



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

(Stock Code : 8011)



2014
Interim Report

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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 2014, together with the comparative unaudited figures for the corresponding period in 2013, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2014

	Notes	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2014	2013	2014	2013
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover		—	—	—	—
Other revenues		—	4	—	4
Administrative expenses		(4,202)	(4,235)	(8,110)	(7,808)
Operating loss		(4,202)	(4,231)	(8,110)	(7,804)
Loss on disposal of a subsidiary	12	(963,735)	—	(963,735)	—
Share of results of associates		(2)	(164)	(5)	(168)
Finance costs	3	(3,352)	(4,298)	(6,926)	(8,617)
Loss before tax	4	(971,291)	(8,693)	(978,776)	(16,589)
Income tax	5	509	619	1,064	1,239
LOSS FOR THE PERIOD		(970,782)	(8,074)	(977,712)	(15,350)

	Notes	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2014	2013	2014	2013
		HK\$'000	HK\$'000	HK\$'000	HK\$'000
Attributable to:					
Owners of the Company		(970,730)	(7,950)	(977,613)	(15,178)
Non-controlling interests		(52)	(124)	(99)	(172)
		(970,782)	(8,074)	(977,712)	(15,350)
Loss per share					
Basic (in HK cents)	6	(50.57)	(0.44)	(52.10)	(0.83)
Diluted (in HK cents)		N/A	N/A	N/A	N/A
Dividend	7	—	—	—	—

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Loss for the period	(970,782)	(8,074)	(977,712)	(15,350)
Other comprehensive income:				
Item that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of foreign operations	227	(88)	37	25
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	(970,555)	(8,162)	(977,675)	(15,325)
Attributable to:				
Owners of the Company	(970,497)	(8,209)	(977,574)	(15,151)
Non-controlling interests	(58)	47	(101)	(174)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	(970,555)	(8,162)	(977,675)	(15,325)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

		Unaudited 30 June 2014	Audited 31 December 2013
	Notes	HK\$'000	HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		296	376
Interests in associates		43,950	43,955
Interests in joint ventures	13	299,951	1,383,033
Deferred exploration expenditure		24,389	23,707
		368,586	1,451,071
CURRENT ASSETS			
Amounts due from associates		16,022	15,881
Other receivables	9	2,109	938
Cash and bank balances	10		
— pledged		10,885	—
— unpledged		2,725	1,381
		31,741	18,200
CURRENT LIABILITIES			
Other payables	11	(9,255)	(11,515)
Amounts due to directors		(2,086)	(1,856)
Bank borrowing		—	(6,304)
Convertible bonds	14	—	(15,523)
		(11,341)	(35,198)
NET CURRENT ASSETS/(LIABILITIES)		20,400	(16,998)
TOTAL ASSETS LESS CURRENT LIABILITIES		388,986	1,434,073

		Unaudited 30 June 2014	Audited 31 December 2013
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
NON-CURRENT LIABILITIES			
Amount due to a shareholder		(113,848)	(80,259)
Convertible bonds	14	—	(107,638)
Promissory note		(8,411)	—
Deferred taxation	15	—	(2,118)
		(122,259)	(190,015)
NET ASSETS		266,727	1,244,058
CAPITAL AND RESERVES			
Share capital	16	77,502	73,320
Reserves		94,334	1,044,538
Equity attributable to owners of the Company		171,836	1,117,858
Non-controlling interests		94,891	126,200
TOTAL EQUITY		266,727	1,244,058

