ANNUAL REPORT 2017

EPI (Holdings) Limited
長盈集團(控股)有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code : 689)

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Abbreviations

In this annual report, the following abbreviations have the following meanings unless otherwise specified:

"ARS"	Argentina Peso
"Board"	Board of Directors of the Company
"Company"	EPI (Holdings) Limited
"Directors"	directors of the Company
"Group"	the Company and its subsidiaries
"Hong Kong Companies Ordinance"	Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange
"Model Code"	Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
"PRC"	People's Republic of China
"RMB"	Renminbi
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"HK$" and "HK cent(s)"	Hong Kong dollars and cent(s)
"US$"	United States dollars
"%"	per cent.

The Chinese version of this annual report is a translation of the English version and is for reference only. In case of any discrepancies or inconsistencies between the English version and the Chinese version, the English version shall prevail.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Suen Cho Hung, Paul *(Chairman)*
Mr. Liu Zhiyi *(Chief Executive Officer)*
Mr. Sue Ka Lok
Mr. Yiu Chun Kong
Mr. Chan Shui Yuen

Independent Non-executive Directors

Mr. To Yan Ming, Edmond
Mr. Pun Chi Ping
Ms. Leung Pik Har, Christine

AUDIT COMMITTEE

Mr. To Yan Ming, Edmond *(Chairman)*
Mr. Pun Chi Ping
Ms. Leung Pik Har, Christine

REMUNERATION COMMITTEE

Mr. Pun Chi Ping *(Chairman)*
Mr. To Yan Ming, Edmond
Ms. Leung Pik Har, Christine

NOMINATION COMMITTEE

Ms. Leung Pik Har, Christine *(Chairlady)*
Mr. To Yan Ming, Edmond
Mr. Pun Chi Ping

CORPORATE GOVERNANCE COMMITTEE

Mr. To Yan Ming, Edmond *(Chairman)*
Mr. Sue Ka Lok
Mr. Chan Shui Yuen

COMPANY SECRETARY

Mr. Chan Shui Yuen

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 3203, 32nd Floor
China Resources Building
26 Harbour Road
Wanchai, Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
Bank of Communications Co., Ltd., Hong Kong Branch
China CITIC Bank International Limited

LEGAL ADVISERS

Reed Smith Richards Butler
Troutman Sanders

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

TRADING OF SHARES

The Stock Exchange of Hong Kong Limited
(Stock Code: 689)

WEBSITE

http://www.epiholdings.com

Chairman's Statement

On behalf of the Board, I hereby present to the shareholders the results of the Group for the year ended 31 December 2017.

RESULTS

For the year under review, the Group continued to principally engage in the business of petroleum exploration and production, money lending and investment in securities.

For the current year, the Group reported a loss attributable to owners of the Company of HK$54,855,000 (2016: HK$31,079,000) that was mainly attributable to the recognition of the share-based payments expense of HK$73,257,000 recorded for the grant of share options to directors and employees in May 2017 and the recognition of loss on the net fair value changes of HK$39,158,000 for the convertible notes issued in April 2017, which were both non-cash in nature, despite the profitable results contributed by the Group's all three business segments, namely, petroleum exploration and production, money lending and investment in securities, and the decrease in corporate expenses by 46% to HK$14,299,000 (2016: HK$26,397,000). Basic loss per share was HK1.17 cents and increased by HK0.41 cent compared to the prior year (2016: HK0.76 cent). If the effect of the share-based payments expense, the net fair value changes on convertible notes and the reversal of impairment losses of HK$24,378,000 in relation to the Group's oil and gas properties in Argentina were excluded, the Group would have, for illustrative purpose, reported a profit of HK$33,182,000 for the current year which essentially reflects the operating results of the Group.

The Group reported a revenue of HK$57,870,000 for the current year, decreased by 7% compared to the prior year (2016: HK$62,253,000) that was mainly due to the decline in revenue of the petroleum business resulting from the drop in average selling price and volume of crude oil produced, and decrease in interest income generated from the money lending business, though such decreases in revenue were partly compensated by the increase in interest income generated from the investment in securities business.

Overall speaking, the Group's petroleum exploration and production business recorded a profitable result of HK$24,319,000 (2016: loss of HK$466,000), the money lending business posted a profitable result of HK$7,927,000 (2016: HK$9,920,000), and the investment in securities business recorded an encouraging profitable result of HK$51,587,000 (2016: loss of HK$4,099,000) which mainly represented the net realised and unrealised gain on securities investments held by the Group.

Chairman's Statement

PROSPECTS

The Group's petroleum exploration and production operation continued to record operating loss before reversal of impairment losses, though small, of HK$59,000 during the year as business conditions of the operation remained challenging where Argentina local oil selling price remained hovering at low levels at an average of about US$52.4 per barrel during 2017. Following the upturn of international oil price since late 2017, the gap between international oil price and Argentina local oil selling price has been narrowed recently, this price trend is expected to continue for the remaining duration of 2018 and there could be positive impact on the revenue of the operation.

As for the money lending business, the Group will continue to develop this business under prudent credit management and believe that this business will continue to contribute a stable and favorable income stream to the Group in future years.

The investment and stock markets in Hong Kong have been rather volatile recently, the management will continue to take a cautious and disciplined approach in managing the Group's securities investments portfolio, which currently comprises of equity securities listed in Hong Kong and debt securities listed in Hong Kong or overseas.

Looking forward, the management will continue to develop the Group's existing businesses and will step up its effort to further improve the Group's financial performance. The management will also seize business and investment opportunities with good prospects aiming to enhance value to shareholders. As referred to in the Company's announcement dated 8 November 2017, the Group has entered into the Limited Partnership Agreement with two independent parties to establish the Limited Partnership for the purpose to invest in a series of projects in the smart city big data industry in the PRC. The Board expects that the investments to be carried out by the Limited Partnership will bring investments returns to and attract a new stream of revenue for the Group. Further announcement on this investment will be made by the Company to shareholders as and when appropriate.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank all shareholders, investors, bankers, business associates and customers for their continuing support to the Group, and to my fellow directors and all staff members for their contributions and hard work during the past year.

Suen Cho Hung, Paul
Chairman

Hong Kong, 29 March 2018

Management Discussion and Analysis

BUSINESS REVIEW

For the year ended 31 December 2017, the Group continued to principally engage in the business of petroleum exploration and production, money lending and investment in securities.

For the year under review, the Group reported a revenue of HK$57,870,000, decreased by 7% compared to the prior year (2016: HK$62,253,000) that was mainly due to the decline in revenue of the petroleum business resulting from the drop in average selling price and volume of crude oil produced, and decrease in interest income generated from the money lending business, though such decreases in revenue were partly compensated by the increase in interest income generated from the investment in securities business.

Petroleum Exploration and Production

During the year ended 31 December 2017, the Group continued to engage in petroleum exploration and production in Chañares Herrados Area ("CHE Area") (the "Concession") in the Cuyana Basin, Mendoza Province of Argentina. Chañares Herrados Empresa de Trabajos Petroleros S.A. ("Chañares") is the concessionaire of the Concession (the "Concessionaire").

On 2 December 2010, Southstart Limited ("Southstart"), a wholly owned subsidiary of the Company, and Chañares entered into a joint venture agreement ("2010 JV Agreement"). Pursuant to the 2010 JV Agreement, among others, EP Energy S.A. ("EP Energy"), a wholly owned subsidiary of the Company, had the right to drill and invest in the Concession and was entitled to share 72% of hydrocarbon production from the wells drilled by EP Energy in the current and future years until the end of the Concession.

On 5 June 2012, EP Energy, Have Result Investments Limited ("Have Result"), a wholly owned subsidiary of the Company, and Chañares entered into an operation agreement (the "Operation Agreement"). Pursuant to the Operation Agreement, among others, Chañares agreed to release EP Energy from the investment commitment in the 2010 JV Agreement, whereas EP Energy retains the right to drill and invest in the Concession during the life of the Concession. The Operation Agreement confirmed that Have Result is entitled to 51% interest on the production of five oil wells and EP Energy is entitled to 72% interest on the production of the other five oil wells.

During the year under review, the Group continued to focus on the investment to improve the production of and had performed maintenance works for the 10 existing producing oil wells.

For the year under review, the Group's petroleum exploration and production business generated a revenue of HK$42,914,000 (2016: HK$51,320,000) and recorded an overall profit of HK$24,319,000 (2016: loss of HK$466,000). The decline of the operation's revenue was partly due to the drop in production volume of crude oil by about 9% compared with the prior year, which was mainly due to a longer period of maintenance works undertaken on some of the oil wells this year, and partly due to the decrease in crude oil sales price offered by YPF S.A., an Argentina state-owned oil company and the sole buyer of the operation's output, from an average US$57.0 per barrel in 2016 to US$52.4 per barrel in 2017. The operation thus reported a small operating loss of HK$59,000 (2016: HK$1,951,000). Nevertheless, the Group had performed an impairment review on the exploration and evaluation assets, the oil and gas properties of the Concession and the other tax recoverables at 31 December 2017 and determined that there was no reversal of impairment loss on the exploration and evaluation assets but there was a reversal of impairment loss on the oil and gas properties of the Concession of HK$22,588,000 (2016: HK$2,282,000) and a reversal of impairment loss on other tax recoverables of HK$1,790,000 (2016: provision of impairment loss of HK$797,000). Overall speaking, the effect of the drop in operation's revenue was fully offset by the net reversal of impairment losses mentioned, with the result that the operation experienced a turnaround and recorded a reversal of impairment losses of HK$24,378,000 and an overall profit, after deducting the small operating loss of HK$59,000, of HK$24,319,000 (2016: loss of HK$466,000).

At 31 December 2017, the Group reconsidered the future development of the investment plan on the Concession and concluded that no further well drilling programme will be launched at present primarily in view of the low level of prevailing crude oil selling price.

References are made to the announcement of the Company dated 25 August 2016 and the annual report of the Company for the year ended 31 December 2016 disclosing that the Group was notified by the Concessionaire of the CHE Area and Puesto Pozo Cercado Area ("PPC Area") (together the "Concessions") that the department of hydrocarbons of the government of Mendoza (the "Mendoza Government") had been reviewing the fulfilment of the terms and conditions of the 10-year extension of the Concessions till 2027 (the "Extension") previously awarded to the Concessionaire, particularly the status of the investment commitment of the Concessionaire. As disclosed in the announcement of the Company dated 15 August 2017, the Group was notified by the Concessionaire that the Executive of the Province of Mendoza published two decrees on 9 August 2017 to the effect that (i) it had accepted the investment commitment plan submitted by the Concessionaire in respect of the Extension for the CHE Area; and (ii) it declared the lapse of the concession in respect of the PPC Area by 30 October 2017. The Concessionaire also advised the Group that based on its discussions with the Mendoza Government, the concession in respect of the CHE Area would be extended until 14 November 2027.

In light of the above, it is the intention of the Group to continue its participation in the operations and sharing of interest on the production of the ten oil wells drilled in the CHE Area. As regards the PPC Area, as no oil wells have been drilled or are in operations by the Group and the Group's exploration and evaluation assets in respect of its right over the hydrocarbon production from the PPC Area was fully impaired in the year ended 31 December 2015, the Board considers that the lapse of the concession in respect of the PPC Area would not have material adverse effect on the business, financial positions or prospects of the Group.

Management Discussion and Analysis

Money Lending

During the year ended 31 December 2017, the Group's money lending business recorded a decrease in revenue and operating profit by reporting HK$7,797,000 (2016: HK$10,133,000) and HK$7,927,000 (2016: HK$9,920,000) respectively. Such decreases were mainly due to the lower average amount of loans advanced to borrowers during the current year. Before granting loans to potential customers, the management uses internal credit assessment process to assess the potential borrower's credit quality and defines the credit limits granted to the borrowers. The credit limits attributed to the borrowers are reviewed by the management regularly.

At 31 December 2017, the loans portfolio held by the Group amounted to HK$67,235,000 with details as follows:

Category of borrowers	**Approximate weighting to the value of the Group's loan portfolio** %	**Interest rate per annum** %	**Maturity**
Corporate	100.00	10 – 18	Within one year

There was no default in repayments from borrowers and no impairment loss was recognised against the loan receivables during the current year.

Investment in Securities

The Group generally acquires securities listed on the Stock Exchange or other recognised stock exchanges and over-the-counter markets with good liquidity that can facilitate swift execution of securities transactions. For making investment or divestment decision on securities of individual target company, references will usually be made to the latest financial information, news and announcements issued by the target company, investment analysis reports that the Company has access to, as well as industry or macro-economic news. When deciding on acquiring securities to be held for long-term purpose, particular emphasis will be placed on the past financial performance of the target company including its sales and profit growth, financial healthiness, dividend policy, business prospect, industry and macro-economic outlook. When deciding on acquiring securities to be held other than for long-term purpose, in addition to the factors mentioned, references will also be made to prevailing market sentiments on different sectors of the investment markets. In terms of return, for long-term securities investments, the Company mainly emphasises on return of investment in form of capital appreciation and dividend/interest income. For securities investment other than for long-term holding, the Company mainly emphasises on return of investment in form of trading gains.

At 31 December 2017, the Group's investment in securities operation held a financial asset at fair value through profit or loss ("FVTPL") portfolio valued HK$95,849,000 (2016: HK$27,454,000), comprising equity securities listed in Hong Kong, and an available-for-sale ("AFS") investment portfolio (constituted by non-current and current portions) valued at HK$144,877,000 (2016: nil), comprising debt securities listed in Hong Kong or overseas. As a whole, the operation recorded a revenue of HK$7,159,000 (2016: HK$800,000) and a profit of HK$51,587,000 (2016: loss of HK$4,099,000).

Management Discussion and Analysis

Financial assets at FVTPL

At 31 December 2017, the Group held a financial asset at FVTPL portfolio amounting to HK$95,849,000 measured at market/fair value. During the year under review, the portfolio generated a revenue of HK$2,088,000 (2016: HK$800,000) representing dividends from equity securities of HK$1,832,000 (2016: HK$800,000) and interest income from debt securities of HK$256,000 (2016: nil). The Group recognised a net gain on financial assets at FVTPL of HK$45,101,000, which comprised net unrealised gain and net realised gain of HK$25,921,000 and HK$19,180,000 respectively (2016: net loss on financial assets at FVTPL of HK$4,344,000, which comprised net unrealised loss and net realised loss of HK$3,313,000 and HK$1,031,000 respectively). Such gains earned by the financial asset at FVTPL portfolio was largely due to the general upturn and strong momentum of financial market in Hong Kong during the second half of 2017.

