	416
Unallocated corporate expenses			(4,785)	—	(4,785)
Finance costs			(11,810)	—	(11,810)
Income tax			955	—	955
Profit/(loss) for the period			(23,216)	401	(22,815)

(b) Geographical Segments

All the turnover are derived in the People's Republic of China ("PRC") and accordingly no geographical segment information is presented.

5. Operating loss

Operating loss is arrived at after charging:

	Three months ended 30 September		Nine months ended 30 September	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Continuing operations				
Depreciation of property, plant and equipment and amortization of lease payment on land	75	134	147	435
Operating lease payments for land and buildings	241	—	958	—
Impairment loss on trade receivables	—	—	—	—
Staff costs (including directors' remuneration)	1,231	30	3,718	100
Discontinued operations				
Depreciation of property, plant and equipment and amortization of lease payment on land	—	217	—	644

6. Finance costs

	Three months ended 30 September		Nine months ended 30 September	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Continuing operations				
Interest on bank and other borrowings wholly repayable within 5 years	—	336	—	1,012
Effective interest on convertible bonds	3,912	—	11,810	—
	3,912	336	11,810	1,012
Discontinued operations				
Interest on bank and other borrowings wholly repayable within 5 years	—	121	—	209
	3,912	457	11,810	1,221

7. Income tax

	Three months ended 30 September		Nine months ended 30 September	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Continuing operations				
Current tax:				
Hong Kong	—	—	—	—
Other jurisdictions	—	—	—	—
Deferred tax	306	—	955	—
	306	—	955	—

No provision for Hong Kong profits tax and income tax of other jurisdiction has been made as the Group had no assessable profit for the three months and nine months ended 30 September 2008 (three months and nine months ended 30 September 2007: Nil).

Deferred tax for the three months and nine months ended 30 September 2008 represents tax income recognized on reversal of temporary differences arising from convertible bonds (three months and nine months ended 30 September 2007: Nil).

No deferred tax has been recognized on loss for the three months and nine months ended 30 September 2008 (three months and nine months ended 30 September 2007: Nil) due to unpredictability stream of future taxable profits that will be available against which the tax losses can be utilized.

There was no material unprovided deferred tax in respect of the three months and nine months ended 30 September 2008 (three months and nine months ended 30 September 2007: Nil).

8. Profit/(loss) for the period from discontinued operations

	Three months ended 30 September		Nine months ended 30 September	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Revenue	—	14,493	—	40,760
Expenses	—	(14,521)	(14)	(40,579)
Profit/(loss) before tax	—	(28)	(14)	181
Income tax	—	—	—	—
	—	(28)	(14)	181
Gain on disposal of operation (including reversal of exchange reserve of approximately HK\$269,000 on disposal of a subsidiary)	415	—	415	—
	415	(28)	401	181

9. Dividend

The Board does not recommend the payment of a dividend for the nine months ended 30 September 2008 (nine months ended 30 September 2007: Nil).

10. Loss per share

The calculations of the basic and diluted loss per share from continuing and discontinued operations attributable to the equity holders of the Company are based on the following data:

	Three months ended 30 September		Nine months ended 30 September	
	2008 HK\$'000	2007 HK\$'000	2008 HK\$'000	2007 HK\$'000
Loss for the period from continuing and discontinued operations attributable to the equity holders of the Company	(5,758)	(1,886)	(20,896)	(5,109)
Less:				
(Profit)/loss for the period from discontinued operations	(415)	28	(401)	(181)
Loss for the period in the calculation of basic loss per share from continuing operation	(6,173)	(1,858)	(21,297)	(5,290)
Number of shares	'000	'000	'000	'000
Issued ordinary shares at beginning of the period	5,408,000	4,875,000	5,408,000	4,800,000
Effect of shares issued during the period	—	—	—	28,846
Weighted average number of ordinary shares used in the calculation of basic loss per share	5,408,000	4,875,000	5,408,000	4,828,846
Effect of dilutive potential ordinary shares on share options	479	497	491	497
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	5,408,479	4,875,497	5,408,491	4,829,343

Effect of dilutive potential ordinary shares on convertible bonds and warrants is considered to be nil as the average market prices of ordinary shares during the relevant periods is below the conversion price of the convertible bonds and the exercise price of the warrants.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

For the nine months ended 30 September 2008 (the "Period"), the Group recorded an unaudited turnover of approximately HK\$20.4 million which was decreased by approximately 49.8% comparing to that for the nine months ended 30 September 2007 (the "Previous Period"). The unaudited net loss for the Period was approximately HK\$22.8 million. In the Previous Period, the Group had recorded an unaudited loss of approximately HK\$5.1 million.

The increase in unaudited loss for the period was mainly attributable to the increase in administrative and other operating expenses in particular directors' remuneration, salaries for technical team and office staff, as well as overseas travelling expenses incurred for the business of exploration and exploitation of energy resources and the increase in interest expenses on convertible bonds, amounted to approximately HK\$11.8 million (9 months ended 30 September 2007: Nil), issued in the last quarter of 2007.

The Directors do not recommend the payment of an interim dividend for the Period (nine months ended 30 September 2007: Nil).

The Company's 51% owned subsidiary, Xian Polyard Petroleum & Chemicals Ltd. (西安百田石油化工有限公司) ("Xian Polyard"), commenced business on 1 May 2008 and generated revenue from sales of petroleum-related products of approximately HK\$20.4 million for the Period.

