



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

(Stock Code : 8011)



2012

Third Quarterly Report

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200 Connaught Road Central, Hong Kong
www.ppig.com.hk

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 three months and nine months ended 30 September 2012, together with the comparative unaudited figures for the corresponding periods in 2011, as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

For the three months and nine months ended 30 September 2012

	Notes	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
		2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Turnover	3	—	—	462	—
Cost of sales		—	—	—	—
Gross profit		—	—	462	—
Other revenues		—	—	3	51
Administrative expenses		(4,387)	(7,237)	(15,647)	(20,095)
Loss on early redemption of convertible bonds		—	(824)	—	(824)
Share of results of associates		(3)	(2)	(10)	(3)
Operating loss		(4,390)	(8,063)	(15,192)	(20,871)
Finance costs	4	(3,614)	(7,612)	(10,729)	(25,394)
Loss before tax	5	(8,004)	(15,675)	(25,921)	(46,265)
Income tax	6	540	(1,621)	1,620	635
LOSS FOR THE PERIOD		(7,464)	(17,296)	(24,301)	(45,630)
Attributable to:					
Owners of the Company		(7,387)	(17,200)	(24,176)	(45,222)
Non-controlling interests		(77)	(96)	(125)	(408)
		(7,464)	(17,296)	(24,301)	(45,630)
Loss per share	8				
Basic (in HK cents)		(0.40)	(1.12)	(1.33)	(5.77)
Diluted (in HK cents)		N/A	N/A	N/A	N/A
Dividend	7	—	—	—	—

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2012

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss for the period	(7,464)	(17,296)	(24,301)	(45,630)
Other comprehensive income:				
Exchange difference arising on translation of foreign operations	(21)	(628)	(158)	(590)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	(7,485)	(17,924)	(24,459)	(46,220)
Attributable to:				
Owners of the Company	(7,412)	(17,828)	(24,325)	(45,785)
Non-controlling interests	(73)	(96)	(134)	(435)
	(7,485)	(17,924)	(24,459)	(46,220)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2012

	Unaudited									
	Attributable to owners of the Company									
	Share capital HK\$'000	Share premium HK\$'000	Special reserve HK\$'000	Exchange reserve HK\$'000	Capital reserve HK\$'000	Convertible bonds reserve HK\$'000	Retained profits/ Accumulated losses HK\$'000	Subtotal HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 January 2011 (Audited)	24,336	531,831	985	57	15,392	48,689	960	622,250	87	622,337
Loss for the period	—	—	—	—	—	—	(45,222)	(45,222)	(408)	(45,630)
Other comprehensive income for the period	—	—	—	(563)	—	—	—	(563)	(27)	(590)
Total comprehensive income for the period	—	—	—	(563)	—	—	(45,222)	(45,785)	(435)	(46,220)
Non-controlling interests arising on acquisition of a subsidiary	—	—	—	—	—	—	—	—	14,700	14,700
Issue of rights shares	9,155	45,776	—	—	—	—	—	54,931	—	54,931
Issuing expenses relating to a rights issue	—	(1,183)	—	—	—	—	—	(1,183)	—	(1,183)
Conversion of convertible notes	16,000	84,000	—	—	(15,392)	—	15,392	100,000	—	100,000
Issue of shares upon debt restructuring	23,333	116,667	—	—	—	—	—	140,000	—	140,000
At 30 September 2011	72,824	777,091	985	(506)	—	48,689	(28,870)	870,213	14,352	884,565
At 1 January 2012 (Audited)	72,900	777,644	985	(49)	15,392	48,689	303,242	1,218,803	153,679	1,372,482
Loss for the period	—	—	—	—	—	—	(24,176)	(24,176)	(125)	(24,301)
Other comprehensive income for the period	—	—	—	(149)	—	—	—	(149)	(9)	(158)
Total comprehensive income for the period	—	—	—	(149)	—	—	(24,176)	(24,325)	(134)	(24,459)
Acquisition of additional interests in subsidiaries	—	—	—	—	—	—	(100)	(100)	(14,600)	(14,700)
Issue of employee shares	99	533	—	—	—	—	—	632	—	632
At 30 September 2012	72,999	778,177	985	(198)	15,392	48,689	278,966	1,195,010	138,945	1,333,955

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 with limited liability under the Companies Law of the Cayman Islands. The shares of the Company were listed on GEM on 12 July 2002.

The Group is principally engaged in the exploration, exploitation and production of oil, natural gas and coal, and trading of petroleum-related products.

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 under the historical cost convention, except for interests in associates and jointly controlled entities and certain financial instruments which are measured at fair value.

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 2011.