At 31 December 2017, the Group invested in different categories of companies and their weightings to the market/fair value of the Group's financial asset at FVTPL portfolio of HK$95,849,000 are as below:

Category of companies	**Approximate weighting to the market/fair value of the Group's financial asset at FVTPL portfolio** **%**
Banking	14.73
Jewelry, pharmaceutical and health food products retailing	45.47
Petroleum exploration and production	4.87
Property	20.45
Real estate investment trust	7.56
Others	6.92
	100.00

Management Discussion and Analysis

At 31 December 2017, the weightings of the Group's top five investments to the market/fair value of the Group's financial asset at FVTPL portfolio of HK$95,849,000 (together with other information) were as below:

Investee company's name and its principal activities#	Approximate weighting to the market/ fair value of the Group's securities investment porfolio %	% of shareholding interest %	Acquisition costs *HK$'000*	* Acquisition costs during the year/carrying amount as at 1 January 2017 *HK$'000*	Market/fair value as at 31 December 2017 *HK$'000*	Accumulated unrealised gain (loss) recognised up to 31 December 2017 *HK$'000*	Unrealised gain (loss) recognised during the year ended 31 December 2017 *HK$'000*	# Investee company's financial performance	# Future prospects of the investee company
			A	B	C	D = C – A	E = C – B		
Larry Jewelry International Company Limited (stock code: 8351) Designing, sales and retailing of fine jewelry products in Hong Kong & Singapore; sourcing, processing, repackaging & retailing of Chinese pharmaceutical products, dry seafood, health products & foodstuff in Hong Kong, China & Macau	45.47	2.633	18,549	18,549	43,581	25,032	25,032	For the year ended 31 December 2017, revenue increased by 65% to HK$434,748,000 while loss for the year increased by 874% to HK$816,569,000 as compared to 2016.	The investee company remains cautiously optimistic in the luxury jewelry market in the long-run and will explore opportunities to broaden the geographic base of customer to markets outside Hong Kong and Singapore. It will review the sales network and introduce more locally made products for its pharmaceutical business.
Emperor International Holdings Limited (stock code: 163) Property investments, properties development and hospitality	20.45	0.203	18,278	18,278	19,598	1,320	1,320	For the six months ended 30 September 2017, revenue decreased by 34% to HK$1,465,986,000 while its results experienced a turnaround and recorded a profit for the period of HK$1,684,417,000 as compared to the same period in 2016.	The investee company adopts a pro-active approach to establishing an investment property portfolio by optimising the balance between retail and non-retail premises. In addition, the investee company continues to source quality and upscale investment properties with good potential to enhance its investment properties portfolio and lay a solid foundation for expanding recurrent rental income in the long-run.
Link Real Estate Investment Trust (stock code: 823) Real estate investment trust	7.56	0.005	6,285	6,285	7,245	960	960	For the six months ended 30 September 2017, revenue increased by 7% to HK$4,949 million and profit for the period increased by 100% to HK$12,139 million as compared to the same period in 2016.	The focus of the investee company remains as consistently executing a strategy to build a sustainable business, prudently improving the overall quality of its portfolio and actively managing risks.

Management Discussion and Analysis

Investee company's name and its principal activities#	Approximate weighting to the market/ fair value of the Group's securities investment porfolio %	% of shareholding interest %	Acquisition costs *HK$'000*	* Acquisition costs during the year/carrying amount as at 1 January 2017 *HK$'000*	Market/fair value as at 31 December 2017 *HK$'000*	Accumulated unrealised gain (loss) recognised up to 31 December 2017 *HK$'000*	Unrealised gain (loss) recognised during the year ended 31 December 2017 *HK$'000*	# Investee company's financial performance	# Future prospects of the investee company
			A	B	C	D = C – A	E = C – B		
HSBC Holdings plc (stock code: 5) Banking business	7.51	negligible	7,196	7,196	7,196	–	–	For the year ended 31 December 2017, interest income, as its major source of revenue, decreased by 3% to US$40,995 million while profit for the year increased by 245% to US$11,879 million as compared to 2016.	With an international network covering 90% of global trade flows and a leading presence in the world's fastest growing region, the investee company is of the view that it is in a prime position to help its customers capitalize on the broad-based global growth.
Industrial and Commercial Bank of China Limited (stock code: 1398) Banking business	7.22	0.001	6,908	6,908	6,919	11	11	For the year ended 31 December 2017, interest income, as its major source of revenue, increased by 11% to RMB522,078 million and profit for the year increased by 3% to RMB287,451 million as compared to 2016.	Based on the vision of building a world-class and modern financial enterprise with global competitiveness by adhering to the principles of delivering excellence, sticking to the source, customer favourite, leading in innovation, security and prudence, and people-oriented, the investee company is of the view that it will achieve sustainable and healthy development during the process of providing services for the real economy and the supply-side structural reform.
Others	11.79	–	12,736	12,712	11,310	(1,426)	(1,402)	–	–
	100.00		69,952	69,928	95,849	25,897	25,921		

Extracted from published financial information of the investee companies.

* The amount represented the costs of the securities acquired during the year ended 31 December 2017 and/or the carrying amount of the securities brought forward from the prior financial year after accounting for additional acquisition and/or disposal of the securities (if any) during the current year.

Management Discussion and Analysis

AFS investments

At 31 December 2017, the Group's AFS investment portfolio (constituted by non-current and current portions) of HK$144,877,000 (2016: nil) was measured at market/fair value. During the year under review, the Group's AFS investment portfolio generated total revenue amounting to HK$5,071,000 (2016: nil) representing interest income from debt securities. According to the maturity of the AFS investments, part of the AFS investment portfolio of HK$23,344,000 was classified as current assets.

During the year under review, the Group invested approximately HK$145,396,000 for acquiring debt securities in the aggregate principal amount of US$18,600,000 issued by an aircraft leasing company and seven property companies listed on the Stock Exchange. The Group had commenced its investments in debt securities during the year which offer stable returns.

At the year end, a net fair value loss on the AFS investment portfolio amounting to HK$519,000 (2016: nil) was recognised as other comprehensive expense.

At 31 December 2017, the Group invested in debt securities issued by an aircraft leasing company and seven property companies and their respective weightings to the market/fair value of the Group's AFS investment portfolio of HK$144,877,000 (together with other information) were as below:

Category of companies	Approximate weighting to the market/fair value of the Group's AFS investment portfolio %	Yield to maturity on acquisition date %	Acquisition costs *HK$'000*	* Acquisition costs during the year/ carrying amount as at 1 January 2017 *HK$'000*	Market/fair value as at 31 December 2017 *HK$'000*	Accumulated fair value loss recognised up to 31 December 2017 *HK$'000*	Fair value loss recognised during the year ended 31 December 2017 *HK$'000*
			A	B	C	D = C – A	E = C – B
Aircraft leasing	10.51	4.93	15,444	15,444	15,231	(213)	(213)
Property	89.49	4.56 – 8.75	129,952	129,952	129,646	(306)	(306)
	100.00		145,396	145,396	144,877	(519)	(519)

* The amount represented the costs of the securities acquired during the year ended 31 December 2017 and/or the carrying amount of the securities brought forward from the prior financial year after accounting for additional acquisition and/or disposal of the securities (if any) during the current financial year.

Management Discussion and Analysis

Overall Results

For year ended 31 December 2017, the Group reported a loss attributable to owners of the Company of HK$54,855,000 (2016: HK$31,079,000) that was mainly attributable to the recognition of the share-based payments expense of HK$73,257,000 recorded for the grant of share options to directors and employees in May 2017 and the recognition of loss in the net fair value changes on convertible notes of HK$39,158,000 for the convertible notes issued in April 2017, which were both non-cash in nature, despite the profitable results contributed by the Group's all three business segments, namely, petroleum exploration and production, money lending and investment in securities and the decrease in corporate expenses by 46% to HK$14,299,000 (2016: HK$26,397,000). Basic loss per share was HK1.17 cents and increased by HK0.41 cent compared to the prior year (2016: HK0.76 cent). If the effect of the share-based payments expense, the net fair value changes on convertible notes and the reversal of impairment losses of HK$24,378,000 in relation to the Group's oil and gas properties in Argentina were excluded, the Group would have, for illustrative purpose, reported a profit of HK$33,182,000 for the current year which essentially reflects the operating results of the Group.

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

On 11 April 2017, the Company entered into an agreement with an investor for the subscription of the 3% convertible notes in aggregate principal amount of HK$80,000,000 which could be converted into ordinary shares of the Company at an initial conversion price of HK$0.36 per share (the "CN Subscription"). The completion of the CN Subscription took place on 26 April 2017 and net proceeds of HK$79,852,000 were raised. The Company intended to use approximately 50% of the net proceeds as working capital for the money lending business and the remaining for the investment in securities business of the Group. The Group recorded a net fair value loss on convertible notes amounting to HK$39,158,000 that was mainly driven by the increase in the Company's share price between the date of entering the subscription agreement for the convertible notes i.e. 11 April 2017 and the financial year end date i.e. 31 December 2017. Further details of the issuance of convertible notes were set out in the announcements of the Company dated 11 April 2017 and 26 April 2017.

On 16 June 2017, the Company entered into a placing agreement with a placing agent whereby the Company conditionally agreed to place, through the placing agent, on a best effort basis, up to 651,000,000 new shares of the Company to not less than six independent places at the placing price of HK$0.308 per share (the "Share Placement"). The completion of the Share Placement took place on 4 July 2017, the net proceeds from the Share Placement, after deducting directly attributable costs of HK$5,117,000 from gross proceeds of HK$200,508,000, were approximately HK$195,391,000. The Company intended to allocate the net proceeds on a 50:50 basis between the Group's money lending and investment in securities businesses but may apply the net proceeds toward funding investment opportunities which the Board considers to be in the interest of the Company. Further details of the Share Placement were set out in the announcements of the Company dated 16 June 2017 and 4 July 2017.

At 31 December 2017, approximately 70% of the funds raised through the CN Subscription and Share Placement had been used as the working capital of the Group's money lending and investment in securities businesses.

Management Discussion and Analysis

On 8 November 2017, two indirectly wholly owned subsidiaries of the Company, Mega Link Hengtian (Xiamen) Equity Investment Co., Ltd. and Xiamen Mega Link Hengtian Zhichuang Investment Management Partners Corporation (Limited Partnership), entered into a limited partnership agreement (the "Limited Partnership Agreement") with two independent parties in respect of, among other matters, the establishment of a limited partnership (the "Limited Partnership") and the subscription of interest therein. Pursuant to the Limited Partnership Agreement, the total capital commitment to the Limited Partnership is RMB120,000,000 in which the Group has committed to contribute a total of RMB61,510,000 to subscribe for an aggregate approximately 51.26% interest in the Limited Partnership. The purpose of the Limited Partnership is to invest in a series of projects in the smart city big data industry in the PRC. It is expected that the Limited Partnership will invest in smart city and big data application projects in the next few years and will construct cloud computing data centers. At 31 December 2017, capital had not yet been injected into the Limited Partnership. Details of the Limited Partnership were set out in the announcement of the Company dated 8 November 2017.

During the year ended 31 December 2017, the Group financed its operation mainly by cash generated from its operations, funds raised through the CN Subscription and the Share Placement, and shareholders' funds. At the year end, the Group had current assets of HK$524,860,000 (2016: HK$325,119,000) and liquid assets comprising bank balances and cash as well as financial assets at FVTPL totaling HK$383,198,000 (2016: HK$209,658,000). The Group's current ratio, calculated based on current assets over current liabilities of HK$143,613,000 (2016: HK$21,892,000), was about 3.7 (2016: 14.9). The decrease in current ratio in the current year was mainly attributed to the recognition of convertible notes of HK$76,145,000 (2016: nil) and derivative financial liability of HK$46,617,000 (2016: nil) on the convertible notes, and the application of funds for acquiring the AFS investments which were largely classified as non-current assets. At 31 December 2017, the Group's trade and other receivables and prepayments amounted to HK$49,324,000 (2016: HK$11,996,000), which mainly comprised deposits placed with securities brokers in relation to securities trading activities.

At 31 December 2017, the net assets of the Group increased to HK$559,116,000 (2016: HK$345,842,000). The Group's gearing ratio, calculated on the basis of total liabilities of HK$147,804,000 (2016: HK$21,892,000) divided by total assets of HK$706,920,000 (2016: HK$367,734,000), was about 21% (2016: 6%). The finance costs for the year amounted to HK$4,955,000, which represented the effective interest on convertible notes issued in April 2017 (2016: HK$6,788,000, represented mainly interest on bank borrowings which were fully repaid in November 2016).

With the amount of liquid assets on hand, the management is of the view that the Group has sufficient financial resources to meet its ongoing operational requirements.

Foreign Currency Management

The monetary assets and liabilities as well as business transactions of the Group are mainly denominated in HK$, US$, RMB and ARS. During the year under review, the Group had not experienced any significant exchange rate exposure to US$ as HK$ and US$ exchange rate is pegged. Besides, the Group continuously monitors foreign exchange exposure of RMB and will consider a formal foreign currency hedging policy for RMB should the needs arise. As for the Group's petroleum operation in Argentina, the oil selling proceeds are quoted at US$ and converted into ARS for settlement at official exchange rate on a monthly basis, and a majority of the investment and operating costs including infrastructure and equipment, drilling costs, completion costs and workover jobs are based on US$ and converted into ARS for payments. The Group currently does not have a formal foreign currency hedging policy for ARS, however, the management regularly monitors foreign exchange exposure of ARS and will undertake appropriate hedging measures should significant exposures arise.

Contingent Liability

At 31 December 2017, the Group had no significant contingent liability (2016: nil).

Pledge of Assets

At 31 December 2016, the following assets were pledged to secure the Group's bank borrowings which had been fully repaid during the year ended 31 December 2016 but the release of the security pledged was in process:

(i) the entire issued share capital of EP Energy;

(ii) the entire issued share capital of Have Result; and

(iii) the entire issued share capital of two wholly owned subsidiaries of the Company which together hold the entire stock capital of EP Energy.

At 31 December 2017, the release of the security pledged was completed and the Group had no pledged assets.

Capital Commitment

At 31 December 2017, pursuant to the Limited Partnership Agreement, the Group has committed to contribute a total of RMB61,510,000 to subscribe for the interest in the Limited Partnership and no capital had yet been injected into the Limited Partnership.

Management Discussion and Analysis

HUMAN RESOURCES AND REMUNERATION POLICY

At 31 December 2017, the Group had a total 27 (2016: 17) employees including directors of the Company with 20 (2016: 9) employees in Hong Kong and 7 (2016: 8) employees in Argentina. Staff costs, including directors' emoluments and share-based payments expense, amounted to HK$83,874,000 for the year (2016: HK$17,767,000). The increase in staff costs was mainly due to the share-based payments expense for share options granted to directors and staff of HK$11,962,000 and HK$61,295,000 respectively. The remuneration packages for directors and staff are normally reviewed annually and are structured by reference to prevailing market terms and individual competence, performance and experience. The Group operates a Mandatory Provident Fund Scheme for employees in Hong Kong and operates employees' pension scheme for employees in Argentina. In addition, the Group provides other employee benefits which include medical insurance, share option scheme and discretionary bonus.

PRINCIPAL RISK AND UNCERTAINTIES

The Group is principally engaged in the business of petroleum exploration and production, money lending and investment in securities. The financial position, operations, businesses and prospects of the Group and its individual business segment are affected by the following significant risk and uncertainty factors:

Business Risk

The global economic conditions and the state of international financial and investment markets, including the economy, financial and investment markets of the United States, Mainland China and Hong Kong, of which the Group has no control, have significant influences on the business and financial performance of the Group. The management policy to mitigate this risk is to diversify the Group's business and to diversify its investments (where possible) within the same business, as in the case of the Group's investment in securities business.

