POLYARD PETROLEUM INTERNATIONAL GROUP LIMITED

PPIG 百田石油國際集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 8011)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2012

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.

This announcement, 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 Growth Enterprise Market 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 enquires, confirm that, to the best of their knowledge and belief: (1) the information contained in this announcement 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 announcement misleading; and (3) all opinions expressed in this announcement have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

ANNUAL RESULTS

The board of Directors (the "Board") of Polyard Petroleum International Group Limited (the "Company") announces the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2012, together with the comparative audited figures for the previous year, as set out below:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

	Note	2012 HK$'000	2011 HK$'000
Turnover	5	**462**	609
Other revenue	5	**1**	52
Administrative and other operating expenses		**(22,436)**	(31,804)
Operating loss		**(21,973)**	(31,143)
Finance costs	6	**(14,460)**	(28,474)
Impairment loss on interests in associates	11	**(20,940)**	—
Impairment loss on interests in associates written back	11	**—**	7,422
Share of results of associates	11	**(13)**	(2)
Impairment loss on interests in jointly controlled entities	12	**(13,183)**	(5,301)
Impairment loss on interests in jointly controlled entities written back	12	**—**	215,077
Negative goodwill arising on acquisition of subsidiaries		**—**	140,289
(Loss)/Profit before tax	7	**(70,569)**	297,868
Income tax	8	**2,159**	1,109
(Loss)/Profit for the year		**(68,410)**	298,977
Attributable to:			
Owners of the Company		**(61,342)**	302,282
Non-controlling interests		**(7,068)**	(3,305)
		(68,410)	298,977
(Loss)/Earnings per share	9		
— Basic (in HK cents)		**(3.36) cents**	28.34 cents
— Diluted (in HK cents)		**(3.36) cents**	25.92 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	2012	2011
	HK$'000	*HK$'000*
(Loss)/Profit for the year	**(68,410)**	298,977
Other comprehensive income		
Exchange differences on translation of foreign operations	**(164)**	(122)
Total comprehensive income for the year	**(68,574)**	298,855
Attributable to:		
Owners of the Company	**(61,494)**	302,176
Non-controlling interests	**(7,080)**	(3,321)
Total comprehensive income for the year	**(68,574)**	298,855

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 HK$'000	2011 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment		**578**	838
Interests in associates	*11*	**60,945**	81,898
Interests in jointly controlled entities	*12*	**1,389,541**	1,393,203
Deferred exploration expenditure		**22,415**	19,826
		1,473,479	1,495,765
CURRENT ASSETS			
Amounts due from associates		**15,085**	13,370
Trade and other receivables	*13*	**1,408**	19,463
Cash and bank balances		**1,668**	4,200
		18,161	37,033
CURRENT LIABILITIES			
Other payables	*14*	**(10,487)**	(13,048)
Amount due to a director		**(1,005)**	(302)
Amount due to a shareholder		**—**	(34,494)
Bank borrowing		**(7,176)**	(8,099)
Convertible bonds	*15*	**(15,672)**	—
		(34,340)	(55,943)
NET CURRENT LIABILITIES		**(16,179)**	(18,910)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,457,300**	1,476,855
NON-CURRENT LIABILITIES			
Amount due to a shareholder		**(50,541)**	—
Convertible bonds	*15*	**(104,982)**	(91,894)
Promissory note	*16*	**(8,456)**	(7,842)
Deferred taxation		**(2,478)**	(4,637)
		(166,457)	(104,373)
NET ASSETS		**1,290,843**	1,372,482
CAPITAL AND RESERVES			
Share capital	*18*	**73,070**	72,900
Reserves		**1,085,774**	1,145,903
Equity attributable to owners of the Company		**1,158,844**	1,218,803
Non-controlling interests		**131,999**	153,679
TOTAL EQUITY		**1,290,843**	1,372,482

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the Company									
	Share capital	Share premium	Special reserve	Exchange reserve	Capital reserve	Convertible bonds reserve	Retained profits	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*
At 1 January 2011	24,336	531,831	985	57	15,392	48,689	960	622,250	87	622,337
Total comprehensive income for the year	—	—	—	(106)	—	—	302,282	302,176	(3,321)	298,855
Issue of rights shares	9,155	45,777	—	—	—	—	—	54,932	—	54,932
Formation of a subsidiary	—	—	—	—	—	—	—	—	14,700	14,700
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	142,213	142,213
Issuing expenses relating to rights issue	—	(1,183)	—	—	—	—	—	(1,183)	—	(1,183)
Conversion of convertible notes	16,000	84,000	—	—	—	—	—	100,000	—	100,000
Shares subscriptions	23,409	117,219	—	—	—	—	—	140,628	—	140,628
At 31 December 2011	72,900	777,644	985	(49)	15,392	48,689	303,242	1,218,803	153,679	1,372,482
At 1 January 2012	72,900	777,644	985	(49)	15,392	48,689	303,242	1,218,803	153,679	1,372,482
Total comprehensive income for the year	—	—	—	(152)	—	—	(61,342)	(61,494)	(7,080)	(68,574)
Acquisition of additional interests in subsidiaries *(Note 17)*	—	—	—	—	—	—	(100)	(100)	(14,600)	(14,700)
Issue of employee shares	170	1,092	—	—	—	—	—	1,262	—	1,262
Issue of convertible bonds	—	—	—	—	—	373	—	373	—	373
At 31 December 2012	73,070	778,736	985	(201)	15,392	49,062	241,800	1,158,844	131,999	1,290,843

Notes:

1. General Information

Polyard Petroleum International Group Limited (the "Company") was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited. The registered office of the Company is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is located at Room 2602, 26th Floor, China Merchant Tower, Shun Tak Centre, 200 Connaught Road Central, Sheung Wan, Hong Kong. These consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company.

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are the exploration, exploitation and development of oil, natural gas and coal, trading of petroleum-related products and provision of technical services.

2. Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

New standards, amendments and interpretations to HKFRSs that are effective for accounting periods beginning on or after 1 January 2012.

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are effective for accounting periods beginning on or after 1 January 2012.