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	Unaudited									
	Attributable to owners of the Company									
	Share capital	Share premium	Special reserve	Exchange reserve	Capital reserve	Convertible bonds reserve	Retained profits/ losses	Sub-total	Non-controlling 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 1 January 2013 (Audited)	73,070	778,736	985	(201)	15,392	49,062	241,800	1,158,844	131,999	1,290,843
Total comprehensive income for the period	—	—	—	27	—	—	(15,178)	(15,151)	(174)	(15,325)
Issue of employee shares	90	538	—	—	—	—	—	628	—	628
At 30 June 2013	73,160	779,274	985	(174)	15,392	49,062	226,622	1,144,321	131,825	1,276,146
At 1 January 2014 (Audited)	73,320	779,742	985	(217)	49,319	13,013	201,696	1,117,858	126,200	1,244,058
Total comprehensive income for the period	—	—	—	39	—	—	(977,613)	(977,574)	(101)	(977,675)
Acquisition of additional interests in a subsidiary	—	—	—	—	—	—	22,944	22,944	(31,208)	(8,264)
Cancellation of convertible bonds (Note 12)	—	—	—	—	—	(7,896)	—	(7,896)	—	(7,896)
Conversion of convertible bonds	4,000	16,993	—	—	—	(5,117)	—	15,876	—	15,876
Issue of employee shares	182	446	—	—	—	—	—	628	—	628
At 30 June 2014	77,502	797,181	985	(178)	49,319	—	(752,973)	171,836	94,891	266,727

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	Unaudited Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Net cash used in operating activities	(11,967)	(11,218)
Net cash used in investing activities	(3,089)	(2,190)
Net cash generated from financing activities	27,285	12,039
Net increase/(decrease) in cash and cash equivalents	12,229	(1,369)
Cash and cash equivalents at 1 January	1,381	1,668
Cash and cash equivalents at 30 June	13,610	299
Analysis of cash and cash equivalents		
Cash and bank balances		
— pledged	10,885	—
— unpledged	2,725	299
	13,610	299

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 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 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 the GEM Listing Rules.

The unaudited condensed consolidated results have been prepared under the historical cost convention, except for interests in associates and joint ventures 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 2013.

3. Finance costs

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Effective interest on convertible bonds	3,094	3,967	6,577	7,931
Effective interest on promissory note	210	236	210	464
Bank interest	48	95	139	222
	3,352	4,298	6,926	8,617

4. Loss before tax

Loss before tax is arrived at after charging:

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Staff costs (including directors' remuneration)				
— Salaries and other benefits	1,957	2,597	3,828	4,298
— Retirement scheme contributions	66	64	132	123
Depreciation of property, plant and equipment	45	52	92	120

5. Income tax

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax				
— Hong Kong	—	—	—	—
— PRC enterprise income tax	—	—	—	—
— Other jurisdictions	—	—	—	—
Deferred tax	509	619	1,064	1,239
Income tax credit for the period	509	619	1,064	1,239

Hong Kong profits tax is calculated at the rate of 16.5% (2013: 16.5%) on the estimated assessable profit for the period. PRC subsidiaries are subject to PRC enterprise income tax at the rate of 25% (2013: 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 represents income tax recognised on reversal of temporary differences arising from convertible bonds.

No deferred tax has been recognised on loss for the period (2013: Nil) due to unpredictability of future taxable profits that will be available against which the tax losses can be utilised.

6. Loss per share

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

	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Loss for the period attributable to owners of the Company	970,730	7,950	977,613	15,178
Loss for the period for calculation of basic loss per share	970,730	7,950	977,613	15,178
	'000	'000	'000	'000
Weighted average number of ordinary shares in issue for the period	1,919,555	1,827,436	1,876,512	1,827,090

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

7. Dividend

The Board does not recommend the payment of a dividend for the period (2013: Nil).

8. Segment information

For the six months ended 30 June 2014, 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. There are no sales or other transactions between these reporting segments.