Market Risk

The Group's money lending business is operating in a very competitive environment that put pressure on the revenue and profitability of this business. The management policy to mitigate this risk is to continue to put effort in enlarging the market share and enhancing the market competitiveness of this business by various means.

Environmental Risk

The Group's petroleum exploration and production business is constantly exposed to inherent risks such as pollution, mechanical breakdown of machinery, adverse weather conditions, fire or other calamity. During the petroleum exploration and production process, the Group would expose to potential risks such as pollution, adverse weather conditions or earthquake etc. Any of these factors may cause disruptions to the Group's operations. The Group may also be liable to pay compensations resulting from the above events which may adversely affect its financial performance.

Financial Risk

The Group is exposed to financial risks relating to interest rate, foreign currency, securities price, credit and liquidity risk in its ordinary course of business. For further details of such risks and relevant management policies, please refer to Note 36 to the consolidated financial statements for details.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Board and management are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year under review, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group understands the importance of maintaining a good relationship with its employees, customers and suppliers to meet its immediate and long-term business goals. During the year ended 31 December 2017, there were no significant dispute between the Group and its employees, customers and suppliers.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group encourages environmental protection and adopts measures to promote environmental awareness of its employees. The Group implements green office practices by encouraging employees to make use of e-statements or scanning copies, double-sided printing and copying and setting up of recycle boxes for reducing and disposing of waste. The Group also reduces green-house emissions by switching off idle lightings and other office equipments after normal working hours. When developing the Group’s business, the Group strictly complies with the local law, rules and guidance in relation to environmental protection. The Group regularly review its environmental practices for further improvements.

Biographical Details of Directors and Senior Management

The biographical details of Directors and senior management as at 29 March 2018, the date of this annual report, are set out below:

EXECUTIVE DIRECTORS

Mr. Suen Cho Hung, Paul ("Mr. Suen"), *Chairman*

Aged 57, joined the Company as an Executive Director and the Chairman of the Company in October 2016. Mr. Suen holds a Master of Business Administration degree from the University of South Australia. He has extensive experience in strategic planning and corporate management of business enterprises in Hong Kong and the PRC. Mr. Suen is deemed to be a substantial shareholder of the Company through his interests in Billion Expo International Limited, a substantial shareholder of the Company, which is ultimately wholly owned by Mr. Suen.

Mr. Liu Zhiyi ("Mr. Liu"), *Chief Executive Officer*

Aged 44, joined the Company as an Executive Director in May 2017 and has been appointed as the Chief Executive Officer in January 2018. Mr. Liu is also a director of several subsidiaries of the Company. He holds a bachelor's degree in engineering from Beijing Union University in the PRC. Mr. Liu has extensive experience in the areas of mobile communications and applications, internet system development, information technology and investments. Mr. Liu is deemed to be a substantial shareholder of the Company through his interests in BJHK Company Limited, a substantial shareholder of the Company, which is wholly owned by Mr. Liu.

Mr. Sue Ka Lok ("Mr. Sue")

Aged 52, joined the Company as an Executive Director and the Chief Executive Officer in October 2016 and stepped down from his position as Chief Executive Officer in January 2018. Mr. Sue is a member of the Corporate Governance Committee. He is also a director of certain subsidiaries of the Company. Mr. Sue holds a Bachelor of Economics degree from The University of Sydney in Australia and a Master of Science in Finance degree from the City University of Hong Kong. Mr. Sue is a fellow of the Hong Kong Institute of Certified Public Accountants, a certified practising accountant of the CPA Australia and a fellow of The Hong Kong Institute of Chartered Secretaries, The Institute of Chartered Secretaries and Administrators and the Hong Kong Securities and Investment Institute. He has extensive experience in corporate management, finance, accounting and company secretarial practice. Mr. Sue is an executive director and the chief executive officer of China Strategic Holdings Limited (HKEX stock code: 235); an executive director of PT International Development Corporation Limited (HKEX stock code: 372) and PYI Corporation Limited (HKEX stock code: 498); a non-executive director of Birmingham Sports Holdings Limited ("Birmingham Sports") (HKEX stock code: 2309); and a non-executive director and the chairman of Courage Investment Group Limited ("Courage Investment") (HKEX stock code: 1145). All the aforementioned companies are listed on the Main Board of the Stock Exchange and with Courage Investment is also listed on the Singapore Exchange Securities Trading Limited.

Biographical Details of Directors and Senior Management

Mr. Yiu Chun Kong ("Mr. Yiu")

Aged 33, joined the Company as an Executive Director in October 2016. Mr. Yiu is also a director of certain subsidiaries of the Company. He holds a Bachelor of Business Administration in Accountancy degree from The Hong Kong Polytechnic University. Mr. Yiu is a certified public accountant of the Hong Kong Institute of Certified Public Accountants. He has rich experience in auditing, accounting and finance. Mr. Yiu is an executive director of Birmingham Sports.

Mr. Chan Shui Yuen ("Mr. Chan")

Aged 37, joined the Company as an Executive Director in October 2016 and was appointed as the Company Secretary in November 2017. Mr. Chan is a member of the Corporate Governance Committee. He holds a Bachelor of Business Administration (Honours) in Accountancy degree from the City University of Hong Kong and a Master of Financial Analysis degree from The University of New South Wales in Australia. Mr. Chan is a CFA charterholder, a fellow of the Association of Chartered Certified Accountants, a certified public accountant of the Hong Kong Institute of Certified Public Accountants and a certified practising accountant of the CPA Australia. He has rich experience in auditing, accounting, finance and compliance.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. To Yan Ming, Edmond ("Mr. To")

Aged 46, joined the Company as an Independent Non-executive Director in October 2016. Mr. To is the Chairman of the Audit Committee and the Corporate Governance Committee, a member of the Remuneration Committee and the Nomination Committee. He holds a Bachelor of Commerce Accounting degree from Curtin University of Technology in Western Australia. Mr. To is a Certified Public Accountant (Practising) in Hong Kong, a certified practising accountant of the CPA Australia and an associate of the Hong Kong Institute of Certified Public Accountants. He had worked for Deloitte Touche Tohmatsu, an international accounting firm, and has extensive experience in auditing, accounting, initial public offerings and taxation matters. Mr. To is also a director of Edmond To CPA Limited, R.C.W. (HK) CPA Limited and Asian Alliance (HK) CPA Limited. Mr. To is an independent non-executive director of Asia Grocery Distribution Limited (HKEX stock code: 8413), Birmingham Sports, China Vanguard You Champion Holdings Limited (HKEX stock code: 8156), Courage Investment, SH Group (Holdings) Limited (HKEX stock code: 1637), Tianli Holdings Group Limited (HKEX stock code: 117), Wai Chun Group Holdings Limited (HKEX stock code: 1013) and Wai Chun Mining Industry Group Company Limited (HKEX stock code: 660). All the aforementioned companies are listed on the Main Board/ Growth Enterprise Market of the Stock Exchange and with Courage Investment is also listed on the Singapore Exchange Securities Trading Limited.

Biographical Details of Directors and Senior Management

Mr. Pun Chi Ping ("Mr. Pun")

Aged 51, joined the Company as an Independent Non-executive Director in October 2016. Mr. Pun is the Chairman of the Remuneration Committee and a member of the Audit Committee and the Nomination Committee. He holds a Master of Science in Finance degree from the City University of Hong Kong and a Bachelor of Arts in Accountancy degree from the City Polytechnic of Hong Kong (now known as the City University of Hong Kong). Mr. Pun is a fellow of the Association of Chartered Certified Accountants and an associate of the Hong Kong Institute of Certified Public Accountants. He is an independent non-executive director of Birmingham Sports and Huajun Holdings Limited (HKEX stock code: 377) and the financial controller of Poly Property Group Co., Limited (HKEX stock code: 119). All the aforementioned companies are listed on the Main Board of the Stock Exchange.

Ms. Leung Pik Har, Christine ("Ms. Leung")

Aged 48, joined the Company as an Independent Non-executive Director in October 2016. Ms. Leung is the Chairlady of the Nomination Committee and a member of the Audit Committee and the Remuneration Committee. She holds a Bachelor of Business Administration degree from The Chinese University of Hong Kong. Ms. Leung has extensive experience in banking and financial services industries and had worked at several international financial institutions including Citibank, N.A. Hong Kong, Bank of America, Industrial and Commercial Bank of China (Asia) Limited and Fubon Bank (Hong Kong) Limited. She is an independent non-executive director of Birmingham Sports.

SENIOR MANAGEMENT

Mr. Pak Ka Kei ("Mr. Pak"), *Financial Controller*

Aged 47, joined the Company as Financial Controller in November 2009. Mr. Pak graduated from the City University of Hong Kong with a Bachelor of Arts in Accounting degree. Mr. Pak has extensive experience in the fields of audit, internal control, accountancy, taxation and treasury. Prior to joining the Company, he had worked for Ernst & Young, an international accounting firm, and TCL Multimedia Technology Holdings Limited in its finance departments in Hong Kong, emerging markets and Europe as deputy internal control director and deputy financial controller.

Mr. Quiroga Daniel Federico ("Mr. Quiroga"), *General Manager, Argentina*

Aged 53, joined the Company as the Operation Manager of the Group's Argentina operation in December 2010, and was appointed as General Manager of the Argentina operation in late 2012. Mr. Quiroga oversees the Company's oil projects in Argentina. He has extensive experience in operations, exploration and production management of oil field projects in Argentina and Mexico. Mr. Quiroga had been employed by Tecpetrol S.A. since 1991 and the last position held by Mr. Quiroga in 2000 was the head of secondary recovery division. During his work in Tecpetrol S.A., Mr. Quiroga was appointed as operation engineer, production manager, field operation manager and had gained experiences in operations, production management for various oil fields in Argentina. During 2002 to 2006, Mr. Quiroga was the operation superintendent and field manager who was in charge of field operations in oil fields located in Neuquina Basin and S.J. Gulf Basin, Argentina for Pioneer NRA S.A.. After that, Mr. Quiroga also worked for Apache Corp Argentina and Petrolera El Trebol. Before joining the Company, Mr. Quiroga had worked for Weatherford Regional Mexico as the operation coordinator. He was in charge of field operations for oil field in Mexico. Mr. Quiroga graduated from the National University of Cuyo in Mendoza Province, Argentina majoring in Petroleum Engineer in 1991. Mr. Quiroga was a postgraduate in Business & Finance at National University of Cuyo in Mendoza Province, Argentina.

Report of the Directors

The Directors are pleased to present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in Note 38 to the consolidated financial statements.

Further discussion and analysis of the Group's activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year and an indication of likely future developments in the Group's business, can be found in the "Chairman's Statement" and "Management Discussion and Analysis" sections set out on pages 4 to 17 of this annual report. This discussion forms part of this directors' report.

RESULTS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 56.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: nil).

FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements of the Company, is set out on page 126. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movement in the property, plant and equipment of the Group during the year are set out in Note 18 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in Notes 28 and 29 to the consolidated financial statements, respectively.

Report of the Directors

PRE-EMPTIVE RIGHTS

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

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

During the year ended 31 December 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in Note 39 to the consolidated financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

At 31 December 2017, the Company had no reserve available for distribution as computed in accordance with the Companies Act 1981 of Bermuda. The Company's share premium account, in the amount of approximately HK$770,285,000 may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, revenue from the Group's five largest customers/sources accounted for approximately 87% of the revenue for the year and revenue from the largest customer accounted for approximately 74%. Purchases from the Group's five largest suppliers accounted for 100% of the total purchases for the year and purchases from the largest supplier accounted for 100%.

None of the directors or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued shares) had any beneficial interest in the Group's five largest customers or suppliers during the year.

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Suen Cho Hung, Paul
Mr. Liu Zhiyi (appointed on 5 May 2017)
Mr. Sue Ka Lok
Mr. Yiu Chun Kong
Mr. Chan Shui Yuen
Ms. Chan Yuk Yee (resigned on 10 November 2017)
Mr. Zhu Kai (resigned on 31 March 2017)

Independent Non-executive Directors:

Mr. To Yan Ming, Edmond
Mr. Pun Chi Ping
Ms. Leung Pik Har, Christine

In accordance with bye-law 100(A) of the Company's Bye-laws, Mr. Yiu Chun Kong, Mr. Chan Shui Yuen and Mr. To Yan Ming, Edmond will retire at the forthcoming annual general meeting of the Company (the "2018 AGM") by rotation and, being eligible, will offer themselves for re-election in the 2018 AGM.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Bye-laws, subject to the statutes, the directors for the time being of the Company shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them, shall or may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices or trusts or otherwise in relation thereto except through their own wilful neglect or default, fraud and dishonesty. The Company has arranged appropriate directors' and officers' liability insurance coverage for the directors and other officers of the Company during the year.

DIRECTORS' SERVICE CONTRACTS

None of the directors being proposed for re-election at the 2018 AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Report of the Directors

DIRECTORS' REMUNERATION

Details of the directors' remuneration are set out in Note 13 to the consolidated financial statements.

UPDATES ON DIRECTORS' INFORMATION

The following is updated information of directors of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

1. Mr. Suen Cho Hung, Paul resigned as an executive director, the managing director and the chairman of PT International Development Corporation Limited (HKEX stock code: 372) on 30 September 2017.

2. Mr. Sue Ka Lok has been appointed as the chief executive director of China Strategic Holdings Limited (HKEX stock code: 235) on 18 January 2018; resigned as a non-executive director of Tianli Holdings Group Limited (HKEX stock code: 117) on 17 January 2018; stepped down from his position as the chairman and has been redesignated as a non-executive director of Courage Investment Group Limited ("Courage Investment") (HKEX stock code: 1145) on 19 October 2017; and has been re-appointed as the chairman of Courage Investment on 28 February 2018.

3. Mr. Chan Shui Yuen has become a CFA charterholder.

4. Mr. To Yan Ming, Edmond retired as an independent non-executive director of China Vanguard You Champion Holdings Limited ("China Vanguard You Champion") (HKEX stock code: 8156) on 23 November 2017; and has been re-appointed as an independent non-executive director of China Vanguard You Champion on 11 December 2017.

5. Ms. Leung Pik Har, Christine resigned as an independent non-executive director of Enviro Energy International Holdings Limited (HKEX stock code: 1102) on 23 January 2018.

6. The director's remuneration of Mr. Chan Shui Yuen has been increased to HK$455,000 per annum under his service contract with a subsidiary of the Company with effect from 10 November 2017. The revised remuneration has been approved by the Remuneration Committee of the Company.