HKFRS 7 (Amendments)	Disclosures – Transfer of Financial Assets
HKAS 12 (Amendments)	Deferred Tax – Recovery of Underlying Assets

The adoption of the new and revised HKFRSs in the current year has no material effect on the consolidated financial statements of the Group for the current and prior accounting periods.

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in the consolidated financial statements.

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009-2011 Cycle except for HKAS1 (Amendments)(2)
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 *and Transition Disclosures*(4)
HKFRS 9	*Financial Instruments*(4)
HKFRS 10	*Consolidated Financial Statements*(2)
HKFRS 11	*Joint Arrangements*(2)
HKFRS 12	*Disclosure of Interests in Other Entities*(2)
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	*Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance*(2)
HKFRS 10, HKFRS 11 and HKAS 27 (Amendments)	*Investment Entities*(3)
HKFRS 13	*Fair Value Measurement*(2)
HKAS 1 (Amendments)	*Presentation of Items of Other Comprehensive Income*(1)

HKAS 19 (as revised in 2011)	*Employee Benefits*[2]
HKAS 27 (as revised in 2011)	*Separate Financial Statements*[2]
HKAS 28 (as revised in 2011)	*Investments in Associates and Joint Ventures*[2]
HKAS 32 (Amendments)	*Offsetting Financial Assets and Financial Liabilities*[3]
HK(IFRIC) – Int 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]

(1) Effective for annual periods beginning on or after 1 July 2012.
(2) Effective for annual periods beginning on or after 1 January 2013.
(3) Effective for annual periods beginning on or after 1 January 2014.
(4) Effective for annual periods beginning on or after 1 January 2015.

The Group is in the process of making an assessment of the impact of these new and revised HKFRSs upon initial application. So far, the Group considers that these new and revised HKFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

HKFRS 7 Amendments issue new disclosure requirements in relation to the offsetting models of financial assets and financial liabilities. The amendments also improve the transparency in the reporting of how companies mitigate credit risk, including disclosure of related collateral pledged or received. The Group expects to adopt the amendments from 1 January 2013. The application of the amendments is unlikely to have any material financial impact on the Group.

HKFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace HKAS 39 Financial Instruments: Recognition and Measurement. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of HKAS 39.

In November 2010, the HKICPA issued additions to HKFRS 9 to address financial liabilities (the "Additions"). The changes only affect the measurement of financial liabilities designated at fair value through profit or loss using the fair value option. For these fair value option liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in other comprehensive income will create or enlarge an accounting mismatch in profit or loss. All other requirements in HKAS 39 in respect of liabilities are carried forward into HKFRS 9. However, loan commitments and financial guarantee contracts which have been designated under the fair value option are scoped out of the Additions.

HKAS 39 is aimed to be replaced by HKFRS 9 in its entirety. Before this entire replacement, the guidance in HKAS 39 on hedge accounting, derecognition and impairment of financial assets continues to apply. The Group expects to adopt HKFRS 9 from 1 January 2015.

HKFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by HKFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in HKAS 27 Consolidated and Separate Financial Statements and HK(SIC)-Int 12

Consolidation – Special Purpose Entities. HKFRS 10 replaces the portion of HKAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in HK(SIC)-Int 12. The application of this new standard is unlikely to have any material financial impact on the Group.

HKFRS 11 replaces HKAS 31 Interests in Joint Ventures and HK(SIC)-Int 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. It describes the accounting for joint arrangements with joint control. It addresses only two forms of joint arrangements, i.e. joint operations and joint ventures, and removes the option to account for joint ventures using proportionate consolidation. The application of this new standard is unlikely to have any material financial impact on the Group.

HKFRS 12 includes the disclosure requirements for subsidiaries, joint arrangements, associates and structured entities that are previously included in HKAS 27 Consolidated and Separate Financial Statements, HKAS 31 Interests in Joint Ventures and HKAS 28 Investments in Associates. It also introduces a number of new disclosure requirements for these entities.

Consequential amendments were made to HKAS 27 and HKAS 28 as a result of the issuance of HKFRS 10, HKFRS 11 and HKFRS 12. The Group expects to adopt HKFRS 10, HKFRS 11, HKFRS 12, and the consequential amendments to HKAS 27 and HKAS 28 from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use has already been required or permitted under other HKFRSs. The Group expects to adopt the standard from 1 January 2013. The directors anticipate the application of the new standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

HKAS 1 Amendments change the grouping of items presented in other comprehensive income. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified. The Group expects to adopt the amendments from 1 January 2013. The amendments affect presentation only and have no impact on the Group's financial position or performance.

HK(IFRIC) – Int 20 applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine (production stripping costs). Under the Interpretation, the costs from this waste removal activity (stripping) which provide improved access to ore is recognised as a non-current asset (stripping activity asset) when certain criteria are met, whereas, the costs of normal on-going operational stripping activities are accounted for in accordance with HKAS 2 Inventories. The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset and classified as tangible or intangible according to the nature of the existing asset of which it forms part.

The directors of the Company are in the process of making an assessment of the potential impacts of these new and revised HKFRSs and they are so far concluded that the application of these new and revised HKFRSs will have no material impact on the consolidated financial statements.

3. Statement of Compliance

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies.

During the year ended 31 December 2012, the Group incurred a loss of approximately HK$68,410,000 and, as of that date, the Group had net current liabilities of approximately HK$16,179,000. These conditions indicate the existence of a material uncertainty which may cast doubt about the Group's ability to continue as a going concern.

The directors of the Company have taken the following measures to mitigate the liquidity issues faced by the Group and to improve its financial position which include, but are not limited to, the following:

(i) The Company intends to negotiate with potential strategic investors in respect of a possible equity investment in the Company;

(ii) The Company has reviewed the Group's financial and operational position, and is taking steps to improve cash flow management of the Group with a view to conserve productive assets and operations; and

(iii) The substantial shareholder has agreed to provide continuing financial support for the Group to meet its liabilities as and when they fall due.

Provided that the above measures can successfully improve the liquidity position of the Group, the directors of the Company are satisfied that the Group will be able to meet its financial obligations as and when they fall due for the foreseeable future. Accordingly, the directors of the Company are satisfied that it is appropriate to prepare the consolidated financial statements on the going concern basis. Should the Group be unable to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current liabilities. The effect of these adjustments has not been reflected in the consolidated financial statements.