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				Unaudited			
	Six months ended 30 June 2014				Six months ended 30 June 2013			
	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
Turnover:								
Revenues from external customers	—	—	—	—	—	—	—	—
Interest income	—	—	—	—	—	—	—	—
Other revenues	—	—	—	—	—	—	—	—
Total income	—	—	—	—	—	—	—	—
Reportable segment income/(loss) before tax	(965,668)	74	(590)	(966,184)	(1,991)	(28)	(580)	(2,599)
Unallocated corporate income				—				4
Unallocated corporate expenses				(5,661)				(5,209)
Unallocated interest expense				(6,926)				(8,617)
Share of results of associates				(5)				(168)
Loss before tax				(978,776)				(16,589)
Income tax				1,064				1,239
Loss for the period				(977,712)				(15,350)

Segment assets and liabilities

	Unaudited				Audited			
	As at 30 June 2014				As at 31 December 2013			
	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	55,335	82	349	55,766	41,203	45	202	41,450
Interests in associates	43,950			43,950	43,955			43,955
Interests in joint ventures	299,951			299,951	1,383,033			1,383,033
Unallocated corporate assets				660				833
Total assets				400,327				1,469,271
Liabilities:								
Segment liabilities	33,821	—	452	34,273	27,064	87	1,015	28,166
Unallocated corporate liabilities				99,327				197,047
Total liabilities				133,600				225,213

Other segment information

	Unaudited					Unaudited				
	Six months ended 30 June 2014					Six months ended 30 June 2013				
	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	HK\$'000
Depreciation	41	—	32	19	92	60	—	30	30	120
Capital expenditure	12	—	—	—	12	—	—	3	6	9

(b) Geographical information

The following table sets out information about the geographical location of (i) the Group's revenues 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.

	Revenues from external customers		Specified non-current assets	
	Unaudited		Unaudited	Audited
	Six months ended 30 June		30 June	December
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mainland China, including Hong Kong and Macau	—	—	214	262
Brunei	—	—	—	1,085,478
Philippines	—	—	368,372	365,331
	—	—	368,586	1,451,071

9. Other receivables

	Unaudited 30 June 2014	Audited 31 December 2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Other debtors, deposits and prepayments	2,109	938

10. Cash and bank balances

At 30 June 2014, cash and bank balances include a short-term bank deposit of approximately US\$1,404,000 (approximately HK\$10,885,000) with maturity of less than three months which carries fixed interest rate of 0.01% per annum. The short-term bank deposit is pledged to the bank to secure short-term banking facilities granted to a subsidiary in respect of bank guarantee facilities.

11. Other payables

	Unaudited 30 June 2014	Audited 31 December 2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Other creditors and accrued charges	9,255	11,515

12. Disposal of a subsidiary

On 30 June 2014, the Group disposed of China Sino Oil Company Limited, a wholly-owned subsidiary, which owns 21% participating interest in the consortium for the Brunei Block M Oil and Gas Project.

	Unaudited Six months ended 30 June 2014
	<i>HK\$'000</i>
Consideration received	
Cancellation of convertible bonds (<i>Note 14</i>)	113,760
Reversal of convertible bonds reserve	7,896
Reversal of deferred taxation upon cancellation of convertible bonds (<i>Note 15</i>)	1,030
Direct expenses	(995)
Total consideration received	121,691
Analysis of assets and liabilities over which control was lost	
Current assets	
Cash and bank balances	37
Non-current assets	
Interest in a joint venture	1,085,477
Current liabilities	
Other payables	(88)
Amount due to the Company	(95,943)
Net assets disposed of	989,483
Loss on disposal of a subsidiary	
Consideration received	121,691
Waiver of amount due from the subsidiary disposed of	(95,943)
Net assets disposed of	(989,483)
Loss on disposal	(963,735)
Net cash outflow on disposal of a subsidiary	
Direct expenses	(995)
Cash and bank balances disposed of	(37)
	(1,032)

13. Interests in joint ventures

The interests held by the Group in joint ventures which are engaged in the exploration, exploitation and development of oil and gas in Brunei and Philippines are 21% (2013: 21%) and 80% (2013: 80%) respectively. The 21% interest in the project in Brunei was disposed of during the period.