7. The director's remuneration of Mr. Liu Zhiyi has been increased to HK$1,300,000 per annum under his service contract with a subsidiary of the Company with effect from 26 January 2018. The revised remuneration has been approved by the Remuneration Committee of the Company.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save for the related party disclosures as disclosed in the Note 34 to the consolidated financial statements, no other transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a director or an entity connected with a director has or had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2017, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Long positions in the shares and underlying shares of the Company:

Name of Directors	Capacity and nature of interest	Number of shares held	Number of share options held	Approximate percentage of the Company's issued share capital *(Note (i))*
Mr. Suen Cho Hung, Paul ("Mr. Suen")	Interests of controlled corporation	2,535,285,620 *(Note (ii))*	–	50.523%
Mr. Liu Zhiyi	Beneficial owner	–	43,500,000 *(Notes (iii) & (iv))*	0.867%
Mr. Sue Ka Lok	Beneficial owner	–	22,800,000 *(Note (iii))*	0.454%
Mr. Yiu Chun Kong	Beneficial owner	–	600,000 *(Note (iii))*	0.012%
Mr. Chan Shui Yuen	Beneficial owner	–	900,000 *(Note (iii))*	0.018%
Mr. To Yan Ming, Edmond	Beneficial owner	–	300,000 *(Note (iii))*	0.006%
Mr. Pun Chi Ping	Beneficial owner	–	300,000 *(Note (iii))*	0.006%
Ms. Leung Pik Har, Christine	Beneficial owner	–	300,000 *(Note (iii))*	0.006%

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

Notes:

(i) The approximate percentage of the Company's issued share capital was calculated on the basis of 5,018,121,822 shares of the Company in issue as at 31 December 2017.

(ii) These interests were held by Billion Expo International Limited ("Billion Expo"), which was a wholly owned subsidiary of Premier United Group Limited ("Premier United") which in turn was wholly owned by Mr. Suen. Mr. Suen is the sole director of Billion Expo and Premier United. Accordingly, Mr. Suen was deemed to be interested in 2,535,285,620 shares of the Company under the SFO.

(iii) This represented the interest of the underlying shares issuable under the share options granted by the Company to the director on 4 May 2017 pursuant to the share option scheme adopted by the shareholders of the Company on 22 June 2016. The consideration paid by the director on acceptance of the share options granted was HK$1.00. The exercise price of the share options granted is HK$0.53 per share and the exercisable period is from 4 May 2017 to 3 May 2020 (both dates inclusive).

(iv) 43,500,000 share options were granted to Mr. Liu Zhiyi on 4 May 2017 when he was an employee of the Group. He was then appointed as an Executive Director of the Company on 5 May 2017.

Save as disclosed above, as at 31 December 2017, none of the directors or chief executive of the Company had registered an interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' Interests and Short Positions in Share, Underlying Shares and Debentures" above and in the "Share Option Scheme" disclosure in Note 29 to the consolidated financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors of the Company or their spouse or minor children had any rights to subscribe for the securities of the Company, or had exercised any such rights during the year.

SHARE OPTION SCHEME

Details of the share option scheme of the Company are set out in Note 29 to the consolidated financial statements.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31 December 2017, the following interests of more than 5% of the issued share capital of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO.

Long positions in the shares of the Company:

Name of shareholders	Capacity and nature of interest	Number of shares held	Approximate percentage of the Company's issued share capital *(Note (i))*
Mr. Suen	Interest of controlled corporation	2,535,285,620 *(Note (ii))*	50.523%
Premier United	Interest of controlled corporation	2,535,285,620 *(Note(ii))*	50.523%
Billion Expo	Beneficial owner	2,535,285,620 *(Note(ii))*	50.523%

Notes:

(i) The approximate percentage of the Company's issued share capital was calculated on the basis of 5,018,121,822 shares of the Company in issue as at 31 December 2017.

(ii) These interests were held by Billion Expo, which was a wholly owned subsidiary of Premier United which in turn was wholly owned by Mr. Suen. Mr. Suen is the sole director of Billion Expo and Premier United. Accordingly, Mr. Suen was deemed to be interested in 2,535,285,620 shares of the Company under the SFO.

The interests of Mr. Suen, Premier United and Billion Expo in 2,535,285,620 shares of the Company referred to in Note (ii) above related to the same parcel of shares.

Save as disclosed above, the Company had not been notified of any other relevant interests or short positions in the shares and underlying shares of the Company as at 31 December 2017 as required pursuant to section 336 of the SFO.

Report of the Directors

CONNECTED TRANSACTIONS

The related party disclosures as disclosed in Note 34 to the consolidated financial statements fall under the scope of "Connected Transactions" or "Continuing Connected Transactions" under Chapter 14A of the Listing Rules but are exempted from reporting, annual review, announcement or independent shareholders' approval requirements.

REMUNERATION POLICY

The Group remunerates its employees based on their competence, performance, experience and prevailing market terms. Other employee benefits include provident fund scheme, medical insurance, share option scheme as well as discretionary bonus.

EQUITY-LINKED AGREEMENTS

Save for the convertible notes, share placement and the share option scheme of the Company as disclosed in Notes 26, 28(iii) and 29 to the consolidated financial statements respectively, no equity-linked agreements were entered into by the Group, or existed during the year.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of any business of the Company was entered into or existed during the year.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued shares is held by the public as at the date of this report.

AUDIT COMMITTEE

The audited consolidated financial statements of the Company for the year ended 31 December 2017 have been reviewed by the Audit Committee of the Company and duly approved by the Board under the recommendation of the Audit Committee.

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2017 have been audited by Deloitte Touche Tohmatsu.

A resolution will be proposed at the 2018 AGM to re-appoint Deloitte Touche Tohmatsu as the auditor of the Company.

Deloitte Touche Tohmatsu has been appointed as the auditor of the Company with effect from 24 December 2015 to fill the casual vacancy arising from the resignation of PricewaterhouseCoopers on 15 December 2015.

Save for the above, there has been no other change of the auditor of the Company in the preceding three years.

On behalf of the Board

Suen Cho Hung, Paul
Chairman

Hong Kong, 29 March 2018

Corporate Governance Report

The Company has recognised the importance of transparency and accountability, and believes that shareholders can benefit from good corporate governance. The Company aims to achieve good standard of corporate governance.

CORPORATE GOVERNANCE

The Company has complied with all the applicable provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules for the year ended 31 December 2017, except for the following deviation with reason as explained:

Effective communications

Code Provision E.1.2

Code provision E.1.2 of the CG Code stipulates that the chairman of the board should attend the annual general meeting.

Deviation

The Chairman of the Board, Mr. Suen Cho Hung, Paul, was unable to attend the annual general meeting of the Company held on 22 June 2017 (the "2017 AGM") as he had other important business engagement. However, Mr. Sue Ka Lok, an Executive Director of the Company, had chaired the meeting in accordance with bye-law 70 of the Company's Bye-laws.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct regarding securities transactions by directors of the Company. Having made specific enquiry with the directors, all of them confirmed that they have complied with the required standards set out in the Model Code during the year ended 31 December 2017.

BOARD OF DIRECTORS

The Board formulates overall strategy of the Group, monitors its financial performance and maintains effective oversight over the management. The Board members are fully committed to their roles and have acted in good faith to maximize the shareholders' value in the long run, and have aligned the Group's goal and directions with the prevailing economic and market conditions. Daily operations and administration are delegated to the management.

The Board met regularly throughout the year to discuss the overall strategy as well as the operation and financial performance of the Group. The directors are kept informed on timely basis of major changes that may affect the Group's business, including relevant rules and regulations. The directors can, upon reasonable request, seek independent professional advice in appropriate circumstances, at the Company's expenses. The Board shall resolve to provide separate appropriate independent professional advice to the directors to assist the relevant directors to discharge their duties.

As at 29 March 2018, the date of this annual report, the Board comprises eight directors, five of which are Executive Directors, namely Mr. Suen Cho Hung, Paul ("Mr. Suen"), the Chairman of the Company (the "Chairman"), Mr. Liu Zhiyi, the Chief Executive Officer of the Company (the "CEO"), Mr. Sue Ka Lok ("Mr. Sue"), Mr. Yiu Chun Kong ("Mr. Yiu") and Mr. Chan Shui Yuen, and three are Independent Non-executive Directors, namely Mr. To Yan Ming, Edmond ("Mr. To"), Mr. Pun Chi Ping ("Mr. Pun") and Ms. Leung Pik Har, Christine ("Ms. Leung"). The directors are considered to have a balance of skill and experience appropriate for the requirements of the business of the Company. The Company has received from each of the independent non-executive directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive directors are independent in accordance with the independence guidelines set out in the Listing Rules. Biographical details of the directors are set out under the section headed "Biographical Details of Directors and Senior Management" on pages 18 to 20 of this annual report.

Mr. Suen is the controlling shareholder of Birmingham Sports Holdings Limited (HKEX stock code: 2309) of which Mr. Sue is a non-executive director, Mr. Yiu is an executive director, and Mr. To, Mr. Pun and Ms. Leung are independent non-executive directors. Mr. Suen is a shareholder of China Strategic Holdings Limited (HKEX stock code: 235) of which Mr. Sue is an executive director and the chief executive officer. Mr. Suen is a substantial shareholder of Courage Investment Group Limited (HKEX stock code: 1145) of which Mr. Sue is a non-executive director and the chairman, and Mr. To is an independent non-executive director. Mr. Suen was a substantial shareholder, an executive director and the chairman of Enviro Energy International Holdings Limited ("Enviro Energy") (HKEX stock code: 1102) until 15 September 2017; and Ms. Leung was an independent non-executive director of Enviro Energy until 23 January 2018. Mr. Suen was an executive director, the managing director and the chairman of PT International Development Corporation Limited ("PT International") (HKEX stock code: 372) until 30 September 2017, and is the controlling shareholder of PT International of which Mr. Sue is an executive director. Mr. Suen is a substantial shareholder of PYI Corporation Limited (HKEX stock code: 498) of which Mr. Sue is an executive director. Mr. To is an independent non-executive director of Tianli Holdings Group Limited (HKEX stock code: 117) of which Mr. Sue was a non-executive director until 17 January 2018. Save for the aforesaid, there is no other financial, business, family or other material/relevant relationship between the Chairman and the CEO and among members of the Board.

Corporate Governance Report

BOARD OF DIRECTORS (continued)

The Company will provide a comprehensive, formal and tailored induction to each newly appointed director on his/her first appointment in order to enable him/her to have appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

All directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. Directors are continually updated on developments in the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. The Company has provided timely technical updates, including the briefing on the amendments on the Listing Rules and the news release published by the Stock Exchange to the directors. Continuing briefing and professional development for directors are arranged where necessary.

During the year ended 31 December 2017, four regular Board meetings and 2017 AGM were held and the attendance of each director is set out as follows:

	Number of attendance	
	Board Meetings	**2017 AGM**
Executive Directors		
Mr. Suen Cho Hung, Paul	4/4	0/1
Mr. Liu Zhiyi (appointed on 5 May 2017)	3/3	1/1
Mr. Sue Ka Lok	4/4	1/1
Mr. Yiu Chun Kong	4/4	1/1
Mr. Chan Shui Yuen	4/4	1/1
Ms. Chan Yuk Yee (resigned on 10 November 2017)	4/4	1/1
Mr. Zhu Kai (resigned on 31 March 2017)	1/1	N/A
Independent Non-executive Directors		
Mr. To Yan Ming, Edmond	4/4	0/1
Mr. Pun Chi Ping	4/4	1/1
Ms. Leung Pik Har, Christine	4/4	0/1

CHAIRMAN AND CHIEF EXECUTIVE

The Group adopts a dual leadership structure in which the role of the Chairman is separated from that of the CEO. The Chairman is responsible for overseeing all Board functions, while the executive directors and senior management are under the leadership of the CEO to oversee the day-to-day operations of the Group and implement the strategies and policies approved by the Board.

The position of the Chairman of the Board is currently held by Mr. Suen Cho Hung, Paul and the position of the CEO is currently held by Mr. Liu Zhiyi.

TERM OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

Each of the Independent Non-executive Directors is appointed for a term of twelve-month period which automatically renews for successive twelve-month periods unless terminated by either party in writing prior to the expiry of the term. All the Independent Non-executive Directors are also subject to retirement by rotation and re-election at least once every three years at the annual general meetings of the Company in accordance with the Company's Bye-laws.

REMUNERATION COMMITTEE

The Remuneration Committee has specific written terms of reference that is in compliance with the CG Code. As at the date of this annual report, the Remuneration Committee comprises three Independent Non-executive Directors, namely Mr. To Yan Ming, Edmond, Mr. Pun Chi Ping and Ms. Leung Pik Har, Christine. Mr. Pun Chi Ping is the Chairman of the Remuneration Committee.

The Remuneration Committee is mainly responsible for formulating the remuneration policy, reviewing and recommending to the Board the annual remuneration policy and the remuneration of the directors. The overriding objective of the remuneration policy is to ensure that the Group is able to attract, retain and motivate a high-caliber team which is essential to the success of the Group. The full terms of reference are available on the Company's website and the Stock Exchange's website.

The Remuneration Committee met one time during the year ended 31 December 2017 to review the remuneration packages for directors. The attendance of each member is set out as follows:

Members	Number of attendance
Mr. Pun Chi Ping	1/1
Mr. To Yan Ming, Edmond	1/1
Ms. Leung Pik Har, Christine	1/1

NOMINATION COMMITTEE

The Nomination Committee has specific written terms of reference that is in compliance with the CG Code. As at the date of this annual report, the Nomination Committee comprises three Independent Non-executive Directors, namely Mr. To Yan Ming, Edmond, Mr. Pun Chi Ping and Ms. Leung Pik Har, Christine. Ms. Leung Pik Har, Christine is the Chairlady of the Nomination Committee.

The Nomination Committee is mainly responsible for identifying potential directors and making recommendations to the Board on the appointment or re-appointment of directors of the Company. Potential new directors are selected on the basis of their qualifications, skills and experience that he/she could add value to the management through his/her contributions in the relevant strategic business areas. The full terms of reference are available on the Company's website and the Stock Exchange's website.

The Nomination Committee met one time during the year ended 31 December 2017 to review and make recommendation to the Board on the appointment of a director. The attendance of each member is set out as follows:

Members	Number of attendance
Ms. Leung Pik Har, Christine	1/1
Mr. To Yan Ming, Edmond	1/1
Mr. Pun Chi Ping	1/1

In addition to the Nomination Committee meeting, the Nomination Committee also reviewed the structure, size and composition of the Board; and reviewed and make recommendation to the Board on the re-election of directors by way of circulation during the year ended 31 December 2017.

The Company recognises the benefits of having a diverse Board to enhance the quality of its performance and adopted the board diversity policy of the Company (the "Board Diversity Policy"). The Board Diversity Policy sets out that in determining the optimum composition of the Board, differences in skills, regional and industry experience, background, race, gender and other qualities of directors shall be considered. All Board appointments are made on merits, in the context of skills and experience the Board as a whole requires, with due regard for the benefits of diversity on the Board, and the Nomination Committee shall review and assess the Board composition and its effectiveness on an annual basis. When there is vacancy on Board, the Nomination Committee will recommend suitable candidates for appointment to the Board on merits, based on the terms of reference of the Nomination Committee, with due regard to the Company's own circumstances.

The Nomination Committee will review the Board Diversity Policy from time to time to ensure that the policy will be implemented effectively.

AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about their responsibilities on the Company's consolidated financial statements for the year ended 31 December 2017 is set out in the "Independent Auditor's Report" on pages 50 to 55 of this annual report.

For the year ended 31 December 2017, remuneration payable to the Company's auditor, Deloitte Touche Tohmatsu, for the provision of audit services was HK$2,100,000. During the year, HK$168,000 was paid as remuneration to Deloitte Touche Tohmatsu for the provision of non-audit related services.

