



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

(Stock Code: 8011)

2017

First Quarterly 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.*

FIRST 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 ended 31 March 2017, together with the comparative unaudited figures for the corresponding period in 2016, as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the three months ended 31 March 2017

	Notes	Unaudited Three months ended 31 March	
		2017 HK\$'000	2016 HK\$'000
Turnover		—	—
Other income		38	9
Administrative and other operating expenses		(7,706)	(8,297)
Finance costs	3	(4,825)	(4,194)
Impairment losses recognised on deferred exploration expenditure		(897)	—
Share of results of associates		—	(1)
Loss before income tax	4	(13,390)	(12,483)
Income tax credit	5	185	136
Loss for the period		(13,205)	(12,347)
Attributable to:			
Owners of the Company		(12,799)	(11,723)
Non-controlling interests		(406)	(624)
		(13,205)	(12,347)
Loss per share	6		
Basic (in HK cents)		0.436	0.421
Diluted (in HK cents)		0.436	0.421
Dividends	7	—	—

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended 31 March 2017

	Unaudited Three months ended 31 March	
	2017	2016
	HK\$'000	HK\$'000
Loss for the period	(13,205)	(12,347)
Other comprehensive income:		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	386	258
Total comprehensive expense for the period	(12,819)	(12,089)
Attributable to:		
Owners of the Company	(12,563)	(11,565)
Non-controlling interests	(256)	(524)
Total comprehensive expense for the period	(12,819)	(12,089)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2017

	Unaudited									
	Attributable to owners of the Company								Non-controlling interests	Total
	Share capital	Share premium	Special reserve	Exchange reserve	Convertible	Accumulated losses	Subtotal			
					bonds reserve					
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
At 1 January 2016 (Audited)	111,502	941,937	985	(23)	634	(901,699)	153,336	13,285	166,621	
Loss for the period	—	—	—	—	—	(11,723)	(11,723)	(624)	(12,347)	
Other comprehensive income for the period	—	—	—	158	—	—	158	100	258	
Total comprehensive income/ (expense) for the period	—	—	—	158	—	(11,723)	(11,565)	(524)	(12,089)	
Recognition of equity component of convertible bonds	—	—	—	—	3,488	—	3,488	—	3,488	
Deferred tax liability on recognition of equity component of convertible bonds	—	—	—	—	(837)	—	(837)	—	(837)	
At 31 March 2016	111,502	941,937	985	135	3,285	(913,422)	144,422	12,761	157,183	
At 1 January 2017 (Audited)	117,502	998,012	985	(1,560)	3,285	(953,393)	164,831	43,166	207,997	
Loss for the period	—	—	—	—	—	(12,799)	(12,799)	(406)	(13,205)	
Other comprehensive income for the period	—	—	—	236	—	—	236	150	386	
Total comprehensive income/ (expense) for the period	—	—	—	236	—	(12,799)	(12,563)	(256)	(12,819)	
At 31 March 2017	117,502	998,012	985	(1,324)	3,285	(966,192)	152,268	42,910	195,178	

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 and natural gas, trading of petroleum-related products and provision of technical services.

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 on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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 2016.

3. Finance costs

	Unaudited Three months ended 31 March	
	2017	2016
	HK\$'000	HK\$'000
Imputed interest on convertible bonds	4,821	4,188
Finance lease interest	4	6
	4,825	4,194

4. Loss before income tax

Loss before income tax is arrived at after charging:

	Unaudited Three months ended 31 March	
	2017	2016
	HK\$'000	HK\$'000
Staff costs (including directors' remuneration)		
— Salaries, allowances and benefits in kind	4,639	4,732
— Retirement scheme defined contributions	65	73
Depreciation of property, plant and equipment	55	61

5. Income tax credit

Income tax credit recognised in profit or loss:

	Unaudited Three months ended 31 March	
	2017	2016
	HK\$'000	HK\$'000
Current tax:		
— Hong Kong	—	—
— PRC enterprise income tax	—	—
— Other jurisdictions	—	—
Deferred tax	185	136
Income tax credit for the period	185	136

Hong Kong profits tax is calculated at the rate of 16.5% (2016: 16.5%) on the estimated assessable profit for the period. PRC subsidiaries are subject to PRC enterprise income tax at the rate of 25% (2016: 25%). Taxes on profits assessable in other jurisdictions are calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

Deferred tax for the period represented income tax recognised on reversal of temporary differences arising from convertible bonds.