	Unaudited 30 June 2014	Audited 31 December 2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning of the period	1,383,033	1,389,541
Additional investment	2,395	4,698
Refund of investment	—	(142)
Impairment loss	—	(11,064)
Disposal of investment	(1,085,477)	—
At end of the period	299,951	1,383,033
Analysis of carrying amounts of oil and gas projects held by joint ventures is as follows:		
In Brunei	—	1,085,477
In Philippines	299,951	297,556
	299,951	1,383,033

14. Convertible bonds

	Unaudited 30 June 2014 <i>HK\$'000</i>	Audited 31 December 2013 <i>HK\$'000</i>
At beginning of the period	123,161	120,654
Interest charged	6,577	15,844
Interest paid	(126)	(480)
Derecognition — maturity	—	(108,000)
Derecognition — conversion (a)	(15,852)	—
Derecognition — cancellation (b)	(113,760)	—
Liability component	—	96,980
Gain arising from extension	—	(1,837)
At end of the period	—	123,161
Carrying amount repayable		
Within one year	—	15,523
More than one year, but not exceeding two years	—	107,638
	—	123,161

- (a) The convertible bonds issued to an independent third party in the principal amount of HK\$16,000,000 were converted into 100,000,000 conversion shares at the conversion price of HK\$0.16 per share during the period.
- (b) The convertible bonds issued to China International Mining Holding Company Limited in the principal amount of HK\$120,000,000 were cancelled during the period. The amount was set off as settlement of consideration for the disposal of China Sino Oil Company Limited, a wholly-owned subsidiary of the Company.

15. Deferred taxation

The Group's major deferred tax liabilities recognised and movements thereon during the current and prior periods are summarized below:

	Unaudited 30 June 2014 <i>HK\$'000</i>	Audited 31 December 2013 <i>HK\$'000</i>
At beginning of the period	2,118	2,478
Reversed to convertible bonds reserve upon extension of convertible bonds	—	(19)
Initial recognition due to convertible bonds modification	—	1,818
Addition due to extension of convertible bonds	—	323
Credit to income statement for the period	(1,064)	(2,482)
Conversion of convertible bonds	(24)	—
Cancellation of convertible bonds	(1,030)	—
At end of the period	—	2,118

16. Share capital

	30 June 2014		1 January 2014	
	Number of shares '000	Amount HK\$'000	Number of shares '000	Amount HK\$'000
<i>Authorised:</i> Ordinary shares of HK\$0.04 each				
— At 30 June 2014 and 1 January 2014	2,500,000	100,000	2,500,000	100,000
<i>Issued and fully paid:</i> Ordinary shares of HK\$0.04 each				
— At 30 June 2014 and 1 January 2014	1,937,538	77,502	1,832,991	73,320

On 15 April 2014, 100,000,000 ordinary shares were allotted and issued at HK\$0.16 per share upon conversion of an aggregate of HK\$16,000,000 of the principal amount of convertible bonds. On 23 May 2014, pursuant to an employment agreement, 4,546,425 ordinary shares were allotted and issued to an employee at an issue price of HK\$0.1383 per share. The new ordinary shares rank pari passu in all respects with the existing shares of the Company.

17. Commitments

(a) Capital commitments

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

	Unaudited 30 June 2014 <i>HK\$'000</i>	Audited 31 December 2013 <i>HK\$'000</i>
Contributions to joint ventures	62,800	33,081

(b) Operating lease commitments

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

	Unaudited 30 June 2014 <i>HK\$'000</i>	Audited 31 December 2013 <i>HK\$'000</i>
Premises		
— due within 1 year	2,123	2,460
— due after 1 year but within 5 years	636	1,578
	2,759	4,038

18. 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:

	Notes	Unaudited Three months ended 30 June		Unaudited Six months ended 30 June	
		2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Convertible bonds interest	I	3,061	3,754	6,122	7,509
Promissory note interest	II	210	236	210	464

Notes:

- I The convertible bonds interest represented the effective interest charged on convertible bonds issued by the Company to a company beneficially owned by Mr. Lam Nam.
- II The promissory note interest represented the effective interest charged on a promissory note issued by the Company to Mr. Lam Nam for the acquisition of additional 12% (2013: 51%) of the issued share capital of Mass Leader Inc.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

The Group did not generate any turnover for the period ended 30 June 2014 (2013: Nil).