AUDIT COMMITTEE

The Audit Committee has specific written terms of reference that is in compliance with the CG Code. As at the date of this annual report, the Audit Committee comprises three Independent Non-executive Directors, namely Mr. To Yan Ming, Edmond, Mr. Pun Chi Ping and Ms. Leung Pik Har, Christine, who among themselves possess a wealth of management experience in the accounting profession and in commercial fields. Mr. To Yan Ming, Edmond is the Chairman of the Audit Committee.

The Audit Committee is mainly responsible for reviewing financial statements of the Company, discussing the risk management and internal control of the Group and meeting with the auditor of the Company. Any findings and recommendations of the Audit Committee will be submitted to the Board for consideration.

The Audit Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee. It is also authorised to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers necessary. The full terms of reference are available on the Company's website and the Stock Exchange's website.

The Audit Committee met two times during the year ended 31 December 2017 and the attendance of each member is set out as follows:

Members	Number of attendance
Mr. To Yan Ming, Edmond	2/2
Mr. Pun Chi Ping	2/2
Ms. Leung Pik Har, Christine	2/2

The following is a summary of work performed by the Audit Committee during the year:

1. reviewed and discussed the audited consolidated financial statements of the Company for the year ended 31 December 2016 and recommended to the Board for approval;

2. reviewed and discussed the unaudited condensed consolidated financial statements of the Company for the six months ended 30 June 2017 and recommended to the Board for approval;

AUDIT COMMITTEE (continued)

3. reviewed and discussed with the management and the auditor of the Company the accounting policies and practices which may affect the Group and the scope of the audit;

4. reviewed reports from the auditor of the Company regarding their audit on the Company's consolidated financial statements for the year ended 31 December 2016;

5. reviewed the effectiveness of the risk management and internal control systems of the Group; and

6. reviewed and approved the remuneration and the terms of engagement of the Company's auditor; and reviewed and made recommendations to the Board on the re-appointment of the Company's auditor.

CORPORATE GOVERNANCE COMMITTEE

The Board has delegated the corporate governance duties to the Corporate Governance Committee. The Corporate Governance Committee has specific written terms of reference that includes the corporate governance functions as set out in the CG Code. As at the date of this annual report, the Corporate Governance Committee comprises three members, including two Executive Directors, namely Mr. Sue Ka Lok and Mr. Chan Shui Yuen, and one Independent Non-executive Director, namely Mr. To Yan Ming, Edmond. Mr. To Yan Ming, Edmond is the Chairman of the Corporate Governance Committee.

The main responsibilities of the Corporate Governance Committee are (i) to develop and review the Group's policies and practices on corporate governance and make recommendations to the Board; (ii) to review and monitor the training and continuous professional development of directors and senior management; (iii) to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements; (iv) to develop, review and monitor the code of conduct and compliance manual applicable to the employees and directors of the Group; and (v) to review the Group's compliance with the CG Code and disclosure requirements in the Corporate Governance Report. The full terms of reference are available on the Company's website and the Stock Exchange's website.

The Corporate Governance Committee met one time during the year ended 31 December 2017 to review the training and continuous professional development of directors; and the Group's compliance with the CG Code. The attendance of each member is set out as follows:

Members	Number of attendance
Mr. To Yan Ming, Edmond (appointed on 10 November 2017)	N/A
Mr. Sue Ka Lok	1/1
Mr. Chan Shui Yuen	1/1
Ms. Chan Yuk Yee (resigned on 10 November 2017)	1/1

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board is responsible for presenting a balanced, clear and understandable assessment of the Company's annual and interim reports, price-sensitive announcements and other financial disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2017.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility for the risk management and internal control systems and reviewing their effectiveness. The systems are designed to identifying, analysing, evaluating and mitigating risk exposures that may impact the continued efficiency and effectiveness of the operation of the Group. The goal of the risk management and internal control mechanism is to provide reasonable assurance regarding the fulfilment of corporate development strategies and not absolute assurance against material misstatement or loss.

Effective risk management is essential in the long-term growth and sustainability of the Group's business. The Board monitors the risk management and internal control systems on an ongoing basis. It has evaluated and determined the nature and extent of the risks it is willing to take in achieving the strategic objectives. An annual review of effectiveness of the Group's risk management and internal control systems has been conducted. The annual review ensured the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions.

The process used to identify, evaluate and manage the significant risks of the Group is embedded in the Group's normal business operations. Organisational structure is well established with clearly defined authorities and responsibilities, and the Group has developed various risk management and internal control policies and procedures for each business unit to follow. Business units are responsible for identifying, assessing and monitoring risks associated with their respective units regularly. The results of assessment are reported to the management which subsequently assesses the likelihood of risk occurrence, provides remedial plan and monitors the progress of rectification with the assistance of the head of the business units. The results and effectiveness of the Group's risk management and internal controls have been reported to the Audit Committee.

Guidelines are provided to the directors, officers, management and relevant staff in handling and disseminating sensitive and confidential inside information with due care. Only personnel at appropriate level can get reach of the sensitive and confidential inside information.

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

The Group does not have an internal audit function due to the size of the Group and consideration for cost effectiveness. Instead, the Company has engaged an external consultant to conduct review on the Group's risk management and internal control systems to identify and evaluate significant risks of the business operations. The Board believes that the involvement of the external consultant could enhance the objectivity and transparency of evaluation process. The external consultant has conducted an annual review to identify risks that potentially impact the business of the Group, key operational and financial processes, regulatory compliance and information security, and assess the adequacy and effectiveness of the systems for the year ended 31 December 2017. The review covered all material controls, including financial, operational and compliance controls. After the review, a report of findings and recommendations for improvement in relation to the systems has been provided to the Audit Committee and management. The internal audit report has been endorsed by the Audit Committee and the management is required to establish remedial plans and take required actions to rectify those internal control deficiencies identified (which are all at low to medium risk level) according to the respective risk level and priorities. Subsequent review will be performed by the external consultant to monitor the implementation of those agreed recommendations and to report the results of the follow-up review to the Audit Committee.

The Board is not aware of any significant internal control and risk management weaknesses or inconsistencies with risk management policies, and considers the existing risk management and internal control systems effective and adequate for the year ended 31 December 2017. The Company has complied with the relevant code provisions of the CG Code relating to risk management and internal control.

COMPANY SECRETARY

Following the resignation of Ms. Chan Yuk Yee as the Company Secretary, Mr. Chan Shui Yuen ("Mr. Chan"), an Executive Director of the Company, has been appointed as the Company Secretary with effect from 10 November 2017. The biographical details of Mr. Chan are set out under the section headed "Biographical Details of Directors and Senior Management" on pages 18 to 20 of this annual report. Mr. Chan has taken no less than 15 hours of the relevant professional training during the year ended 31 December 2017.

SHAREHOLDER RIGHTS

Procedures for shareholders to convene a special general meeting

In accordance with the Company's bye-law 64, the Board may, whenever it thinks fit, convene a special general meeting, and special general meetings shall also be convened on requisition, as provided by the Companies Act 1981 of Bermuda (the "Companies Act") and in default, may be convened by the requisitionists. Pursuant to the Companies Act, shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition. If the Board does not within twenty-one days from the date of the deposit of the requisition proceed duly to convene a meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date in accordance with the provisions of Section 74(3) of the Companies Act.

Procedures for shareholders to put forward proposals at general meetings

Pursuant to the Companies Act, any number of shareholders representing not less than one-twentieth of the total voting rights of all the shareholders having at the date of the requisition a right to vote at the meeting to which the requisition relates; or not less than one hundred shareholders, can request the Company in writing to:

(a) give to shareholders of the Company entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting;

(b) circulate to shareholders of the Company entitled to have notice of any general meeting send to them any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

The requisition must be deposited to the Company not less than six weeks before the meeting in case of a requisition requiring notice of a resolution or not less than one week before the meeting in case of any other requisition.

Corporate Governance Report

SHAREHOLDER RIGHTS (continued)

Procedures for shareholders to propose a person for election as a director of the Company

According to bye-law 104 of the Company's Bye-laws, no person other than a director retiring at the general meeting of the Company shall, unless recommended by the directors for election, be eligible for election as a director at any general meeting of the Company unless a notice signed by a shareholder of the Company (other than the person to be proposed) duly qualified to attend and vote at the general meeting of the Company for which such notice is given of his/her intention to propose such person for election and also a notice signed by the person to be proposed of his/her willingness to be elected shall have been lodged at the Company's principal place of business in Hong Kong or at the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited provided that the minimum length of the period, during which such notice(s) are given, shall be at least seven days and that the period for lodgement of such notice(s) shall commence no earlier than the day after the despatch of the notice of the general meeting and end no later than seven days prior to the date of such general meeting.

Procedures for directing shareholders' enquiries to the Board

Shareholders may at any time send their enquiries and concerns in writing to the Company Secretary of the Company at the Company's principal place of business in Hong Kong at Room 3203, 32nd Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

INVESTOR RELATIONS

The Company has established a range of communication channels between itself and its shareholders, investors and other stakeholders. These include the annual general meetings, the annual and interim reports, notices, announcements and circulars and the Company's website at www.epiholdings.com.

Environmental, Social and Governance Report

The purpose of preparing this Environmental, Social and Governance Report ("ESG Report") is to communicate the sustainability strategies, management approaches and performances of EPI (Holdings) Limited and its subsidiaries (hereinafter referred to as the "Group" or "we" or "our") with the stakeholders. This ESG Report summarises the efforts and achievements made by the Group in corporate social responsibility and sustainable development.

The Group hopes to develop its business objectives and creates shareholder value, while at the same time protects the ecological environment by fully utilising resources and minimising the emission of pollutants during operation. Being a responsible and visionary corporate citizen, the Group has to balance the relationship between operations and environment by continuously optimising operations management, business strategies and policies on environmental protection, training and development, and community involvement; and contributes towards the sustainable development of the globe, human being and our business.

This ESG Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "ESG Guide") as set out in Appendix 27 of the Listing Rules. This ESG Report mainly covers petroleum exploration and production and money lending businesses of the Group and presents the Group's strategic approach to sustainability and performance in the environmental and social aspects of its businesses for the reporting period from 1 January to 31 December 2017. With regard to corporate governance aspect, please refer to the Corporate Governance Report on pages 30 to 40 of this annual report. During the year ended 31 December 2017, the Company has complied with the "comply or explain" provisions as set out in the ESG Guide.

A summary of material environmental, social and governance issues, which are covered in this report, are analysed below:

A. ENVIRONMENTAL PROTECTION

The Group has commenced its petroleum exploration and production business since the end of 2009. The Group acquired the oil exploitation rights in the Chañares Herrados Area and Puesto Pozo Cercado Area (together the "Concessions") in Cuyana Basin, Mendoza Province of Argentina, of which Chañares Herrados Empresa de Trabajos Petroleros S.A. ("Chañares") is the concessionaire of the Concessions granted by the Government of Argentina. According to the agreements signed between the Group and Chañares, the Group has the right to drill new wells and perform workover on our existing own wells. Chañares also acts as the operator of the Concessions. Once the Group completes drilling of a well which is ready for production, Chañares will check to confirm the conditions and be responsible for the crude oil production and field operation.

As the concessionaire and operator of the Concessions, Chañares is responsible to comply with rules and regulations relating to environmental protection, labour, hydrocarbon and oil industry in Argentina.

Currently, crude oil after processing is delivered to the collection point and sold to our sole customer, YPF S.A. (a state-owned petroleum company). Chañares has been handling the above sales process for the Group and charging the Group handling charges.

Environmental, Social and Governance Report

Our daily works in the oilfield mainly include monitoring and controlling the production process performed by Chañares, and recording the quantity and quality of crude oil produced and sold.

During the reporting period, the Group's production and sales processes of oil exploration and production business are handled by Chañares, and the Group has not drilled any new well and performed any workover on existing wells during the period. Accordingly, the Group did not directly produce any air emissions and hazardous wastes, and had not directly caused any significant impact on the environment where the oil field operates.

Environmental protection issues relating to the Group's other operations are analysed below:

1. Emissions

Greenhouse gas and air emissions mainly come from energy consumption in the offices, including electricity and fuel. Therefore, we focus on carrying out various energy saving measures (refer to "Use of Resources" below for details). Waste management of our offices mainly involves waste paper for recycling.

In 2017, the Group did not involve in any non-compliance incidents relating to environmental protection.

2. Use of Resources

The Group is an environmentally friendly corporation with various measures established to ensure that our employees understand the importance of resource conservation. We hope that our employees can make full use of our resources to avoid wastage.

Energy

All staff members are encouraged to switch off the lightings, air conditioners, computers, personal electronic devices and common office equipment when they are not in use. We endeavor to keep all electronic appliances well-maintained and set to energy saving mode.

Policies relating to business cars are established to restrict the use of business car and fuel consumption. Measures are set up to save fuel. Furthermore, business cars are maintained and inspected regularly to maximise its fuel efficiency.

During the reporting period, the Group's business consumed 27.25 megawatt hours of electricity, 2.58 tonnes of diesel, 1.01 tonnes of gasoline and 3.26 million litres of natural gas. With reference to the guidelines of the Greenhouse Gas Protocol and the regional emission factors, greenhouse gas ("GHG") emissions are calculated. The total carbon dioxide emission during the reporting period was equivalent to 70.05 tonnes, including 45.47 tonnes of Scope 1 emissions and 24.58 tonnes of Scope 2 emissions. Scope 1 refers to direct GHG emissions, including combustion of diesel and petrol. Scope 2 refers to energy indirect GHG emissions, like consumption of purchased electricity and natural gas. In addition, nitric oxide, sulfur oxide and particulate matters generated from combustion of diesel and petrol were 1.58 tonnes, 0.26 tonnes and 0.67 tonnes respectively.

Water

Water conservation starts from changing daily habits. The Group encourages every employee to make optimum use of water resources. For example, posting "save water" sign in the pantry to remind staff to save water. During the reporting period, the Group's business consumed 216 tonnes of water.

Paper

Staff are encouraged to read documents in electronic format, rather than paper copies. Internal memos and announcement are despatched by emails instead of paper memos and faxes. We remind our employees to do print preview to check space and margin prior to printing and duplex printing is suggested. Single-sided printed copies are collected for printing drafts. To avoid unnecessary wastage and to promote effective usage of paper, all staff are educated to implement "think before printing" principle. Recycling bins are provided and clearly labelled to collect waste paper for recycling. During the reporting period, the Group's business consumed 0.7 tonnes of paper.

Business Travel

Our business travel policies require employees to consider using teleconferencing or emails as alternatives to travelling.

Compliance

In 2017, the Group did not involve in any non-compliance incidents relating to environmental protection.

3. The Environment and Natural Resources

The Group established policies and procedures to mitigate our operation impact on the environment and natural resources. Please refer to "Emissions" above for details. The Group focused on the environmental education and advocacy among staff. Various resources saving measures are implemented to raise the awareness of our employees to understand the importance of resource conservation. They are encouraged to maximise the effectiveness in use of resources and to avoid wastage. Please refer to "Use of Resources" above for details.