3. Turnover

An analysis of the Group's turnover is as follows:

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Provision of technical services	—	—	462	—

4. Finance costs

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Effective interest on convertible bonds	3,272	7,612	9,816	25,394
Effective interest on promissory note	223	—	655	—
Bank interest	119	—	258	—
	3,614	7,612	10,729	25,394

5. Loss before tax

Loss before tax is arrived at after charging:

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Staff costs (including directors' remuneration)				
— Salaries and other benefits	1,971	2,530	6,977	7,640
— Retirement scheme contributions	90	92	251	149
Loss on early redemption of convertible bonds	—	824	—	824
Depreciation of property, plant and equipment	93	95	279	281

6. Income tax

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2012	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax				
— Hong Kong	—	—	—	—
— Other jurisdictions	—	—	—	—
Deferred tax	540	(1,621)	1,620	635
Income tax credit/(expense) for the period	540	(1,621)	1,620	635

No provision for Hong Kong profits tax has been provided as there was no assessable income in Hong Kong during the period (2011: Nil). 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 represents income tax recognised on reversal of temporary differences arising from convertible bonds.

No deferred tax has been recognised on loss for the period (2011: Nil) due to unpredictability 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 a dividend for the period (2011: Nil).

8. Loss per share

The calculation of the basic loss per share is based on the following data:

	Unaudited Three months ended 30 September		Unaudited Nine months ended 30 September	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Loss for the period attributable to owners of the Company	(7,387)	(17,200)	(24,176)	(45,222)
Loss for the period for calculation of basic loss per share	(7,387)	(17,200)	(24,176)	(45,222)
	'000	'000	'000	'000
Weighted average number of ordinary shares in issue for the period	1,824,971	1,529,311	1,823,810	783,769

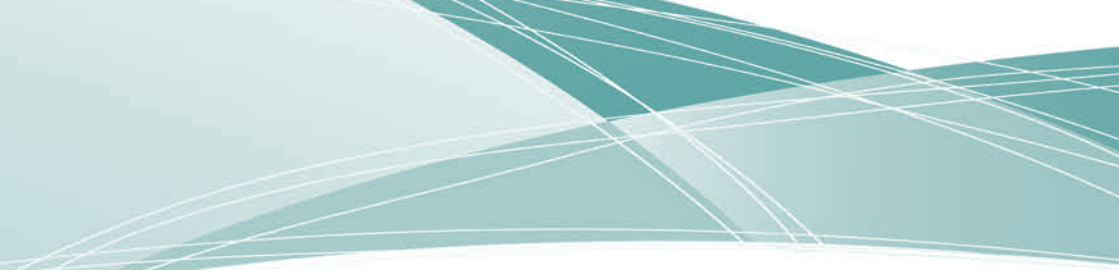
No diluted loss per share is presented as the conversion of the outstanding convertible bonds of the Company is anti-dilutive.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

For the nine months ended 30 September 2012, the Group provided technical services for oil and gas projects in geophysics and geology and generated revenues of HK\$462,000. During the comparable period in 2011, the Group had generated no turnover.

The Group recorded a net loss attributable to owners of the Company of approximately HK\$24,176,000 for the period as compared to a net loss attributable to owners of the Company of approximately HK\$45,222,000 for the corresponding period last year.



Administrative expenses for the period amounted to approximately HK\$15,647,000 representing a decrease of approximately HK\$4,448,000 or 22%, as compared with the corresponding period last year. The decrease was mainly due to the reduction in overseas travelling and business development expenses.

Finance costs for the period amounted to approximately HK\$10,729,000 (2011: approximately HK\$25,394,000). The decrease in interest costs was mainly resulted from redemption of the convertible bonds in the amount of HK\$276,352,231.22 on 6 September 2011.

The Group engages in the business of exploration and exploitation of energy and resources. As most of the projects are still in the exploratory phase, the Group continues to incur capitalizable and operating expenses, and sustain losses. Revenues will be recorded when the projects progress to the exploitative phase with output of commercial quantity.

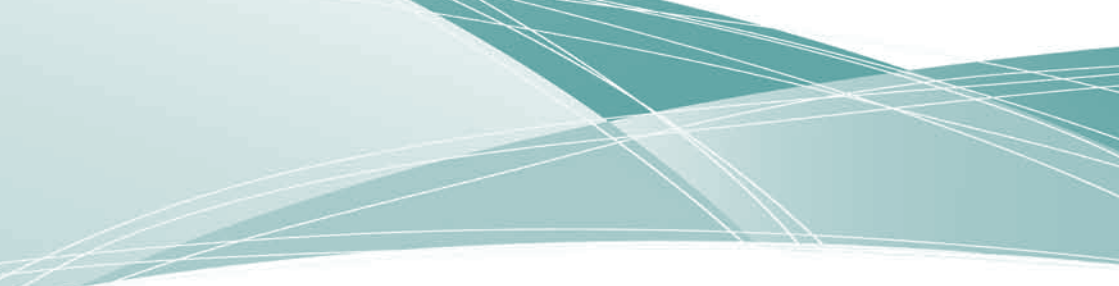
Prospects

Professional Services

Sinotech Polyard Petroleum Exploration & Development Research Institute Limited and its subsidiary provided technical services for oil and gas projects in geophysics and geology and generated revenues of HK\$462,000 during the nine months ended 30 September 2012.