4. Segment Information

The Group determines its operating segments based on the reports reviewed by the chief operating decision-makers that are used to make strategic decisions.

For the year ended 31 December 2012, 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 were no sales or other transactions between those reportable segments.

An analysis of the Group's reportable segment revenues, results, assets, liabilities and other selected financial information is presented below.

(a) Reportable Segments

2012

	Exploration of oil, natural gas and coal *HK$'000*	**Trading of petroleum related products** *HK$'000*	**Provision of technical services** *HK$'000*	**Total** *HK$'000*
Turnover:				
Revenues from external customers	—	—	**462**	**462**
Interest income	**1**	—	—	**1**
Total income	**1**	—	**462**	**463**
Reportable segment loss before tax	**(16,912)**	**(668)**	**(1,368)**	**(18,948)**
Unallocated corporate expenses				**(3,025)**
Impairment loss on interests in associates	**(20,940)**			**(20,940)**
Impairment loss on interests in jointly controlled entities	**(13,183)**			**(13,183)**
Share of results of associates	**(13)**			**(13)**
Interest expenses				**(14,460)**
Loss before tax				**(70,569)**
Income tax				**2,159**
Loss for the year				**(68,410)**

2011

	Exploration of oil, natural gas and coal *HK$'000*	Trading of petroleum related products *HK$'000*	Provision of technical services *HK$'000*	Total *HK$'000*
Turnover:				
Revenues from external customers	—	—	609	609
Interest income	—	1	1	2
Other revenue	50	—	—	50
Total income	50	1	610	661
Reportable segment loss before tax	(18,405)	(110)	(1,063)	(19,578)
Unallocated corporate expenses				(11,565)
Negative goodwill arising from acquisition of subsidiaries	140,289			140,289
Impairment loss on interests in associates written back	7,422			7,422
Impairment loss on interests in jointly controlled entities written back	215,077			215,077
Impairment loss on interests in jointly controlled entities	(5,301)			(5,301)
Share of results of associates	(2)			(2)
Interest expenses				(28,474)
Profit before tax				297,868
Income tax				1,109
Profit for the year				298,977

The accounting policies of the operating segments are the same as the Group's accounting policies. Segment loss represents loss incurred by each segment without allocation of central administration costs including directors' emoluments, finance costs and income tax. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

2012

	Exploration of oil, natural gas and coal *HK$'000*	**Trading of petroleum related products** *HK$'000*	**Provision of technical services** *HK$'000*	**Total** *HK$'000*
Assets:				
Segment assets	**40,092**	**130**	**344**	**40,566**
Interests in associates	**60,945**			**60,945**
Interests in jointly controlled entities	**1,389,541**			**1,389,541**
Unallocated corporate assets				**588**
Total assets				**1,491,640**
Liabilities:				
Segment liabilities	**33,690**	**150**	**518**	**34,358**
Unallocated corporate liabilities				**166,439**
Total liabilities				**200,797**

2011

	Exploration of oil, natural gas and coal *HK$'000*	Trading of petroleum related products *HK$'000*	Provision of technical services *HK$'000*	Total *HK$'000*
Assets:				
Segment assets	41,365	483	1,783	43,631
Interests in associates	81,898			81,898
Interests in jointly controlled entities	1,393,203			1,393,203
Unallocated corporate assets				14,066
Total assets				1,532,798
Liabilities:				
Segment liabilities	121,247	154	2,880	124,281
Unallocated corporate liabilities				36,035
Total liabilities				160,316

For the purposes of monitoring segment performance and allocating resources between segments:

— all assets are allocated to operating segments other than unallocated corporate assets.

— all liabilities are allocated to operating segments other than unallocated corporate liabilities.

Other segment information

2012

	Exploration of oil, natural gas and coal *HK$'000*	Trading of petroleum related products *HK$'000*	Provision of technical services *HK$'000*	Unallocated *HK$'000*	Total *HK$'000*
Depreciation	**280**	**—**	**46**	**51**	**377**
Capital expenditure	**5**	**—**	**87**	**25**	**117**

2011

	Exploration of oil, natural gas and coal HK$'000	Trading of petroleum related products HK$'000	Provision of technical services HK$'000	Unallocated HK$'000	Total HK$'000
Depreciation	307	—	34	43	384
Capital expenditure	79	—	93	74	246

(b) Geographical Segments

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 jointly controlled entities ("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 operation to which they are allocated, in the case of intangible and goodwill, and the location of operation, in the case of interests in associates and jointly controlled entities.

	Revenue from external customers		**Specified non-current assets**	
	2012	2011	**2012**	2011
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Mainland China, including Hong Kong and Macau	**462**	609	**2,054**	838
Brunei	**—**	—	**1,085,619**	1,083,399
Philippines	**—**	—	**385,806**	411,528
	462	609	**1,473,479**	1,495,765

(c) Information about major customers

Included in revenues from external customers of HK$462,000 (2011: HK$609,000) are revenues of HK$462,000 (2011: HK$525,000) which arose from provision of technical services to the Group's largest customer.

5. Turnover and Other Revenue

(a) An analysis of the Group's turnover for the year is as follows:

	2012 *HK$'000*	2011 *HK$'000*
Provision of technical services	**462**	609

(b) An analysis of the Group's other revenue for the year is as follows:

	2012 *HK$'000*	2011 *HK$'000*
Bank interest income	**1**	2
Sundry income	**—**	50
	1	52

6. Finance Costs

	2012 *HK$'000*	2011 *HK$'000*
Interest on bank borrowing not wholly repayable within five years	**384**	51
Effective interest on promissory note	**884**	167
Effective interest on convertible bonds	**13,192**	28,256
	14,460	28,474

7. (Loss)/Profit Before Tax

(Loss)/Profit before tax is arrived at after charging:

	2012 *HK$'000*	2011 *HK$'000*
Staff costs (including directors' remuneration)		
— Salaries and other benefits	**9,782**	14,117
— Retirement scheme contributions	**316**	229
	10,098	14,346
Auditors' remuneration		
Audit services	**438**	420
Non-audit services	**—**	205
	438	625
Depreciation of property, plant and equipment	**377**	384
Impairment loss on other receivables	**601**	—
Operating lease payments for land and buildings	**2,676**	2,294

8. Income Tax

Income tax recognised in profit or loss

	2012	2011
	HK$'000	*HK$'000*
Current tax:		
— Hong Kong	**—**	—
— PRC enterprise income tax	**—**	—
— Other jurisdictions	**—**	—
Deferred tax	**2,159**	1,109
Income tax credit for the year	**2,159**	1,109

Hong Kong profits tax is calculated at the rate of 16.5% (2011:16.5%) on the estimated assessable profit for the year.