B. SOCIAL

Employment and Labour Practices

1. Employment

Our employees are critical in our operations. We always view employees as core assets of the Group for establishing the foundation of success and long-term development. When we formulate human resources strategies, we devote to create an equitable, non-discriminatory and safe working environment. We strived to build a harmonious working environment for our employees based on mutual respect, trust, impartiality, transparency and truthfulness, dynamism and teamwork to encourage creativity, flexibility and commitment to accomplish our corporate mission. We provide equal opportunities to employees to capture, promote and retain talents and promote personal and professional growth by offering them attractive and commensurate remuneration packages and providing various career development training. Besides, we strictly comply with the relevant laws and regulation and stick to the principle of fairness and merit-based policies and principles.

Talent Selection

The Group always follow the principles of fairness, equality, competitive and non-discrimination to hire outstanding talents, and devote to protect human right and privacy of employees. We select the best qualified candidate by considering various criteria such as education background, relevant work experiences, demonstrated knowledge, competencies and skills, desirable personal traits, physical fitness and development potential. We provide equal opportunities to employees in promotion, training and career development, and they are not discriminated against or denied any opportunity because of their race, religion, nationality, gender, age, marital status and disability. We hope to achieve win-win situation through joint development of employees and corporate.

Compensation and Welfare

To retain quality staff, we establish competitive remuneration scheme and regularly evaluate their salary levels to make sure that they are competitive. Though the remuneration scheme varies in different nations we operate, we strive to build a fair, reasonable and competitive remuneration scheme. Staff salaries are determined based on their knowledge, skills, experiences and education background relevant to the job requirements. Basic remuneration of staff includes fixed salary, bonuses, paid holidays etc. We pay retirement plan (social insurance in Argentina and Mandatory Provident Fund in Hong Kong) for employees in compliance with local law requirements. We provide in-patient health care for our employees. In addition to national mandatory holidays, employees are entitled to annual leave, marriage leave, funeral leave, examination leave, sick leave, maternity leave, family leave, compensated leave, etc. Those employees who have demonstrable experience in the oil industry are entitled to additional holidays under the laws in Argentina. Staff are also subsidised to join training programs which are appropriate and relevant to the job. All staff are expected to discharge their job responsibilities within reasonable work hours. We implement five-day work system with 40 working hours per week. We dismiss employees and compensate them in accordance with the relevant laws and regulations.

Labour Standards

The Group's human resources policies and procedures and management system conform and comply with the local labour laws and regulations, including human rights and labour standards. The Group promises to protect labour rights and strictly prohibits any unethical hiring practices, including child labour and forced labour in the workplace. During the recruitment process, the Group reviews the identity documents of the applicants and never hires any applicant under the legal working age. The work hours of staff are in line with the relevant local labour laws and regulations. Staff consent for working overtime is needed so as to prevent forced overtime work; and they are compensated in accordance with the requirement of the local laws and regulations.

Compliance

In 2017, the Group did not involve in any non-compliance incidents relating to human rights and labour practices.

2. Health and Safety

The Group always put health and safety of employees as our first priority, and injury prevention is especially important as a part of our management practices. We establish strict risk assessment and management policies and procedures to identify and minimise potential hazard that might lead to injury, illness or human loss by providing staff training and planning in advance for the coordinated action in case of emergency. The policies and procedures provide clear and identified guidelines for staff to identify and assess risks, delineate procedures for handling situations involving security and safety of workers and facilities, carefully plan for business operations (including tools required for eliminating or controlling risks) and promote good working atmosphere. We provide on-the-job technical training regularly, arrange safety assessment and organise team-building activities to promote job safety. This is to ensure that our employees are equipped with the required knowledge and skills to fulfill their job duties and able to meet the safety standards. We care about the occupational health and safety of our employees and constantly review, assess and organise employee education and training programs. It strengthens the safety awareness and self-protecting tendencies of employees and maintains a safe production environment.

The Group believes that good working relationship among staff can minimise hazards within the operation site. We set up comprehensive contingency plan detailing the handling procedures for different types of contingencies (fires, earthquakes, etc.). A responsible personnel is designated for coordinating and supervising the work necessary during and after the incident. We also establish and optimise our occupational health management system to protect our workers and their rights. We provide all site workers with safety protective equipment such as gloves, shock-proof glasses, hearing protectors, helmet, boots with toes and ankles protection, working clothes, etc. in sufficient quantity and quality, and also monitor and educate our staff to use and wear them as required. We provide in-patient health care for our employees.

We attach great importance to hazard prevention and control in order to effectively improve the intrinsic safety. Operations department is responsible for monitoring the daily conditions of our own wells, well fluid collection tanks and pipelines, and the works performed by the operator on our own wells. In case of problem detected, the responsible personnel reports to the operator immediately. Records of works performed on our own wells are properly documented and filed.

In 2017, the Group did not involve in any non-compliance incidents relating to occupational health and safety.

Environmental, Social and Governance Report

3. Development and Training

We believe that professional, well-trained and responsible employees will contribute significantly to our business growth and success. We are keen on deploying our human resources effectively by encouraging our people to continue learning and training. We developed both internal and external training programs to enhance their skills and capabilities with an aim to building great teams. New hires have to participate in induction orientation introducing our corporate culture, business, organisational structure, operational safety, etc. Such training allows our employees to possess all-rounded knowledge and skills and promotes a learning atmosphere within the Group.

We provide all staff with environmental, occupational health and safety education to increase their awareness in these areas. The training topics covered operational procedures, risk assessment and management policies and contingency plan, and they are subsidised to attend training whenever necessary to their work. All-inclusive training materials with a well-equipped learning environment are available to employees. Based on the needs of particular positions and the abilities and interests of employees, we offer diversified on-the-job training programs. Performance evaluations are conducted regularly to evaluate the employees' current status in accomplishing the targets.

During the reporting period, financial subsidies are given to selected staff for further study.

C. OPERATING PRACTICES

1. Supply Chain Management

We have established policies and procedures in supply chain management and provided various reporting channels for employees, suppliers, customers and other business partners to report any violations of laws or regulations when people are performing their duties for the Group. During the reporting period, the Group did not have significant issues relating to violations in this respect.

As abovementioned, the Group has the right to engage experts to drill new well and perform workover on our own wells. We are responsible to select and appoint experts and monitor the works performed by these experts. The experts must have the necessary qualification and be familiar with the basin where the oilfield located. We have also established strict policy in selecting vendors. Periodic vendor performance evaluation is conducted to better control and assure good quality.

In order to establish an efficient and green supply chain, we maintain long-term strategic and co-operative relationships with companies of good credit history, solid reputation, high product or service quality, proven track records of environmental compliance and sound commitment to social responsibility. We are dedicated to achieving co-development with our suppliers based on equality and mutual win-win situation.

2. Supplier/Service Provider Responsibility

American Petroleum Institute ("API") gravity is a measure to determine the grade of the crude oil. Crude oil extracted underground is treated through oil/water separation process before selling to the customer. Our sole customer, YPF S.A. checks the API gravity before oil is delivered and thus no after-sale quality problem exists.

For the money lending business, we handle confidential information of our clients with integrity and in accordance with applicable laws. Confidential information may be subject to disclosure requirements according to the applicable laws and regulations and shall be exchanged internally and exclusively on a "need-to-know" basis.

During the reporting period, there was neither concluded legal cases regarding our products brought against us nor complaints received concerning breaches of customer privacy and loss of data.

Environmental, Social and Governance Report

3. Anti-corruption

We always attach importance to creating a harmonious and honest working environment and we commit to achieve and maintain high integrity and accountability standards with great emphasis on corporate governance, moral culture and staff quality. All employees should act in upright, impartial and honest manner, strictly follow the Group's policies and procedures, applicable laws and regulations. If employees violate them, they will face disciplinary action or even termination of the employment contracts. Employees must observe our required ethical standards and make their own judgements as to the appropriateness of their conduct in business operation. When employees suspect violations incurred, they may, in the case of absolute confidentiality, report through different channels to those charged with governance. Employees who hide traces, evidence or avoid investigation of suspicious transactions may be considered as illegal. We continue to optimise the reporting mechanism and resolutely fight against corruption for building a clean social environment.

During the reporting period, the Group and our employees did not involve in any corruption related litigation.

D. COMMUNITY

Community Involvement

We view sustainable development and community contribution as our goals. We believe in people-oriented management principle, carry out a variety of activities in fulfilling our social responsibilities, actively pursue social contribution initiatives and strive to create a sustainable and harmonious society.

Since our establishment, we are a responsible tax payer and employer. We offer job opportunities to ease the local employment pressure. We establish good practices in running our business, and actively promote energy saving and environmental friendly concepts with a hope to be the role model within the industry. To some certain extents, we have contributed to social stability and building a harmonious community.

E. VISION OUTLOOK

As a good corporate citizen, the Group hopes to strike a balance between achieving the corporate economic goals and business objectives and to fulfilling our social responsibility. The Group will continue to pay attention to environmental protection, employee care, product/service quality and community contribution so as to create niche for sustainable development.

As for environmental protection, the Group endeavors to comply with the stringent environmental protection laws and regulations, allocates resources and undertakes various environmental improvement projects. When it comes to employee care, the Group will put employee satisfaction and work place safety as our top priority. Through ensuring occupational safety and a competitive system, the Group aims at attracting more talents in the technical and management arenas. As far as product/service quality is concerned, the Group continues to provide customers with high quality products/services. For community contribution, the Group is committed to fulfilling its social responsibility by promoting the community's sustainable development.

The Group aims at becoming a respectable enterprise, and hopes to improve business performance and create more meaningful value for our stakeholders through implementing sustainability strategies.

Independent Auditor's Report

Deloitte. 德勤

TO THE MEMBERS OF EPI (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of EPI (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 56 to 125, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's Report

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of oil and gas properties	
We identified the impairment assessment of oil and gas properties as a key audit matter due to the significant judgement involved. The carrying value of oil and gas properties reported under property, plant and equipment as at 31 December 2017 was HK$55,933,000 (Note 18 to the consolidated financial statements). As detailed in Note 4 to the consolidated financial statements, the determination of an impairment is highly subjective as significant judgement is required by the directors of the Company in determining the recoverable amounts of the oil and gas properties in the oil field in Mendoza, Argentina. The recoverable amount was determined using a value in use calculation based on the cash flow projections in which key assumptions such as discount rate used, future oil price and the estimated oil to be produced can significantly affect the discounted cash flow projection. The Group relies on experts to assess the geological prospects for the discovery of oil in the oil field and estimates the value of oil to be produced in the future at a suitable discount rate in order to calculate the present value. The management of the Group determined that there was a reversal of impairment loss being recognised in profit or loss amounting to HK$22,588,000 on the oil and gas properties during the year ended 31 December 2017.	Our procedures in relation to impairment assessment of oil and gas properties included: • Understanding the Group's impairment assessment process, including the valuation model adopted, assumptions used and involvement of independent valuer appointed by the Group; • Working with independent component auditor in Argentina to evaluate the cash flow projections prepared by the management, and assess the validity of the geological prospects for the discovery of oil in the oil field prepared by the Group's internal experts and the estimate of value of oil to be produced in the future with reference to the local and international oil prices study based on market research and the reasonableness of the discount rate; • Evaluating the historical accuracy of the cash flow projections prepared by the management by comparing the historical cash flow projections with the actual performance; and • Assessing the extent of disclosure of impairment assessment in the consolidated financial statements.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Recoverability of loan receivables	
We identified the recoverability of loan receivables as a key audit matter due to the estimation uncertainty on whether the loan receivables can be recovered in the future. As detailed in Note 4 to the consolidated financial statements, in determining the recoverability of the loan receivables, the assessment includes evaluation of collectability and ageing analysis of accounts, including the current creditworthiness and past collection history of interest receivables of each borrower. The Group also considers any change in the credit quality of the loan receivables from the date of credit initially granted up to the reporting date, including assessing the credit history of the borrowers, such as financial difficulties or default in payments, and current market conditions. The carrying amount of the loan receivables is HK$67,235,000 as at 31 December 2017 (consolidated statement of financial position and Note 22 thereto). The management of the Group determined that there was no impairment on the loan receivables during the year ended 31 December 2017.	Our procedures in relation to recoverability of loan receivables included: • Understanding the Group's policy on granting loans to its borrowers and the related credit control including loan monitoring process; • Checking the ageing of outstanding loan receivables against the loan agreement for term of loan to identify any significant past due loan receivables; and • Assessing the information in respect of the current creditworthiness and checking the past collection history and subsequent settlement of interest and loan receivables of each borrower provided by the management of the Group to assess the recoverability of loan receivables.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Recoverability of other tax recoverables	
We identified the recoverability of other tax recoverable as a key audit matter due to the estimation uncertainty on whether the other tax recoverables can be recovered in the future. As detailed in Note 4 to the consolidated financial statements, significant judgement is involved in determining the recoverable amount of the value-added tax by the Group based on the future revenue which the Group expects will be generated from sales of petroleum, with reference to the current oil production from existing wells and the future oil price. The aggregate carrying amount of the other tax recoverables is HK$5,835,000 as at 31 December 2017 (consolidated statement of financial position and Note 20 thereto). The management of the Group determined that a reversal of impairment loss of HK$1,790,000 was recognised in profit or loss on the other tax recoverables during the year ended 31 December 2017.	Our procedures in relation to recoverability of other tax recoverables included: • Obtaining an understanding of basis of the estimation of the other tax recoverables prepared by the management and evaluating its underlying assumptions such as reasonableness of the future revenue to be generated from sales of petroleum and the future oil price; and • Working with independent component auditor in Argentina to evaluate the key assumptions such as reasonableness of the future revenue to be generated and the future oil price with reference to the local and international oil prices study based on market research and the recoverability of other tax recoverables.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Independent Auditor's Report

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Yen Sau Yin, Emily.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
29 March 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Revenue	5	**57,870**	62,253
Purchases, processing and related expenses		**(31,752)**	(39,820)
Other losses, net	7	**(430)**	(3,083)
Net gain (loss) on financial assets at fair value through profit or loss	8	**45,101**	(4,344)
Net fair value changes on convertible notes	26	**(39,158)**	–
Wages, salaries and other benefits		**(10,617)**	(17,767)
Share-based payments expense	29	**(73,257)**	–
Depreciation and depletion		**(4,344)**	(4,730)
Reversal of impairment losses, net	9	**24,378**	1,485
Expenses incurred in exploring potential investment opportunities		**(200)**	(276)
Other expenses		**(11,060)**	(17,918)
Finance costs	10	**(4,955)**	(6,788)
Loss before tax		**(48,424)**	(30,988)
Income tax expense	11	**(6,431)**	(91)
Loss for the year attributable to owners of the Company	12	**(54,855)**	(31,079)
Other comprehensive expense			
Item that may be reclassified subsequently to profit or loss:			
Net fair value loss on available-for-sale investments		**(519)**	–
Total comprehensive expense for the year attributable to owners of the Company		**(55,374)**	(31,079)
Loss per share attributable to owners of the Company			
– Basic	16	**HK(1.17) cents**	HK(0.76) cent
– Diluted	16	**HK(1.17) cents**	HK(0.76) cent