No deferred tax has been recognised on loss for the period (2016: 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 and diluted loss per share are based on the following data:

	Unaudited Three months ended 31 March	
	2017	2016
	HK\$'000	HK\$'000
Loss for the period attributable to owners of the Company	12,799	11,723
Loss for the period for calculation of basic loss and diluted loss per share	12,799	11,723
	'000	'000
Weighted average number of ordinary shares in issue for the period	2,937,538	2,787,538

The computation of diluted loss per share does not assume the conversion of the outstanding convertible bonds since it would result in a decrease in loss per share, and is regarded as anti-dilutive.

7. Dividends

The Board does not recommend the payment of a dividend for the period (2016: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business and Financial Review

The Group did not generate any turnover for the period ended 31 March 2017 (2016: Nil).

The Group recorded a net loss attributable to owners of the Company of approximately HK\$12,799,000 for the period as compared to a net loss attributable to owners of the Company of approximately HK\$11,723,000 for the corresponding period last year.

Administrative and other operating expenses for the period amounted to approximately HK\$7,706,000 representing a decrease of approximately HK\$591,000 or 7%, as compared with the corresponding period last year. The decrease was mainly attributable to decrease in various business expenses such as entertainment and overseas travelling expenses.

Finance costs for the period amounted to approximately HK\$4,825,000 (2016: approximately HK\$4,194,000). The increase in interest costs was mainly resulted from the full effect of the interest cost of the convertible bonds in the amount of HK\$50,000,000 issued at the end of January 2016.

Memorandum of Understanding in respect of a Possible Subscription

On 11 March 2017, the Company and China Wheat (Shenzhen) Equity Investment Fund Management Limited (中麥田(深圳)股權投資基金管理有限公司) (the "Subscriber") entered into a memorandum of understanding pursuant to which the Company agreed to allot and issue 900,000,000 subscription shares to the Subscriber at a cash price of HK\$0.414 per share pursuant to the formal agreement to be negotiated between the Company and the Subscriber. At the date of this report, the Subscriber is still in the process of conducting due diligence on the Company's business operations.

Further details of the above are explained in the Company's announcements dated 12 March 2017 and 25 April 2017.

Prospects

Philippines Central Luzon Gas Project

As described in previous reports, consolidation of the gas project's work programs under exploration Sub-phases 1 and 2 was granted by the Philippines Department of Energy to extend the expiry to 28 February 2017, on condition that (i) two exploration wells will be drilled or (ii) one exploration well will be drilled and 200 line-kilometer of 2D seismic data will be acquired, processed and interpreted by end of the new Sub-phase. In October 2016, the project informed Department of Energy that the prescribed work program under Sub-phase 1 would not be timely completed upon expiration by reasons of force majeure, and further extension was requested. The application is still under process at the date of this report.

Management determined that it was appropriate to adopt a prudence approach to fully write down the carrying amount of the deferred exploration expenditure associated with the gas project. As a result, an impairment loss equal to the carrying value was made in respect of the Gas Project.

Philippines San Miguel Coal Mine Project

The project has progressed into the development phase. Construction of the phase-2 road, which will extend the vehicle-assessable road into the initial mining area, began in the second quarter 2011 but was suspended pending receipt of clearance from governmental agencies overseeing environmental protection. Construction can only be resumed upon the grant of tree cutting permit. A moratorium on the work commitments for the project has been granted by the Department of Energy to 31 December 2017.

In view of the ongoing suspension for the development of the coal mine and the business outlook of the coal industry in the Philippines, management was in its view that the issue might not be resolved in the short term. As such, it was appropriate to adopt a prudence approach to fully write down the carrying amount of the project. As a result, an impairment loss equal to the carrying amount of the project was made in respect of the Coal Mine Project.