During the period from May to September 2008, Xian Polyard had generated a gross profit of HK\$259,000. Due to the occurrence of worldwide financial crisis recently as well as the fluctuation in crude oil price, the business volume in this line will undoubtedly be affected. The Directors are not in a position to anticipate the future impact to the Group's business for the time being.

However, having considered the existing financial results of Xian Polyard, the growing needs for the petroleum-related products and the potential synergy effect of Xian Polyard to the exploration of oil and natural gas business of the Group, the Board are optimistic about the future of the petroleum-related products trading business in spite of the slight shortfall of gross revenue currently.

Prospects

The Corporate Restructuring as detailed in a circular issued by the Company on 28 March 2008 was completed in April 2008. As a key member of the consortium to the Oil Project in Brunei (the "Oil Project"), we have reviewed and approved the work program and budget proposed by the new operator of the Oil Project and, in accordance with the existing work program, the Board realized that the exploration work in the Oil Project has been commenced in the third quarter of 2008 and the production work in the Oil Project is expected to be commenced in 2009.

To keep pace with the recent proposed acquisition of the coal mine in the Philippines, the Company is considering to invest in a coal trading company in Nanjing in order not only to strengthen the downstream area of coal mining business but also to gain competitive edge in the business even though the investment plan is only in preliminary stage.

Notifiable Transactions

1. Major and Connected Transaction

As disclosed in the Company's announcement dated 25 July 2008 and circular dated 31 October 2008, a Sale and Purchase Agreement was entered into by the Company on 11 July 2008 and then varied by a Supplemental Agreement dated 26 September 2008 for the acquisition of the shareholder loans and the entire issued share capital of Mexford Holdings Limited which is 100% beneficially owned by Mr. Lam Nam, who is a substantial shareholder of the Company. The proposed acquisition constitutes a connected transaction. An associate of Mexford Holdings Limited has obtained a right to examine, investigate and/or explore the Coal Contract Area located in the Philippines.

The consideration for the above-mentioned acquisition is HK\$120 million which will be satisfied by the Company issuing interest-free convertible bonds with a conversion price of HK\$0.048 per share of the Company.

2. Discloseable Transaction

As announced by the Company on 25 July 2008, a Disposal Agreement was entered into by the Company on 15 July 2008 for the disposal of the entire issued share capital of Yunnan Kanstar High Tech Products Development Company Limited ("Kanstar Yunnan"), a wholly-owned subsidiary of the Company, to an independent purchaser at a consideration of HK\$200,000. Kanstar Yunnan is principally engaged in the trading of pulps and paper products business.

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 EXECUTIVES' INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 September 2008, none of the Directors and chief executives of the Company has interests and/or short positions in the shares, 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 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), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to Rule 5.46 of the GEM Listing Rules, relating to the required standard of dealings by directors of listed issuers, to be notified to the Company and the Stock Exchange.

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

As at 30 September 2008, so far as known to the Directors, the following persons (not being a Director or a chief executive of the Company) had an interest and/or a 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 pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO and/or required to be entered in the register maintained by the Company pursuant to Section 336 of the SFO:

Name	Number of shares held <i>(Note 1)</i>	Capacity	Approximate percentage of interests
Lam Nam	1,333,000,000 (L) <i>(Note 2)</i>	Interest of a controlled corporation	24.65%
	642,679,607 (L) <i>(Note 3)</i>	Beneficial owner	11.88%
Silver Star Enterprises Holdings Inc. <i>(Note 2)</i>	1,333,000,000 (L)	Beneficial owner	24.65%
Inwood Support Limited <i>(Note 4)</i>	500,700,000 (L) <i>(Note 5)</i>	Beneficial owner	9.26%
Li Sui Qing <i>(Note 4)</i>	500,700,000 (L)	Interest of a controlled corporation	9.26%

Notes:

1. The letter "L" represents the person's interests in shares or underlying shares.
2. The entire issued share capital of Silver Star Enterprises Holdings Inc. is beneficially owned by Mr. Lam Nam.
3. These shares may be allotted and issued upon exercise of the conversion rights attaching to the convertible bonds that were created and issued in relation to the acquisition of a further 30% equity interest in Polyard Petroleum International Co., Ltd. by the Company.

4. Inwood Support Limited is wholly owned by Li Sui Qing.
5. 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.

Save as disclosed above, as at 30 September 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 have been 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	Lapsed during the period under review	Outstanding as at 30 September 2008
Employees in aggregate	26 June 2002	12 July 2003 — 11 July 2008	48,750,000	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 are set out in the Prospectus issued by the Company on 5 July 2002.

DIRECTORS' AND CHIEF EXECUTIVE'S RIGHTS TO ACQUIRE SHARES

Save as disclosed above, 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.

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 has complied with Rules 5.34 to 5.45 of the GEM Listing Rules concerning board practices and procedures throughout the Period.

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 an audit committee (the "Audit Committee") with written terms of reference pursuant to the GEM Listing Rules. The duties of the Audit Committee include reviewing and monitoring the financial reporting procedures and internal control system of the Group. As at 30 September 2008, the Audit Committee comprises three independent non-executive Directors, namely Mr. Wang Yanhui, Mr. Chan Kin Cheong and Mr. Zhang Xiaobao.

The unaudited 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.

CONTINGENT LIABILITIES

As at 30 September 2008, the Company did not have any substantial contingent liabilities.

For and on behalf of the Board

Kuai Wei

Chairman

Hong Kong, 12 November 2008

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