Consolidated Statement of Financial Position

At 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Exploration and evaluation assets	17	–	–
Property, plant and equipment	18	56,451	38,184
Available-for-sale investments	19	121,533	–
Other tax recoverables	20	4,076	4,431
Total non-current assets		182,060	42,615
Current assets			
Available-for-sale investments	19	23,344	–
Trade and other receivables and prepayments	21	49,324	11,996
Loan receivables	22	67,235	102,000
Other tax recoverables	20	1,759	1,465
Financial assets at fair value through profit or loss	23	95,849	27,454
Bank balances and cash	24	287,349	182,204
Total current assets		524,860	325,119
Current liabilities			
Trade and other payables	25	19,107	21,801
Income tax payable		1,744	91
Derivative financial liability	26	46,617	–
Convertible notes	26	76,145	–
Total current liabilities		143,613	21,892
Net current assets		381,247	303,227
Total assets less current liabilities		563,307	345,842

Consolidated Statement of Financial Position

At 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current liability			
Deferred tax liabilities	*27*	**4,191**	–
Net assets		**559,116**	345,842
Capital and reserves			
Share capital	*28*	**50,181**	43,671
Reserves		**508,935**	302,171
Total equity		**559,116**	345,842

The consolidated financial statements on pages 56 to 125 together with the Company's statement of financial position set out in Note 39 to the consolidated financial statements were approved and authorised for issue by the Board on 29 March 2018 and are signed on its behalf by:

Suen Cho Hung, Paul
Director

Liu Zhiyi
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Share capital HK$'000	Share premium HK$'000	Share options reserve HK$'000	Investment revaluation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2016	7,279	115,950	128,388	–	(376,542)	(124,925)
Loss and total comprehensive expense for the year	–	–	–	–	(31,079)	(31,079)
Issue of shares upon rights issue *(Note (i))*	36,392	473,105	–	–	–	509,497
Transaction costs attributable to issue of shares upon rights issue *(Note (i))*	–	(7,651)	–	–	–	(7,651)
At 31 December 2016	43,671	581,404	128,388	–	(407,621)	345,842
Loss for the year	**–**	**–**	**–**	**–**	**(54,855)**	**(54,855)**
Net fair value loss on available-for-sale investments	**–**	**–**	**–**	**(519)**	**–**	**(519)**
Total comprehensive expense for the year	**–**	**–**	**–**	**(519)**	**(54,855)**	**(55,374)**
Recognition of equity-settled share-based payments expense *(Note 29)*	**–**	**–**	**73,257**	**–**	**–**	**73,257**
Issue of shares upon share placement *(Note (ii))*	**6,510**	**193,998**	**–**	**–**	**–**	**200,508**
Transaction costs attributable to issue of shares upon share placement *(Note (ii))*	**–**	**(5,117)**	**–**	**–**	**–**	**(5,117)**
At 31 December 2017	**50,181**	**770,285**	**201,645**	**(519)**	**(462,476)**	**559,116**

Notes:

(i) During the year ended 31 December 2016, the Company completed a rights issue by which a total of 3,639,268,185 shares of the Company were issued. Details of the rights issue are set out in Note 28(i).

(ii) During the year ended 31 December 2017, the Company completed a share placement by which a total of 651,000,000 shares of the Company were issued. Details of the share placement are set out in Note 28(iii).

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Cash flows from operating activities			
Loss before tax		**(48,424)**	(30,988)
Adjustments for:			
Depreciation and depletion of property, plant and equipment		**4,344**	4,730
Reversal of impairment loss of property, plant and equipment	9	**(22,588)**	(2,282)
(Reversal) provision of impairment loss of other tax recoverables	9	**(1,790)**	797
Loss on disposal of property, plant and equipment		**306**	16
Net (gain) loss on financial assets at fair value through profit or loss	8	**(45,101)**	4,344
Net fair value changes on convertible notes		**39,158**	–
Bank interest income		**(935)**	(57)
Interest expense	10	**4,955**	6,788
Share-based payments expense	29	**73,257**	–
Operating cash flows before movements in working capital		**3,182**	(16,652)
(Increase) decrease in trade and other receivables and prepayments		**(37,384)**	14,924
Decrease (increase) in loan receivables		**34,765**	(102,000)
Decrease in other tax recoverables		**1,851**	7,393
Increase in financial assets at fair value through profit or loss		**(23,294)**	(31,736)
Decrease in trade and other payables		**(3,897)**	(10,644)
Cash used in operations		**(24,777)**	(138,715)
Withholding tax on interest income from a group entity paid		**(587)**	–
Net cash outflow from operating activities		**(25,364)**	(138,715)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(329)**	(1,925)
Purchase of available-for-sale investments		**(145,396)**	–
Bank interest received		**991**	1
Net cash outflow from investing activities		**(144,734)**	(1,924)

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Cash flows from financing activities			
Proceeds from issue of convertible notes	26	**80,000**	–
Transaction costs attributable to issue of convertible notes	26	**(148)**	–
Proceeds from issue of shares	28	**200,508**	509,497
Transaction costs attributable to issue of shares	28	**(5,117)**	(7,651)
Repayment of borrowings		**–**	(183,800)
Interest paid		**–**	(8,371)
Net cash inflow from financing activities		**275,243**	309,675
Net increase in cash and cash equivalents		**105,145**	169,036
Cash and cash equivalents at beginning of the year		**182,204**	13,168
Cash and cash equivalents at end of the year, represented by bank balances and cash		**287,349**	182,204

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

1. GENERAL

The Company is a public limited company incorporated in Bermuda and its shares are listed on the Main Board of the Stock Exchange. The address of the registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The address of the principal place of business of the Company is Room 3203, 32/F, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in Note 38.

The consolidated financial statements are presented in HK$, which is also the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 7 "Disclosure Initiative"

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures of changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of liabilities arising from financing activities including these items is provided in Note 37. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in Note 37, the application of these amendments has had no impact on the Group's consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

Amendments to HKAS 12 "Recognition of Deferred Tax Assets for Unrealised Losses"

The amendments provide guidance on how an entity determines, in accordance with HKAS 12 "Income Taxes", whether to recognise a deferred tax asset in relation to unrealised losses of a debt instrument that is measured at fair value under certain specific facts and circumstances, such as it is probable that all the contractual cash flows of the debt instrument will be collected and any gains/losses on the debt instrument are taxable (deductible only when realised).

As at 31 December 2017, the Group recognised HK$4,191,000 deferred tax liabilities in relation to the temporary difference of net unrealised gain on financial assets at fair value through profit or loss ("FVTPL") and available-for-sale ("AFS") investments. Based on the current assessment of the Group, the initial adoption of the amendments to HKAS 12 would not have a significant impact on the Group's financial performance and position.

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[4]
HK(IFRIC) – INT 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) – INT 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 "Financial Instruments" with HKFRS 4 "Insurance Contracts"[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle[2]

1 Effective for annual periods beginning on or after 1 January 2018.

2 Effective for annual periods beginning on or after 1 January 2019.

3 Effective for annual periods beginning on or after a date to be determined.

4 Effective for annual periods beginning on or after 1 January 2021.

Except for the new HKFRSs mentioned below, the directors anticipate that the application of all other new and amendments to HKFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 9 "Financial Instruments"

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- All recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors anticipate the following potential impact on initial application of HKFRS 9:

Classification and measurement

- Debt instruments classified as loan receivables carried at amortised cost as disclosed in Note 22: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets will continue to be subsequently measured at amortised cost upon the application of HKFRS 9;

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 9 "Financial Instruments" (continued)

Classification and measurement (continued)

- Listed debt instruments classified as AFS investments carried at fair value as disclosed in Note 19: these are held within a business model whose objective is achieved both by collecting contractual cash flows and selling the listed debt instruments in the open market, and the contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal outstanding. Accordingly, the listed debt instruments will continue to be subsequently measured at FVTOCI upon the application of HKFRS 9, and the fair value gains or losses accumulated in the investment revaluation reserve will continue to be subsequently reclassified to profit or loss when the listed debt instruments are derecognised or reclassified (except in the case of reclassifications to the amortised cost measurement category in which case the accumulated gains or losses are removed from equity and adjusted against the fair value of the financial asset at reclassification date); and

- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

Impairment

In general, the directors anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that are subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the directors, if the expected credit loss model were to be applied by the Group, impairment loss may be recognised by Group as at 1 January 2018 which is mainly attributable to expected credit losses provision on trade and other receivables and loan receivables. However, the directors expected that the adoption of HKFRS 9 in the future may not have other significant impact on the impairment loss and the amounts reported in respect of the Group's financial assets and financial liabilities based on the Group's existing business model.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 15 "Revenue from Contracts with Customers"

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related Interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of HK$4,765,000 as disclosed in Note 32. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based Payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of Assets".

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Investment in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When a group entity undertakes its activities under joint operations, the Group as a joint operator recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the Group does not recognise its share of the gains and losses until it resells those assets to a third party.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

Sale of goods

Revenue from sale of goods is recognised when the goods are delivered and title has passed.

Dividend and interest income

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Interest income from a financial asset excluding financial assets at fair value through profit or loss is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Arrangement fee income

Arrangement fee income on loan receivables is recognised when loan is granted to the borrower.

Property, plant and equipment

Oil and gas properties

Expenditure on the construction, installation or completion of infrastructure facilities such as platforms, pipelines and the drilling of commercially proven development wells, is capitalised within construction in progress under property, plant and equipment. When development is completed on a specific field, it is transferred to oil and gas properties. No depreciation and depletion is charged during the development phase.

Oil and gas production properties are aggregated exploration and evaluation assets and development expenditures associated with the production of proved reserves.

Oil and gas properties are depreciated and depleted using the unit-of-production method. Unit-of-production rates are based on proved developed reserves, which are oil, gas and other mineral reserves estimated to be recovered from existing facilities using current operating methods. Oil and gas volumes are considered to be part of production once they have been measured through metres at custody transfer or sales transaction points at the outlet valve on the field storage tank.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Oil and gas properties (continued)

Property, plant and equipment, including oil and gas properties, are stated at historical cost less depreciation, depletion and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Construction in progress

Construction in progress includes property, plant and equipment for production or for its own use purposes. Construction in progress is stated in the consolidated statement of financial position at cost less any recognised impairment loss. Construction in process in respect of exploratory wells is reclassified to oil and gas properties when production of oil starts. Construction in progress in respect of other assets is reclassified to the appropriate category of property, plant and equipment when construction is completed and the asset is ready for intended use. Depreciation of these assets on the same basis as other property assets, commences when the assets are ready for their intended use.

Other property, plant and equipment

Property, plant and equipment other than oil and gas properties and construction in progress are stated in the consolidated statement of financial position at cost less, subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than oil and gas properties and construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Exploration and evaluation assets

Oil and gas exploration and evaluation expenditures are accounted for using the successful efforts method of accounting. Costs are accumulated on a field-by-field basis. Geological and geophysical costs are expensed as incurred. Costs directly associated with an exploration well, and exploration and property leasehold acquisition costs, are capitalised within exploration and evaluation assets until the determination of reserves is evaluated. If it is determined that commercial discovery has not been achieved, these costs are charged to profit or loss.

Once commercial reserves are found, exploration and evaluation assets are tested for impairment and transferred to construction in progress under property, plant and equipment. No depreciation or depletion is charged during the exploration and evaluation phase.

Exploration and evaluation assets are tested for impairment when reclassified to construction in progress, or whenever facts and circumstances indicate impairment. An impairment loss is recognised for the amount by which the exploration and evaluation assets' carrying amount exceeds their recoverable amount. Recoverable amount is the higher of the exploration and evaluation assets' fair value less costs of disposal and their value in use.

Impairment of exploration and evaluation assets

The carrying amount of the exploration and evaluation assets is reviewed annually and adjusted for impairment loss in accordance with HKAS 36 "Impairment of Assets" and whenever one of the following events or changes in circumstances indicates that the carrying amount may not be recoverable:

- the period for which the Group has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed.

- substantive expenditure on further exploration for and evaluation of natural resources in the specific area is neither budgeted nor planned.

- exploration for and evaluation of natural resources in the specific area have not led to the discovery of commercially viable quantities of natural resources and the Group has decided to discontinue such activities in the specific area.

- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset exceeds its recoverable amount.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of tangible assets other than exploration and evaluation assets (see the accounting policy in respect of exploration and evaluation assets above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated to reduce the assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets

Financial assets are classified into the following specified categories: financial assets at FVTPL, AFS financial assets and loans and receivables. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is held for trading, or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the 'net gain (loss) on financial assets at fair value through profit or loss'. Fair value is determined in the manner described in respective notes.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

AFS financial assets

AFS financial assets (i.e. AFS investments) are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Debt securities held by the Group that are classified as AFS financial assets and are traded in an active markets are measured at fair value at the end of each accounting period. Changes in the carrying amount of AFS debt instruments relating to interest income calculated using the effective interest method are recognised in profit or loss. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of "investment revaluation reserve". When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, loan receivables, and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

Certain categories of financial assets, such as trade and other receivables and loan receivables, assets are assessed to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables and loan receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When an item of trade and other receivables or loan receivables is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables are subsequently measured at amortised cost, using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Convertible notes containing debt and derivative components

A conversion option under convertible debt that could be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is accounted for as derivative.

At the date of issue, both the debt component and derivative component are recognised at fair value. In subsequent periods, the debt component of the convertible notes is carried at amortised cost using the effective interest method. The derivative component is measured at fair value with gains and losses recognised in profit or loss.

Transaction costs that relate to the issue of the convertible notes are allocated to the debt and derivative components in proportion to their relative fair values. Transaction costs relating to the derivative component are charged to profit or loss immediately. Transaction costs relating to the debt component are included in the carrying amount of the debt portion and amortised over the period of the convertible notes using the effective interest method.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share options reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share capital and share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will continue to be held in share options reserve.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'loss before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, and interests in joint operations, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Retirement benefits costs

Payments to state-managed retirement benefit schemes and Mandatory Provident Fund Scheme ("MPF Scheme") are recognised as an expense when employees have rendered service entitling them to the contributions.

Short-term and other long-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements in Hong Kong dollars, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during the period, in which case, the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimation of petroleum reserves

Estimates of petroleum reserves are key elements in the Group's investment decision-making process. They are also an important element in determining the amount of depreciation and depletion for oil and gas properties and for impairment testing of oil and gas properties and exploration and evaluation assets. Changes in proved oil and gas reserves, particularly proved developed reserves, will affect unit-of-production depletion and depreciation recorded in the Group's consolidated financial statements for property, plant and equipment related to oil and gas production activities. A reduction in proved developed reserves will increase depletion and depreciation charges (assuming constant production) and reduce net profit or increase net loss. Proved reserve estimates are subject to revision, either upward or downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Impairment assessment of oil and gas properties

The carrying amounts of the oil and gas properties are assessed for impairment when facts and circumstances suggest that the carrying amounts of the oil and gas properties may exceed their recoverable amounts. The Group's determination as to whether they are impaired requires an estimation of the recoverable amount of the assets. The Group relies on experts to assess the geological prospects for the discovery of oil in the oil field and engaged an independent valuer to estimate the value of oil to be produced in the future with reference to the local and international oil prices study based on market research at a suitable discount rate in order to calculate the present value. The carrying value of oil and gas properties as at 31 December 2017 was HK$55,933,000 (2016: HK$37,393,000).