The Group recorded a net loss attributable to owners of the Company of approximately HK\$977,613,000 for the period as compared to a net loss attributable to owners of the Company of approximately HK\$15,178,000 for the corresponding period last year. Loss for the period included a loss on disposal of a subsidiary of approximately HK\$963,735,000.

Administrative expenses for the period amounted to approximately HK\$8,110,000 representing an increase of approximately HK\$302,000 or 4%, as compared with the corresponding period last year. The increase was mainly attributable to increase in corporate finance activities and related professional expenses.

Finance costs for the period amounted to approximately HK\$6,926,000 (2013: approximately HK\$8,617,000). The decrease in interest costs was mainly resulted from the decrease in effective interest of the convertible bonds in the amount of HK\$120,000,000 and HK\$16,000,000 upon their extensions in 2013.

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.

Acquisition of additional 12% issued share capital of a non-wholly owned subsidiary

On 4 April 2014, Win Easy International Limited (the “Purchaser”, a wholly-owned subsidiary of the Company), entered into a share purchase agreement (as supplemented by an amended and restated agreement dated 7 April 2014) with Mr. Lam Nam (the “Vendor”, a substantial shareholder of the Company) for the acquisition of 12% of the issued share capital of Mass Leader Inc., the entire issued share capital of which was 51% and 49% held by the Purchaser and the Vendor, respectively, immediately prior to this acquisition. The total consideration was HK\$9,800,000 which was settled by the Company issuing a promissory note with principal amount of HK\$9,800,000 to the Vendor. Upon completion of the acquisition on 14 April 2014, Mass Leader Inc. has become 63% owned by the Group and 37% by the Vendor. The acquisition has constituted a connected transaction under the GEM Listing Rules.

Mass Leader Inc. holds 100% of the issued share capital of China International Mining Petroleum Company Limited which holds 80% of the participating interest in the South Cebu Oil and Gas Project in the Philippines.

For details, please refer to the Company’s announcements published on 4, 8 and 14 April 2014, respectively.

Transfer and conversion of convertible bonds

On 7 April 2014, the Company received a notice from Mr. Chan Meng Kam, the holder of the HK\$16,000,000 convertible bonds due on 19 November 2013 (which were further extended to 19 May 2014) that he would transfer the convertible bonds in its entirety to two independent third parties.

On 8 April 2014, the Company received conversion notices from the two holders of the convertible bonds in respect of the exercise of the conversion rights attached to the convertible bonds to convert an aggregate of HK\$16,000,000 of the principal amount of the convertible bonds at the conversion price of HK\$0.16 for 100,000,000 conversion shares. The conversion shares were issued and allotted on 15 April 2014 under the general mandate granted to the Directors at the annual general meeting on 3 May 2013. The conversion shares rank *pari passu* with all the existing shares, and represent approximately an aggregate of 5.17% of the issued share capital of the Company as enlarged by the allotment and issue of the conversion shares.

For details, please refer to the Company's announcement published on 11 April 2014.

Disposal of a wholly-owned subsidiary

On 17 April 2014, Modern Lucky International Limited (the "Vendor", a wholly-owned subsidiary of the Company) and New Sino Mining Petroleum Company Ltd. (the "Purchaser", beneficially owned by the Company's substantial shareholder, Mr. Lam Nam) entered into a sale and purchase agreement, pursuant to which the Vendor conditionally agreed to sell, and the Purchaser conditionally agreed to purchase, the entire issued share capital of China Sino Oil Company Limited ("China Sino Oil", a wholly-owned subsidiary of the Company) together with the loans due from time to time by China Sino Oil to the Company and/or any of its subsidiaries, at an aggregate consideration of HK\$120,000,000 to be settled by way of set off against the convertible bonds in the amount of HK\$120,000,000 due from the Company to China International Mining Holding Company Limited, a company legally and beneficially owned by Mr. Lam. The disposal has constituted a major and connected transaction which is subject to reporting, announcement and independent shareholders' approval requirements under the GEM Listing Rules.