PRC subsidiaries are subject to PRC enterprise income tax at the rate of 25% (2011: 25%). Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

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

No deferred tax asset has been recognized on losses for the year of approximately HK$10,313,000 (2011: HK$10,076,000) 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 charge for the year (2011: Nil).

The taxation for the year can be reconciled to the (loss)/profit before tax per the consolidated income statement as follows:

	2012	2011
	HK$'000	*HK$'000*
(Loss)/profit before tax:	**(70,569)**	297,868
Notional tax (charge)/credit on (loss)/profit before tax, calculated at the tax rates applicable to profits in the jurisdictions concerned	**11,546**	(42,713)
Tax effect of share of results of associates	**(4)**	—
Tax effect of reversal of impairment loss on interests in associates	**—**	1,224
Tax effect of reversal of impairment loss on interests in jointly controlled entities	**—**	25,173
Tax effect on impairment loss on associates	**(3,455)**	—
Tax effect on impairment loss on jointly controlled entities	**(2,175)**	—
Tax effect of non-deductible expenses	**14**	(272)
Tax effect of non-taxable income	**—**	23,148
Tax effect of losses not allowable	**(5,690)**	(239)
Tax effect of allowable losses not recognised	**(236)**	(6,321)
Deferred tax on convertible bonds	**2,159**	1,109
Income tax credit for the year	**2,159**	1,109

9. (Loss)/Earnings Per Share

(a) Basic (loss)/earnings per share

The calculations of the basic (loss)/earnings per share are based on the following data:

	2012	2011
	HK$'000	*HK$'000*
(Loss)/Profit for the year attributable to the owners of the Company	**(61,342)**	302,282

	2012	2011
	'000	*'000*
Weighted average number of ordinary shares		
Issued ordinary shares at 1 January	**1,822,506**	2,433,600
Effect of rights issue	**—**	281,127
Effect of share consolidation	**—**	(1,953,750)
Effect of shares issued pursuant to employment agreement	**1,675**	228
Effect of ordinary shares issued	**—**	186,986
Effect of shares issued upon conversion of convertible notes	**—**	118,356
Weighted average number of ordinary shares at 31 December	**1,824,181**	1,066,547

(b) Diluted (loss)/earnings per share

The calculations of the diluted (loss)/earnings per share are based on the following data:

	2012	2011
	HK$'000	*HK$'000*
(Loss)/Profit for the year attributable to owners of the Company	**(61,342)**	302,282
After tax effect of effective interest on the liability component of convertible bonds	**11,033**	27,147
(Loss)/Profit for the year attributable to owners of the Company (diluted)	**(50,309)**	329,429

Weighted average number of ordinary shares (diluted)

	2012	2011
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares at 31 December	**1,824,181**	1,066,547
Effect of the dilutive potential ordinary shares	**173,474**	204,266
Weighted average number of ordinary shares used in the calculation of diluted loss per share	**1,997,655**	1,270,813

The diluted loss per share for the years ended 31 December 2012 is equivalent to the basic loss per share as the potential shares arising from the conversion of the convertible bonds would decrease the loss per share of the Group for the year, and is regarded as anti-dilutive.

10. Dividends

No dividend has been paid or proposed for the year (2011: Nil).

11. Interests in Associates

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Share of fair value of net assets of associates		
At the beginning of the year	**81,898**	74,478
Share of loss from associates	**(13)**	(2)
Reversal of impairment loss	**—**	7,422
Impairment loss	**(20,940)**	—
At the end of the year	**60,945**	81,898

Details of associates are as follows:

Name	Place of incorporation/ operation	Registered capital	Attributable equity interest held by an indirect wholly-owned subsidiary of the Group				Principal activities
			2012		2011		
			Directly	**Indirectly**	Directly	Indirectly	
Great Wall Mining and Power Corp. ("Great Wall")	Philippines	PHP2,500,000	**40%**	**24%**	40%	24%	Coal mining
Eastern Star Mining and Power Corp. ("Eastern Star")	Philippines	PHP2,500,000	**40%**	**—**	40%	—	Investment holding

Note: The boards of Great Wall and Eastern Star are not controlled by the Group.

Details of impairment test on interests in associates are as follows:

The recoverable amount is in accordance with valuation prepared by Greater China Appraisal Limited, a firm of professional valuers, based on a value in use calculation using cash flow projections based on financial budgets covering an eight-year period (granted by the Government in the Philippines upon commencement of production) approved by management. The pre-tax discount rate applied to the cash flow projection is 38.77% (2011: 44.01%).

The underlying major assumptions used for the valuation are as follows:

— production will cover an eight-year period;

— total production volume is based on the reserves as set out in technical report;

— annual production volume will conform to the management production plan;

— current market price of coal is adopted as a reference to determine the forecast revenue; and

— the corresponding costs and expenses will be applied with reference to the feasibility study report and management projection.

The valuation of the coal mining business in the Philippines as at 31 December 2012 was RMB77,600,000 (2011: RMB114,892,000), of which approximately RMB49,664,000 (2011: RMB73,531,000) equivalent to approximately HK$60,945,000 (2011: HK$90,597,000) was attributable to the interest held by the Group, resulting in an impairment loss of approximately HK$20,940,000 at 31 December 2012 (2011: reversal of impairment loss of HK$7,422,000). The impairment loss was mainly resulted from the decrease in the coal price in the world market during the year 2012.