Brunei Block M Oil and Gas Project

Notwithstanding a full 2012 work program framed around the remaining work commitments under the exploration phase to drill 3 additional wells was planned, exploration phase of the project expired on 27 August 2012. The Consortium submitted requests to Brunei National Petroleum Company Sendirian Berhad ("Petroleum Brunei") before expiration for extension of time to complete the remaining work commitments but was informed by Petroleum Brunei on 24 August



2012 that the exploration period would not be extended. On 28 August 2012, the Consortium submitted an appeal to the Ministry of Energy of Brunei on the rejection of request for extension of term of the project. On the same day, Petroleum Brunei demanded a compensation of US\$16.35 million from the Consortium, based on unfulfilled drilling commitments.

Caught in an investment climate no longer friendly to foreign investors, the Board is considering the impact of such disapproval of extension on the Company and, in concerted efforts with other Consortium partners, is seeking legal advices on the appropriate action to be taken, including taking legal action and seeking compensation from relevant parties.

Philippines Central Luzon Gas Project

The project's 2012 budget was framed around Victoria-3 re-entry well planning and continuing the petrophysical and reservoir engineering study of the Central Luzon Basin. Data being captured will enable the project team to confirm gas shows of the area and the study will advance the re-entry program and help locate other site prospects for future drilling.

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.

Philippines South Cebu Oil and Gas Project

This project is situated in the Cebu Island, central Philippines. Geologists were retained to perform site evaluation for 2D and 3D seismic projects and to create digital topographic maps and diagrams. The management team is working with governmental agencies and local residents on forest clearing, relocation compensation and land lease negotiation. A drilling rig sourced outside the Philippines is undergoing and will have to pass a testing program before the equipment will be imported. A field office with full-fledged manpower will be established in Alegria, Cebu and the first well is expected to spud in the first quarter of 2013.

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 2012, 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.

On 17 April 2012, Polyard Petroleum Resources Development Inc., a wholly-owned subsidiary of the Company, purchased from Mr. Zhang Xiaobao, a former executive Director of the Company who resigned on 25 May 2012, 9,900 issued shares of Sinotech Polyard Petroleum Exploration & Development Research Institute Limited ("Sinotech Polyard"), for a total consideration of HK\$1. Subsequent to the acquisition, Sinotech Polyard became a 70% indirectly owned subsidiary of the Company. For details, please refer to the Company's announcement published on 17 April 2012.

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

As at 30 September 2012, 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 (Note 1)		Capacity	Approximate percentage of interest
Lam Nam	1,274,255,931 (Note 2)	(L)	Interest of a controlled corporation	69.82%
	161,725,067 (Notes 3 and 4)	(L)	Interest of a controlled corporation	8.86%
Silver Star Enterprises Holdings Inc. (Note 2)	1,274,255,931	(L)	Beneficial owner	69.82%
China International Mining Holding Company Limited (Note 3)	161,725,067 (Note 4)	(L)	Beneficial owner	8.86%
Sun Wai Pan	93,000,000	(L)	Beneficial owner	5.10%

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.
- 3 The entire issued share capital of China International Mining Holding Company Limited 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 issued by the Company.

Save as disclosed above, as at 30 September 2012, 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.

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. All of these share options granted were exercised or lapsed in or before 2008.

No share options under the share option scheme (the “Share Option Scheme”) adopted by the Company on 26 June 2002 were granted, exercised or lapsed 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' 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 required standard of dealings and the code of conduct regarding securities transactions throughout the period ended 30 September 2012.

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

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

PRE-EMPTIVE RIGHTS

There are 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 an audit committee (the "Audit Committee") with written terms of reference pursuant to the GEM Listing Rules. The primary duties of the Audit Committee include reviewing the financial statements and monitoring the financial reporting procedures and internal control system of the Group.

The Audit Committee comprises three independent non-executive Directors, namely Mr. Wang Yanhui, Mr. Pai Hsi-Ping and Mr. Wong Kon Man Jason.

The unaudited condensed consolidated financial statements of the Group for the period have been reviewed by the Audit Committee, which is of the opinion that such unaudited condensed consolidated financial statements complied with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

For and on behalf of the Board

Kuai Wei

Chairman

Hong Kong, 12 November 2012



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

Executive Directors

Mr. Kuai Wei
Mr. Lai Chun Liang
Mr. Lin Zhang

Independent Non-Executive Directors

Mr. Wang Yanhui
Mr. Pai Hsi-Ping
Mr. Wong Kon Man Jason