China Sino Oil is principally engaged in the business of exploration, exploitation and development of oil and natural gas and owns 21% participating interest in the consortium for the Brunei Block M Oil and Gas Project.

The Purchaser irrevocably and unconditionally grants to the Vendor a call option, which may be exercised by the Vendor at any time during the period commencing from the completion date and ending on the fifth anniversary of the completion date, to purchase from the Purchaser, in a single exercise, the entire capital of China Sino Oil together with any loans due from China Sino Oil to the Purchaser and/or any of his associates legally and beneficially owned by the Purchaser. The consideration for the call option shares shall be HK\$120,000,000 (subject to adjustments). In the event that the audited net asset value of China Sino Oil as at the completion of the sale and purchase of the call option shares shall be less than HK\$989,558,000, the Vendor shall have the right to request the Purchaser to reduce the consideration for the call option shares by an amount equivalent to the shortfall or such amount to be agreed by the Vendor and the Purchaser.

Upon completion of the transaction on 30 June 2014, the Group realised a loss on the disposal of approximately HK\$963,735,000, representing the difference between the aggregate consideration and the carrying amount of the Group's interest in the net assets of the China Sino Oil as at 30 June 2014.

For details, please refer to the Company's announcements published on 30 April and 30 June 2014, respectively and Company's circular dated 10 June 2014.

Termination of memorandum of understanding in respect of a possible share subscription

On 25 September 2013, the Company and Beijing Enterprises Energy Development (Holdings) Company Limited (“BEEDHC”) entered into a memorandum of understanding (as supplemented) pursuant to which the Company agreed to allot and issue 1,733,800,000 subscription shares to BEEDHC at a cash price of HK\$0.19 per share pursuant to the formal agreement to be negotiated between the Company and BEEDHC. BEEDHC has substantially completed the due diligence investigation on the Group and was reviewing the development of the debt reorganisations of the Company and the development of the Brunei Block M Oil and Gas Project.

According to the fourth supplemental memorandum of understanding dated 25 March 2014 entered into between the Company and BEEDHC, all terms and conditions set out in the memorandum of understanding would be extended and remained in effect until 25 June 2014. Due to the reasons of the recent development of the Brunei Block M Oil and Gas Project as stated in the announcement of the Company dated 30 April 2014 and the changes in the financial conditions of the Group, the Company and BEEDHC, after further negotiations, have agreed to terminate the memorandum of understanding with effect from 9 May 2014.

The Board considers that the termination of the memorandum of understanding would have no material adverse impact on the financial and operational position of the Group.

For details, please refer to the Company’s announcements published on 25 March and 9 May 2014, respectively.

Liquidity and Financial Resources

As at 30 June 2014, the Group had net assets amounted to approximately HK\$266.7 million (31 December 2013: HK\$1,244.1 million) and net current assets amounted to approximately HK\$20.4 million (31 December 2013: net current liabilities HK\$17.0 million). The current ratio was 280% (31 December 2013: 52%). The Group had no bank borrowings as at 30 June 2014 (31 December 2013: HK\$6.3 million). As at 30 June 2014, gearing ratio of the Group based on the net debt to the shareholders' equity was 45% (31 December 2013: 18%).

For the period ended 30 June 2014, the Group financed its operations mainly with the funds provided by the substantial shareholder.

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.

Employee Information

The Group had a total number of staff of 37 (31 December 2013: 35). 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\$4.0 million for the six months ended 30 June 2014 as compared with the corresponding period of approximately HK\$4.4 million in 2013.