Movements in accumulated impairment losses on interests in associates are as follows:

	2012	2011
	HK$'000	*HK$'000*
Accumulated impairment losses		
At the beginning of the year	—	7,422
Impairment loss	**20,940**	—
Reversal of impairment loss	—	(7,422)
At the end of the year	**20,940**	—

Summarised financial information in respect of the Group's associates is set out below:

	2012	2011
	HK$'000	*HK$'000*
Total assets	**17,906**	15,074
Total liabilities	**(17,377)**	(14,609)
Net assets	**529**	465
Group's share of net assets of associates	**315**	298

	2012	2011
	HK$'000	*HK$'000*
Total revenue	—	—
Total loss for the year	**(21)**	(6)
Group's share of losses of associates	**(13)**	(2)
Group's share of other comprehensive income of associates	—	—

12. Interests in Jointly Controlled Entities

The interests held by the Group in jointly controlled entities which are engaged in the exploration, exploitation and development of oil and gas in Brunei and Philippines are 21% (2011: 21%) and 80% (2011: 80%) respectively.

	The Group	
	2012	2011
	HK$'000	*HK$'000*
At the beginning of the year	**1,393,203**	866,382
Acquisition of subsidiary	**—**	309,804
Additional investment	**9,521**	7,241
Impairment loss	**(13,183)**	(5,301)
Reversal of impairment loss	**—**	215,077
At the end of the year	**1,389,541**	1,393,203
Analysis of carrying amounts of oil and gas projects held by jointly controlled entities is as follows:		
In Brunei	**1,085,619**	1,083,399
In Philippines	**303,922**	309,804
	1,389,541	1,393,203

Details of impairment test on interests in jointly controlled entities are as follows:

Brunei

At the end of the reporting period, the Group had not carried out assessment on the recoverable amount adopted for the determination of impairment on interest in a jointly controlled entity (the "JCE") because the application for extension of exploration period, which was expired on 27 August 2012, had not been granted to the JCE. The JCE has filed an appeal and has sought legal opinion in respect of the dispute about extension. As the directors of the Company consider that the JCE has reasonable grounds to raise fair claims against the refusal to grant extension of exploration period with reference to legal opinion sought by JCE, no provision for impairment against the carrying value of interest in the JCE at 31 December 2012 has been made by the Group.

In previous year, the recoverable amount was in accordance with valuation prepared by Greater China Appraisal Limited, a firm of professional valuers, based on a value in use calculation using cash flow projections based on financial budgets covering a twenty-four-year period (granted by the Government in Brunei upon commencement of production) approved by management. The pre-tax discount rate applied to the cash flow projection was 32.23%.

The underlying major assumptions used for the valuation are as follows:

— production will cover a 24-year period;

— total production volume is based on the reserves as set out in technical report;

— annual production volume will conform to the management production plan;

— current market prices of crude oil and natural gas are adopted as a reference to determine the forecast revenue; and

— the corresponding costs and expenses will be applied with reference to the management projection.

The valuation of the oil and gas project in Brunei as at 31 December 2011 was US$664,157,000, of which approximately US$139,473,000 equivalent to approximately HK$1,083,399,000 was attributable to the interest held by the Group, resulting in a reversal of impairment loss of approximately HK$215,077,000 at 31 December 2011. The reversal of impairment loss was mainly resulted from the increase in the oil and natural gas prices in the world market during the year 2011.

Philippines

The recoverable amount of the interest in a jointly controlled entity in Philippines is in accordance with valuation prepared by BMI Appraisals Limited, a firm of professional valuers, based on market approach by comparing the subject asset to similar assets that have been sold in the market recently and adopting consideration price to resources multiple of the comparable transactions to determine the fair value of the asset acquired.

Since the jointly controlled entity is still in its start-up stage and detailed feasibility study and production plan have not yet been finalised, management of the Company considered that market approach was the appropriate valuation methodology to determine the fair value of the interest in the jointly controlled entity.

The valuation of the interest in a jointly controlled entity as at 31 December 2012 was HK$303,922,000 (2011: HK$309,804,000), resulting in an impairment loss of HK$13,183,000 at 31 December 2012 (2011: HK$5,301,000).

Movements in accumulated impairment losses on interests in jointly controlled entities are as follows:

	2012	2011
	HK$'000	*HK$'000*
Accumulated impairment losses		
At the beginning of the year	**96,135**	305,911
Recognition of impairment loss	**13,183**	5,301
Reversal of impairment loss	**—**	(215,077)
At the end of the year	**109,318**	96,135

Summarised financial information in respect of the Group's jointly controlled entities are set out below:

	2012	2011
	HK$'000	*HK$'000*
Total non-current assets	**514,182**	467,008
Total current assets	**2,752**	7,946
Total current liabilities	**(26,576)**	(6,852)
Total non-current liabilities	**—**	—
Net assets	**490,358**	468,102
Net assets attributable to the Group	**102,975**	99,531
Total revenue	**—**	—
Total operating expenses	**—**	—
Total operating loss	**—**	—
Total financial income	**—**	—
Total financial expenses	**—**	—
Net results attributable to the Group	**—**	—
Total capital commitments	**14,632**	11,521
Capital commitments attributable to the Group	**3,073**	2,419

13. Trade and Other Receivables

The Group has a policy of allowing average credit periods ranging from 2 weeks to 1 month to its trade customers. In addition, for certain customers with long-established relationship and good past repayment histories, a longer credit period may be granted.

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Trade receivables	**—**	609
Other debtors, deposits and prepayments	**1,408**	18,854
	1,408	19,463

	The Group	
	2012	2011
	HK$'000	*HK$'000*
An aged analysis of trade receivables is as follows:		
61 — 270 days	**—**	609
Over 1 year	**—**	—
	—	609

The aged analysis of the trade receivables that are not (or neither individually nor collectively) considered to be impaired is as follows:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Overdue by		
91 — 180 days	**—**	609
Over 360 days	**—**	—
	—	609

The carrying amounts of the Group's trade receivables, prepayments and deposits are denominated in the following currencies:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
HK dollars	**985**	16,095
Renminbi	**127**	1,307
Macau Pataca	**128**	206
US dollars	**168**	1,855
	1,408	19,463

None of the prepayments, deposits and other receivables is either past due or impaired. The financial assets included in the above balances are related to receivables for which there have been no recent history of default.