Philippines South Cebu Oil and Gas Project

The project ("SC49") is situated at the southern part of Cebu, central Philippines. China International Mining Petroleum Company Limited ("CIMP") acquired 80% participating interests of SC49 and became the operator of SC49 in July 2009. The Group indirectly acquired 51% of CIMP's issued capital in October 2012, and an additional 12% in April 2014, bringing the effective interest in the project to 50.4% after the latest acquisition.

Between 2014 and 2016, the project had drilled, wireline-logged, and cemented five appraisal wells, namely Polyard-1, Polyard-2, Polyard-3, Polyard-6 and Polyard-8. According to preliminary results of interpretation, all wells have different levels of oil and gas shows, with discoveries of multiple oil and gas layers. Given the commercial quantity of gas discovery by Polyard-2, on 22 December 2015 Department of Energy confirmed SC49 was converted from the exploration period to the production period effective 1 March 2015 for a period of 25 years. In March 2017, the project has submitted to Department of Energy a plan of development comprising Polyard-3 and Polyard-8 oil blocks and, upon its approval, oil production may officially commence and more development wells will be drilled.

During the reporting period, the project team was carrying out preparation work for drilling Polyard-9, the sixth appraisal well, including geological design, land leasing and compensation negotiation, and applying for tree-cutting permit from environmental protection authority.

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 31 March 2017, 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 corporations (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 31 March 2017, the interests and short positions of persons, other than Directors or chief executive of the Company, in the shares and/or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or substantial shareholders as recorded in the register of substantial shareholders required to be kept by the Company under Section 336 of the SFO were as follows:

Name of person	Number of shares held	Capacity	Approximate percentage of interest
	(Note 1)		
Silver Star Enterprises Holdings Inc.	1,894,255,931 (L) (Note 2)	Beneficial owner	64.48%
Lam Nam	1,894,255,931 (L) (Note 2)	Interest of a controlled corporation	64.48%
	48,480,000 (L)	Beneficial owner	1.65%
Haitong International Securities Company Limited	250,000,000 (L) (Note 3)	Beneficial owner	8.51%
Shu Xin	152,580,000	Beneficial owner	5.19%

Notes:

- 1 The letter “L” denotes long positions in shares or underlying shares.
- 2 The entire issued share capital of Silver Star Enterprises Holdings Inc. is beneficially owned by Mr. Lam Nam. Mr. Lam Nam is deemed to be interested in 1,894,255,931 shares held by Silver Star Enterprises Holdings Inc.
- 3 These shares may be allotted and issued upon exercise of the conversion rights attaching to the convertible bonds issued by the Company.

Save as disclosed above, as at 31 March 2017, 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 31 March 2017.

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

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

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association, or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to the existing shareholders.

COMPETING INTERESTS

During the period, none of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the business of the Group.

CODE ON CORPORATE GOVERNANCE PRACTICES

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

AUDIT COMMITTEE

The Company has established the Audit Committee with written terms of reference in compliance with Rules 5.28 and 5.33 of the GEM Listing Rules. The primary duties of the Audit Committee include reviewing the Company's annual report, half-year report and quarterly financial reports and providing advice and comments thereon to the Board. The Audit Committee is also responsible for reviewing the Company's financial controls, risk management and internal control systems. It is also responsible for making recommendations to the Board on the appointment, re-appointment and removal of external auditor, approving the remuneration and terms of engagement of the external auditor, reviewing and monitoring the external auditor's independence and objectivity, and meeting the external auditor at least twice a year regarding the review of the financial reports and accounts.

The Audit Committee comprises the three independent non-executive Directors, namely Mr. Pai Hsi-Ping, Ms. Xie Qun and Mr. Kwan King Chi George. Mr. Kwan King Chi George is the Chairman of the Audit Committee.

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

For and on behalf of the Board

Kuai Wei

Chairman

Hong Kong, 8 May 2017

At the date of this report, the Board 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. Kwan King Chi George