Prospects

Brunei Block M Oil and Gas Project

As stated in the announcement of the Company dated 27 August 2012, the consortium owning the project was informed by Brunei National Petroleum Company Sendirian Berhad ("Petroleum Brunei") on 24 August 2012 that it would not extend the exploration period of the project which was to expire on 27 August 2012. On 28 August 2012, the consortium submitted an appeal to the Ministry of Energy of Brunei in relation to the rejection of request for extension of exploration period of the project by Petroleum Brunei. On the same day, Petroleum Brunei demanded a compensation of US\$16.35 million from the consortium for the incomplete obligations in drilling program. Since then, the Group and certain members of the consortium have engaged in negotiations with Petroleum Brunei regarding the extension of the exploration period. However, up to end of the first quarter in 2014, the matter was yet to be resolved. The Group has obtained advices from its legal adviser on the project who opined that (a) if no further action was to be taken, the Group would avoid incurring further legal costs, however, the Group's rights in respect of the project would be lost entirely and as such the Group would not be able to recover its rights or to seek compensation, and there could also be a possible claim against the Group and other members of the consortium; and (b) if proceed with investment treaty arbitration, the Group could potentially recover its rights or obtain compensation in respect of its investment in the project through arbitration, however, the uncertainty of the outcome and the substantial legal costs which would be incurred should also be considered. Based on the above advices, the Board has decided that it would be best for the Company to dispose of China Sino Oil Company Limited ("China Sino Oil"), the wholly-owned subsidiary which owns 21% participating interest in the consortium, since the time and costs, including legal costs, involved would be substantial and there is still a high uncertainty as to the grant of the extension. On 17 April 2014, the Group entered into the sale and purchase agreement to dispose of China Sino Oil to the substantial shareholder of the Company and the disposal was completed on 30 June 2014.

Philippines Central Luzon Gas Project

The project's original 2012 work program was for re-entry work at the Victoria-3 well and drilling a new well. However, the re-entry activity and the drilling a new well were delayed due to rig availability. In 2012, project management gave up the re-entry work and, instead, conducted a further support study for a new drilling plan. The support study, and new well design has continued into 2013. As a result of the above-described delay, applications for extensions of the current exploration sub-phase to 28 February 2015 have been granted by Philippines Department of Energy. It is intended that the rig sourced for the Cebu project be mobilized to Central Luzon to drill one exploration well in late 2014.

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 Philippines Department of Energy to 31 December 2015.

Philippines South Cebu Oil and Gas Project

The project ("SC49") is situated at the southern part of Cebu, central Philippines. Oil and gas have been discovered in previous drillings. 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.

In 2013, the drilling program was delayed due to rig availability and funding requirement. Application for an extension of the current exploration sub-phase to 1 March 2015 has been granted by Philippines Department of Energy. CIMP finalized its well drilling and oil service tender for SC49, and signed a drilling service agreement with a contractor in March 2014. The contractor has mobilized the rig components and materials to the well site in Cebu. The site construction for the first well has been completed and the first exploration well is expected to be spudded in the third quarter. After the first two vertical wells are completed, the Company will further evaluate and study the parameters obtained for developing the following directional or horizontal wells' drilling.

Summary of Expenditure Incurred for Projects

A summary of expenditure incurred for the above projects by the Group for the six months ended 30 June 2014 is as follow:

	Unaudited	
	Six months ended	
	30 June	
	2014	2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Brunei Block M Oil and Gas Project	—	—
Philippines Central Luzon Gas Project	682	438
Philippines San Miguel Coal Mine Project	52	641
Philippines South Cebu Oil and Gas Project	2,395	2,048

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 2014, 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 2014, 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
Silver Star Enterprises Holdings Inc. (Note 2)	1,244,255,931 (L)	Beneficial owner	64.22%
Lam Nam	1,244,255,931 (L) (Note 2)	Interest of a controlled corporation	64.22%
	2,780,000	Beneficial owner	0.14%

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 1,244,255,931 shares held by Silver Star Enterprises Holdings Inc..

Save as disclosed above, as at 30 June 2014, 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 2014.

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 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 and supervising the Company's financial reporting process and internal control procedures. 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. Pan Wen-Cheng. Mr. Pan Wen-Cheng 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

Kuai Wei
Chairman

Hong Kong, 11 August 2014

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. Pai Hsi-Ping

Ms. Xie Qun

Mr. Pan Wen-Cheng