The maximum exposure to credit risk at the reporting date is carrying value of each class of receivable mentioned above.

14. Other Payables

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Other creditors and accrued charges	**10,487**	13,048

The carrying amounts of the below balances were denominated in the following currencies:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
HK dollars	**7,585**	10,729
Renminbi	**205**	218
Macau Pataca	**2,214**	1,565
US dollars	**483**	536
	10,487	13,048

15. Convertible Bonds

	The Group and the Company	
	2012	2011
	HK$'000	*HK$'000*
At 1 January	**91,894**	344,894
Liabilities component of the Convertible Bonds B	**15,627**	—
Interest charged	**13,192**	28,256
Interest paid	**(59)**	(32,485)
Conversion during the year	**—**	(248,771)
At 31 December	**120,654**	91,894
Carrying amount repayable		
Within one year	**15,672**	—
More than one year, but not exceeding two years	**104,982**	91,894
	120,654	91,894

(a) The convertible bonds issue to China International Mining Holding Company Limited (the "Bondholder 1") at a nominal value of HK$120,000,000 for a term of 5 years (the "Convertible Bonds A") at zero coupon interest of which the HK$108,000,000 (the "Tranche 2") was issued on 29 December 2008 and HK$12,000,000 (the "Tranche 1") was issued on 4 February 2009.

The Bondholder 1 has confirmed to the Company that it will agree to the extension of the conversion periods of the Convertible Bonds A upon maturity to a date no earlier than 30 June 2014 and will not demand for repayment of the whole or part of the principal amount of the loans on or before 30 June 2014 if the conversion periods of the Convertible Bonds A are not extended upon maturity.

The Bondholder 1 may at any business day falling on the fifth anniversary from the issue date of the Convertible Bonds A convert the whole or any part at an amount in an amount of the Convertible Bonds A into ordinary shares of HK$0.04 each in the share capital of the Company at the adjusted conversion price of HK$0.742 per conversion share.

The fair values of the liability component of the Tranche 1 and Tranche 2 of the Convertible Bonds A are measured using a market interest rate of approximately 11.02% and 14.62% respectively for an equivalent non-convertible bond; the remaining balance, representing the equity conversion component, is included in equity under convertible bonds reserve.

(b) Pursuant to a subscription agreement entered into between the Company and Silver Star Enterprises Holding Inc. ("Silver Star", a substantial shareholder of the Company which is wholly-owned by Mr. Lam Nam), the Company issued convertible bonds with nominal value of HK$100,000,000 for a term of 36 months on 6 September 2011 (the "Convertible Bonds") at the coupon rate of 3% per annum accrued on a day to day basis.

Silver Star may at any business day after the date of issue of the Convertible Bonds convert the whole or any part at an amount in an integral multiple of HK$100,000 of the principal amount of the Convertible Bonds into ordinary shares of HK$0.04 each in the share capital of the Company at the conversion price of HK$0.25 per conversion share.

During the year ended 31 December 2011, the Convertible Bonds was fully converted at the conversion price of HK$0.25 per conversion share.

(c) The convertible bonds issued to an independent third party (the "Bondholder 2") at a nominal value of HK$16,000,000 on 19 November 2012 (the "Convertible Bonds B") at the interest rate of 3% per annum accrued on a day to day basis will be matured on 19 November 2013.

The Bondholder 2 may at any business day after the date of issue of the Convertible Bonds B convert the whole or any part at an amount in an integral multiple of HK$100,000 of the principal amount of the Convertible Bonds B into ordinary shares of HK$0.04 each in the share capital of the Company at the conversion price of HK$0.16 per conversion share.

The fair value of the liability component of the Convertible Bonds B is measured using a market interest rate of approximately 5.40% for an equivalent non-convertible bond; the remaining balance, representing the equity conversion component, is included in equity under convertible bonds reserve.

16. Promissory Note

On 21 October 2011, the Company issued a promissory note with a principal amount of HK$9,000,000 ("Promissory Note") to Mr. Lam Nam, a substantial shareholder of the Company, as consideration for the acquisition of Mr. Lam Nam's 51% of the entire issued share capital in Mass Leader Inc.. The Promissory Note is unsecured, bears interest at the rate of 3% per annum and has a maturity period of 24 months from the date of issue. Pursuant to the agreement entered between Mr. Lam Nam and the Company, Mr. Lam Nam has agreed not to demand for the repayment of the whole or part of the Promissory Note on or before 30 June 2014.

	The Group and the Company	
	2012	2011
	HK$'000	*HK$'000*
As at 1 January	**7,842**	—
Issuance of promissory note	**—**	7,728
Imputed interest charge	**884**	167
Interest paid	**(270)**	(53)
As at 31 December	**8,456**	7,842

Note:

The Promissory Note is measured at amortised cost using effective interest method with the effective interest rate at 11.3% per annum.

17. Transactions with non-controlling interests

During the year 2012, the Group had transacted with non-controlling interests to acquire additional equity interests of 9.9% and 49% in Sinotech Polyard Petroleum Exploration & Development Research Institute Limited ("Sinotech Polyard Petroleum") and in China New Star Petroleum Drilling Services Company Limited ("China New Star") at purchase consideration of HK$1 and HK$14,700,000 respectively (2011: Nil). The controlling interests held by the Group in Sinotech Polyard Petroleum and China New Star changed from 60.1% to 70% and from 51% to 100% respectively after the completion of acquisition. The carrying amount of the non-controlling interests in proportion to the additional equity interest acquired in Sinotech Polyard Petroleum and China New Star at the date of acquisition was HK$35,000 (net liabilities) and HK$14,635,000 (net assets) respectively. The Group recognized the difference between the changes in non-controlling interests of HK$14,600,000 and the excess of consideration paid over the carrying amount directly in equity and attributed to owners of the Company.

18. Share Capital

	The Group and the Company			
	Number of shares		Amount	
	2012	2011	**2012**	2011
	'000	*'000*	***HK$'000***	*HK$'000*
Authorised:				
Ordinary shares of HK$0.04 each	**2,500,000**	2,500,000	**100,000**	100,000
Issued and fully paid:				
At beginning of the year	**1,822,506**	2,433,600	**72,900**	24,336
Effect of share consolidation	—	(2,054,082)	—	—
Issue of rights shares	—	457,764	—	9,155
Issue of shares upon debt restructuring	—	583,333	—	23,333
Issue of shares upon conversion of convertible notes	—	400,000	—	16,000
Issue of shares to an employee	**4,235**	1,891	**170**	76
At end of the year	**1,826,741**	1,822,506	**73,070**	72,900

Pursuant to the ordinary resolutions passed in the extraordinary general meeting on 19 May 2011, (i) every two ordinary shares of HK$0.01 each in the issued and unissued share capital of the Company were consolidated into one consolidated ordinary share of HK$0.02 each in the issued and unissued share capital of the Company, and (ii) the authorised share capital of the Company was increased from HK$40,000,000 divided into 2,000,000,000 consolidated shares to HK$100,000,000 divided into 5,000,000,000 consolidated shares by the creation of 3,000,000,000 new consolidated shares of HK$0.02 each.

A rights issue was completed on 10 June 2011 and 457,763,688 rights shares were allotted and issued at a subscription price of HK$0.12 per rights share. The rights shares rank pari passu in all respects with the existing shares of the Company.

Pursuant to an ordinary resolution passed in the extraordinary general meeting on 29 August 2011, every two ordinary shares of HK$0.02 each in the issued and unissued share capital of the Company were consolidated into one consolidated ordinary share of HK$0.04 each in the issued and unissued share capital of the Company.

On 6 September 2011, pursuant to a subscription agreement dated 30 June 2011, 583,333,333 subscription shares were allotted and issued at an issue price of HK$0.24 per subscription share. The subscription shares rank pari passu in all respects with the existing shares of the Company.

On 15 September 2011, 400,000,000 conversion shares were allotted and issued upon full conversion of the convertible notes in an aggregate principal amount of HK$100,000,000 at a conversion price of HK$0.25 per conversion share. The conversion shares rank pari passu in all respects with the existing shares of the Company.

On 18 November 2011, pursuant to an employment agreement, 1,890,952 employee shares were allotted and issued at an issue price of HK$0.3323 per share. The employee shares rank pari passu in all respects with the existing shares of the Company.

On 21 May 2012, pursuant to the above-mentioned employment agreement, 2,464,764 employee shares were allotted and issued at an issue price of HK$0.2563 per share. On 29 November 2012, pursuant to the same employment agreement, 1,770,077 employee shares were allotted and issued at an issue price of HK$0.3560 per share. The employee shares rank pari passu in all respects with the existing shares of the Company.

19. Capital Commitments

At the reporting date, the capital commitments outstanding contracted for but not provided for in these consolidated financial statements are as follows:

	The Group	
	2012	2011
	HK$'000	*HK$'000*
Contributions to a jointly controlled entity *(note)*	**35,780**	93,862

Note: In 2011, the amount is arrived at after taking into account a sum of approximately HK$5,183,000 which has been agreed by the operator of the jointly controlled entity to pay for the Group according to a farmout agreement.

20. Contingent Liabilities

On 28 August 2012, a jointly controlled entity (the "JCE") of the Group was demanded for the payment of compensation of US$16,350,000 (approximately HK$127,530,000) in respect of the incomplete obligations in drilling program arising from the rejection of application for extension of exploration period of oil and gas project in Brunei as set out in note 12. The JCE has filed an appeal and has sought legal advice in respect of the dispute about extension. The management of the Company considers that no compensation will be required if the dispute about extension is resolved in favour of the JCE. Accordingly, provision for compensation of US$3,433,500 (approximately HK$26,781,000), which represents 21% participating interest of the Group in the JCE, has not been made by the Group in this respect.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

For the year ended 31 December 2012, the Group's turnover decreased by 24% to approximately HK$462,000, as compared with approximately HK$609,000 in 2011. The Group recorded a loss attributable to owners of the Company of approximately HK$61,342,000 in 2012 (2011: profit of approximately HK$302,282,000).

The current year loss includes (1) an impairment loss on the Coal Mine Project in the Philippines of approximately HK$20,940,000 and (2) an impairment loss of approximately HK$13,183,000 on Oil and Gas Project in South Cebu, Philippines. The profit in 2011 mainly resulted from (1) the write-back of impairment loss on interest in the Oil and Gas Project in Brunei of approximately HK$215,077,000 due to increase in oil and natural gas prices, and (2) the negative goodwill of approximately HK$140,289,000 arising from the acquisition of the Oil and Gas Project in South Cebu, Philippines.

Administrative and other operating expenses for the year ended 31 December 2012 amounted to approximately HK$22,436,000, representing a decrease of approximately HK$9,368,000 or 29%, as comparing with last year. The decrease was mainly attributable to reduction in business development activities and overseas traveling expenses.

Finance costs for the year ended 31 December 2012 amounted to approximately HK$14,460,000 (2011: approximately HK$28,474,000). The decrease was mainly resulted from the redemption of the convertible bonds in the amount of HK$276,352,231.22 on 6 September 2011.

Liquidity, Financial Resources, Capital and Gearing

As at 31 December 2012, the Group had net assets amounted to approximately HK$1,290.8 million (2011: approximately HK$1,372.5 million) and net current liabilities amounted to approximately HK$16.2 million (2011: approximately HK$18.9 million). The current ratio was 53% (2011: 66%). The gearing ratio of the Group based on the net debt to the shareholders' equity was 15% (2011: 11%).

Operations of the Group are mainly conducted in Renminbi ("RMB"), Hong Kong Dollars ("HKD"), United States Dollars ("USD") and Philippine Pesos ("PHP") and its 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 43 (2011: 64). Remuneration packages are reviewed on a periodical basis. Bonus is awarded to employees according to the assessment of individual performance. Besides, a share option scheme was adopted by the Company, pursuant to which the Directors may offer to any eligible employees (including executive Directors and independent non-executive Directors) of the Company and any of its subsidiaries, options to subscribe for shares in the Company in accordance with the terms of the share option scheme. However, save for the share options granted prior to the listing, no other options have been granted up to 31 December 2012. Staff cost was approximately HK$10.1 million for the year as compared with that of approximately HK$14.3 million in 2011.

Business Review and 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 based on market prevailing rates and generated revenues of HK$462,000 in 2012.

Trading of Petroleum-related Products

During 2012, the Company generated no turnover from sales of petroleum-related products.

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, Petroleum Brunei demanded a compensation of US$16.35 million from the Consortium, based on unfulfilled drilling commitments arising from dispute about extension. On the same day, the Consortium submitted an appeal to the Ministry of Energy of Brunei on the rejection of request for extension of term of the project.

In these respects, the Consortium has sought legal opinion on the appropriate action to be taken, including taking legal action and seeking compensation from relevant parties. The Board has considered the impact of disapproval of extension and compensation on the Group. The Board is of opinion that the Consortium has reasonable grounds to raise fair claims against the refusal to grant extension of exploration period and the compensation clause is unenforceable with reference to legal opinion sought by the Consortium. As the result of appeal has not yet been determined up to the date of this report, the Board has not taken into account any financial impacts that might have been arisen.

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 will continue into 2013, and the new well was named A1. Spud is expected to take place in the third quarter of 2013.

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. During 2012, a field office has been established in Alegria, Cebu, to carry out the work program of drilling two new wells, followed by long term testing plan and post-drilling study. However, the drilling program was delayed due to rig availability and funding requirement. Project management decided to finish the preparation work for drilling program in early 2013, and to defer the two-well drilling operation to the third quarter.

Summary of Expenditure Incurred for Projects

A summary of expenditure incurred for the above projects by the Group for the year ended 31 December 2012 is as follow:

	2012	2010
	HK$'000	*HK$'000*
Brunei Block M Oil and Gas Project	**2,168**	2,000
Philippines Central Luzon Gas Project	**2,518**	10,553
Philippines San Miguel Coal Mine Project	**1,312**	1,623
Philippines South Cebu Oil and Gas Project	**3,787**	3,529

ACQUIRING ADDITIONAL INTERESTS IN A SUBSIDIARY

During 2011, Kanstar Environmental Technology Group Limited ("Kanstar", a direct wholly-owned subsidiary of the Company) and Dongying Haifa Technology Co., Ltd. ("Haifa", a company established in the PRC) jointly formed a subsidiary company incorporated under the laws of Hong Kong, namely China New Star Petroleum Drilling Services Co., Ltd. ("China New Star"). The business of China New Star is oil well drilling and provision of other related technologies and services. The issued share capital of China New Star is HK$30,000,000, which is 51% owned by Kanstar and 49% by Haifa. On 26 September 2012, Kanstar acquired the 49% interest from Haifa for a total consideration of HK$14,700,000. Subsequent to the acquisition, China New Star became a wholly-owned subsidiary of the Group.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT ON THE COMPANY'S CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Basis for disclaimer of opinion

Interests in a jointly controlled entity

As explained in the note 12 to the consolidated financial statements, the application for extension of exploration period, which was expired on 27 August 2012, had not been granted to a jointly controlled entity (the "JCE") in respect of exploration, exploitation and development of oil and gas in Brunei. The JCE has filed an appeal and has sought legal opinion in respect of the dispute of extension. As the result of appeal has not yet been determined up to the date of this report, the management of the Company has not made any impairment loss on the carrying value of interests in the JCE. We were unable to ascertain the recoverability of the carrying value of interests in the JCE of approximately HK$1,085,619,000 included in the total amount of approximately HK$1,389,541,000 as shown in the consolidated statement of financial position as at 31 December 2012. Any adjustments or disclosures that might have been found to be necessary in respect of the carrying value would have a consequential significant effect on the Group's net assets as at 31 December 2012, and of the Group's loss for the year then ended and related note disclosures to the consolidated financial statements.

Provision for compensation

As further explained in note 20 to the consolidated financial statements and the above paragraph, JCE was demanded for the payment of compensation of approximately HK$127.5 million in respect of unfulfilled obligation arising from the dispute of extension. The management of the Company considers that no compensation will be required if the dispute of extension is resolved in favour of the JCE and no provision for the compensation in the consolidated financial statements was made by the Group in this respect. We were unable to ascertain whether such provision should be made since it depends on future outcome. Any adjustments or disclosures that might have been found to be necessary would have a consequential significant effect on the Group's net assets as at 31 December 2012, and of the Group's loss for the year then ended and related note disclosures to the consolidated financial statements.

Disclaimer of opinion

Because of the significance of the matters described in the basis for disclaimer of opinion paragraphs, we have not been able to obtain sufficient appropriate audit evidences to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and as to whether the consolidated financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 3 to the consolidated financial statements which indicates that the Group incurred a loss of approximately HK$68,410,000 for the year ended 31 December 2012 and, as of that date, the Group's current liabilities exceeded its current assets by approximately HK$16,179,000. These conditions indicate the existence of a material uncertainty which may cast doubt about the Group's ability to continue as going concern. As explained in note 3, the consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the Group's ability to improve the liquidity position to enable the Group to meet its financial obligations as and when they fall due in the foreseeable future. The consolidated financial statements do not include any adjustments that would result from the failure to operate as a going concern.

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. Upon the Company's specific enquiry, all Directors confirmed that they have fully complied with the code of conduct and the required standard of dealings regarding securities transactions throughout the year ended 31 December 2012.

COMPETING INTERESTS

None of the Directors or the management shareholders of the Company (as defined in the GEM Listing Rules) had any interest in a business which competes or may compete with the business of the Group.

CODE ON CORPORATE GOVERNANCE PRACTICES

Throughout the year, 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.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2012, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

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 auditors 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. Wang Yanhui, Mr. Pai Hsi-Ping and Mr. Wong Kon Man Jason. Mr. Wong Kon Man Jason is the Chairman of the Audit Committee. The financial statements of the Group for the year ended 31 December 2012 have been reviewed by the Audit Committee, who was of the opinion that such 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
Polyard Petroleum International Group Limited
Kuai Wei
Chairman

Hong Kong, 22 March 2013

As at the date of this announcement, 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

The announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least seven days from the date of its posting and on the Company's website at www.ppig.com.hk.