Judgement is required by the directors to determine key assumptions adopted in the cash flow projections and changes to key assumptions such as discount rate, future oil price and oil production volume, which can significantly affect the cash flow projection and therefore the results of the impairment review. Details of the key assumptions adopted and the corresponding impact are set out in Note 18.

Recoverability of loan receivables

Management regularly reviews the recoverability of the loan receivables. Appropriate impairment loss for estimated irrecoverable amount is recognised in profit or loss when there is objective evidence that the amount is not recoverable.

In determining the recoverability of loan receivables, in particular the timing and quantum of future cash flows, the Group has set different credit limits granted to each borrower according to their creditability. As this business is new to the Group, limited past collection history can be obtained to assess the recoverability of loan receivables. The Group has a policy for assessing the impairment on loan receivables on an individual basis. The assessment also includes evaluation of collectability and ageing analysis of accounts and on management's judgment, including the current creditworthiness and past collection history of interest receivables of each borrower.

In addition, the Group considers any change in the credit quality of the loan receivables from the date of credit initially granted up to the reporting date. This includes assessing the credit history of the borrowers, such as financial difficulties or default in payments, and current market conditions. Specific provision is only made for the loan receivables that are unlikely to be collected due to objective evidence of impairment. Where the actual future cash flows are less than expected, a further impairment loss may arise. As at 31 December 2017, the carrying amount of loan receivables is HK$67,235,000 (2016: HK$102,000,000) and no impairment provision was made as at 31 December 2017 (2016: nil).

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Recoverability of other tax recoverables

The other tax recoverables are assessed for impairment when facts and circumstances suggest that the carrying amount of the other tax recoverables, i.e. value-added tax recoverable, may exceed its recoverable amount. The Group's determination as to whether it is impaired requires an estimation of the recoverable amount of the asset. The management estimated the recoverable amount of the value-added tax based on the future revenue which the Group expects would be generated from sales of petroleum and the future oil price, with reference to the current oil production from existing wells. The carrying amount of other tax recoverables was HK$5,835,000 (2016: HK$5,896,000) as at 31 December 2017 and a reversal of impairment loss of HK$1,790,000 (2016: provision of impairment loss of HK$797,000) was recognised during the year ended 31 December 2017.

Judgement is required by the directors to determine key assumptions adopted in the cash flow projections and changes to key assumptions such as future oil price and oil production volume, which can significantly affect the cash flow projection and therefore the results of the impairment review. Details of key assumptions adopted are set out in Note 20.

Current and deferred tax

The Group is subject to income taxes in various jurisdictions. Judgement is required in determining the provision for income taxes in these jurisdictions. There are transactions and calculations during the ordinary course of business for which the ultimate tax determination is uncertain. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purpose. The management of the Company determines the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The management of the Company works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model and reports the findings to the directors of the Company regularly to explain the cause of fluctuations in the fair value of the assets and liabilities.

The Group uses valuation techniques which include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities is set out in respective notes.

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5. REVENUE

An analysis of the Group's revenue for the year is as follows:

	2017	2016
	HK$'000	*HK$'000*
Sales of petroleum	**42,914**	51,320
Interest income from money lending business	**7,471**	10,083
Arrangement fee income from money lending business	**326**	50
Dividend income from securities investments	**1,832**	800
Interest income from securities and AFS investments	**5,327**	–
	57,870	62,253

6. SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results by operating segments, based on the information provided to the chief operating decision maker represented by the Board, for the purposes of allocating resources to segments and assessing their performance. This is also the basis upon which the Group is arranged and organised.

The Group's reportable and operating segments under HKFRS 8 "Operating Segments" are as follows:

(i) Petroleum exploration and production

(ii) Money lending

(iii) Investment in securities

6. SEGMENT INFORMATION (continued)

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segments:

For the year ended 31 December 2017

	Petroleum exploration and production *HK$'000*	Money lending *HK$'000*	Investment in securities *HK$'000*	Total *HK$'000*
Segment revenue				
External sales/sources	42,914	7,797	7,159	57,870
Results				
Segment results before reversal of impairment losses	(59)	7,927	51,587	59,455
Reversal of impairment losses	24,378	–	–	24,378
Segment results	24,319	7,927	51,587	83,833
Other losses, net				(588)
Corporate expenses				(14,299)
Net fair value changes on convertible notes				(39,158)
Share-based payments expense				(73,257)
Finance costs				(4,955)
Loss before tax				(48,424)
Income tax expense				(6,431)
Loss for the year				(54,855)
Other information				
Depreciation and depletion	(4,078)	(139)	(127)	(4,344)
Reversal of impairment loss of property, plant and equipment	22,588	–	–	22,588
Reversal of impairment loss of other tax recoverables	1,790	–	–	1,790

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6. SEGMENT INFORMATION (continued)

Segment revenue and results (continued)

For the year ended 31 December 2016

	Petroleum exploration and production *HK$'000*	Money lending *HK$'000*	Investment in securities *HK$'000*	Total *HK$'000*
Segment revenue				
External sales/sources	51,320	10,133	800	62,253
Results				
Segment results before reversal of impairment losses	(1,951)	9,920	(4,099)	3,870
Reversal of impairment losses	1,485	–	–	1,485
Segment results	(466)	9,920	(4,099)	5,355
Other losses, net				(3,158)
Corporate expenses				(26,397)
Finance costs				(6,788)
Loss before tax				(30,988)
Income tax expense				(91)
Loss for the year				(31,079)
Other information				
Depreciation and depletion	(4,455)	(127)	(148)	(4,730)
Reversal of impairment loss of property, plant and equipment	2,282	–	–	2,282
Provision of impairment loss of other tax recoverables	(797)	–	–	(797)

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment results represent the profit earned/loss incurred by each segment without allocation of certain other losses, net, corporate expenses, net fair value changes on convertible notes, share-based payments expense, finance costs and income tax expense.

6. SEGMENT INFORMATION (continued)

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

	2017 HK$'000	2016 HK$'000
Segment assets		
Petroleum exploration and production	**69,509**	50,653
Money lending	**138,959**	115,479
Investment in securities	**280,665**	28,149
Total segment assets	**489,133**	194,281
Property, plant and equipment	**329**	482
Bank balances and cash	**214,643**	171,555
Other unallocated assets	**2,815**	1,416
Consolidated assets	**706,920**	367,734
Segment liabilities		
Petroleum exploration and production	**4,508**	5,807
Money lending	**393**	91
Investment in securities	**5,542**	5,000
Total segment liabilities	**10,443**	10,898
Other payables	**14,599**	10,994
Derivative financial liability	**46,617**	–
Convertible notes	**76,145**	–
Consolidated liabilities	**147,804**	21,892

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

- all assets are allocated to operating segments other than certain property, plant and equipment, certain bank balances and cash and certain other assets; and
- all liabilities are allocated to operating segments other than certain other payables, derivative financial liability and convertible notes.

6. SEGMENT INFORMATION (continued)

Revenue from major products and services

The Group's revenue is arising from petroleum exploration and production, money lending and investment in securities businesses.

Geographical information

The Group's operations are located in Argentina, Hong Kong and the PRC.

Information about the Group's revenue from external customers/sources is presented based on the location of customers/sources. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Revenue from external customers/sources Year ended 31 December		Non-current assets *(Note)* As at 31 December	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Argentina	**42,914**	51,320	**56,122**	37,702
Hong Kong	**14,391**	10,933	**329**	482
The PRC	**565**	–	**–**	–
	57,870	62,253	**56,451**	38,184

Note: Non-current assets excluded AFS investments and other tax recoverables.

Information about major customers

Revenue from customers of petroleum exploration and production business contributing over 10% of the total revenue of the Group for the corresponding years are as follows:

	2017	2016
	HK$'000	*HK$'000*
Customer A	**42,914**	51,320

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7. OTHER LOSSES, NET

	2017 HK$'000	2016 HK$'000
Bank interest income	935	57
Exchange losses, net	(1,556)	(3,187)
Loss on disposal of property, plant and equipment	(306)	(16)
Others	497	63
	(430)	(3,083)

8. NET GAIN (LOSS) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017 HK$'000	2016 HK$'000
Net unrealised gain (loss) on financial assets at FVTPL *(Note (i))*	25,921	(3,313)
Net realised gain (loss) on disposal of financial assets at FVTPL *(Note (ii))*	19,180	(1,031)
	45,101	(4,344)

Notes:

(i) Amount represents the changes in the costs of the securities acquired during the year and/or the carrying amount of the securities brought forward from the prior financial year after accounting for additional acquisition and/or disposal of the securities (if any) during the year to the fair values of the financial assets at FVTPL held by the Group as of 31 December 2017 and 2016.

(ii) Amount represents the changes in the costs of the securities acquired during the year and/or the carrying amount of the securities brought forward from the prior financial year after accounting for additional acquisition and/or disposal of the securities (if any) during the year to the fair values of the financial assets at FVTPL disposed of upon disposal.

9. REVERSAL OF IMPAIRMENT LOSSES, NET

	2017 HK$'000	2016 HK$'000
Reversal of impairment loss of property, plant and equipment	22,588	2,282
Reversal (provision) of impairment loss of other tax recoverables	1,790	(797)
	24,378	1,485

10. FINANCE COSTS

	2017	2016
	HK$'000	*HK$'000*
Interest on bank borrowings and overdrafts	**–**	6,626
Interest on other loans	**–**	162
Interest on convertible notes *(Note 26)*	**4,955**	–
	4,955	6,788

11. INCOME TAX EXPENSE

	2017	2016
	HK$'000	*HK$'000*
Tax charge comprises:		
Current tax		
Hong Kong	**1,653**	91
Argentina		
– Withholding tax on interest income from a group entity	**587**	–
	2,240	91
Deferred tax *(Note 27)*	**4,191**	–
Income tax expense recognised in profit or loss	**6,431**	91

Hong Kong profits tax was calculated at 16.5% of the estimated assessable profit for both years.

Argentina income tax was calculated at 35% of assessable profit for both years. No provision for Argentina income tax was made as there was no assessable profit for both years.

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11. INCOME TAX EXPENSE (continued)

The tax charge for the year can be reconciled to the loss before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

	2017 HK$'000	2016 HK$'000
Loss before tax	**(48,424)**	(30,988)
Tax at the applicable rates of 16.5% (2016: 16.5%)	**(7,990)**	(5,113)
Tax effect of income not taxable for tax purpose	**(10,077)**	(8,553)
Tax effect of expenses not deductible for tax purpose	**25,442**	11,681
Tax effect of deductible temporary difference not recognised	**(13,112)**	(10,850)
Tax effect of tax losses not recognised	**7,630**	14,049
Withholding tax on interest income from a group entity	**587**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**3,951**	(1,123)
Income tax expense for the year	**6,431**	91

12. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging:

	2017 HK$'000	2016 HK$'000
Staff costs		
– directors' emoluments (excluding share-based payments expense) *(Note 13)*	**2,460**	5,989
– other staff's retirement benefit costs (excluding directors)	**76**	78
– other staff costs	**8,081**	11,700
	10,617	17,767
Share-based payments expense		
– directors *(Note 13)*	**11,962**	–
– employees	**61,295**	–
	73,257	–
Total staff costs	**83,874**	17,767
Auditor's remuneration	**2,100**	2,400
Minimum lease payments under operating leases in respect of office properties and buildings	**2,445**	3,279
Professional and consultancy fees	**2,265**	12,347

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13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the ten (2016: seventeen) directors, disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, were as follows:

Name	Notes	Fees HK$'000	Salaries and other benefits HK$'000	Retirement benefit scheme contributions HK$'000	Share-based payments expense HK$'000	Total HK$'000
2017						
Executive directors						
Mr. Suen Cho Hung, Paul		–	520	26	–	546
Mr. Liu Zhiyi	*(vi)*	–	395	–	7,444	7,839
Mr. Sue Ka Lok		–	390	20	3,902	4,312
Ms. Chan Yuk Yee	*(vii)*	–	220	11	206	437
Mr. Yiu Chun Kong		–	130	7	103	240
Mr. Zhu Kai	*(v)*	–	30	2	–	32
Mr. Chan Shui Yuen		–	332	17	154	503
Independent non-executive directors						
Mr. To Yan Ming, Edmond		120	–	–	51	171
Mr. Pun Chi Ping		120	–	–	51	171
Ms. Leung Pik Har, Christine		120	–	–	51	171
Total		360	2,017	83	11,962	14,422

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (continued)

Name	Notes	Fees *HK$'000*	Salaries and other benefits *HK$'000*	Retirement benefit scheme contributions *HK$'000*	Share-based payments expense *HK$'000*	Total *HK$'000*
2016						
Executive directors						
Mr. Tse Kwok Fai, Sammy	*(iv)*	–	1,830	15	–	1,845
Mr. Chan Chi Hung, Anthony	*(iv)*	–	1,200	15	–	1,215
Mr. Zou Feng	*(ii) (iv)*	1,171	–	–	–	1,171
Mr. Suen Cho Hung, Paul	*(iii)*	–	87	4	–	91
Mr. Sue Ka Lok	*(iii)*	–	65	3	–	68
Ms. Chan Yuk Yee	*(iii)*	–	43	2	–	45
Mr. Yiu Chun Kong	*(iii)*	–	22	1	–	23
Mr. Zhu Kai	*(iii)*	–	22	1	–	23
Mr. Chan Shui Yuen	*(iii)*	–	43	2	–	45
Non-executive directors						
Mr. Ho King Fung, Eric	*(iv)*	800	–	–	–	800
Mr. Phen Chun Shing Vincent	*(i) (iv)*	102	–	–	–	102
Independent non-executive directors						
Mr. Qian Zhi Hui	*(iv)*	167	–	–	–	167
Mr. Teoh Chun Ming	*(iv)*	167	–	–	–	167
Mr. Zhu Tiansheng	*(iv)*	167	–	–	–	167
Mr. To Yan Ming, Edmond	*(iii)*	20	–	–	–	20
Mr. Pun Chi Ping	*(iii)*	20	–	–	–	20
Ms. Leung Pik Har, Christine	*(iii)*	20	–	–	–	20
Total		2,634	3,312	43	–	5,989

The emoluments of the Chief Executive Officer of the Company, Mr. Tse Kwok Fai, Sammy (resigned on 19 October 2016) and Mr. Sue Ka Lok (appointed on 19 October 2016), disclosed above include those for services rendered by each of them as the Chief Executive Officer.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group. The emoluments of the non-executive directors and independent non-executive directors shown above were for their services as directors of the Company.

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS (continued)

Notes:

(i) Being appointed on 15 February 2016

(ii) Being appointed on 7 March 2016

(iii) Being appointed on 18 October 2016

(iv) Resigned on 19 October 2016

(v) Resigned on 31 March 2017

(vi) Being appointed on 5 May 2017

(vii) Resigned on 10 November 2017

During the year, no emoluments were paid by the Group to any directors as an inducement to join, or upon joining the Group or as compensation for loss of office. No directors waived any emoluments for both years.

14. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, one (2016: three) is a director whose emoluments are included in the disclosure in Note 13. The emoluments of the remaining four (2016: two) individuals are as follows:

	2017 ***HK$'000***	2016 *HK$'000*
Salaries and other benefits	**190**	3,617
Retirement benefits scheme contributions	**–**	15
Share-based payments expense	**28,574**	–
	28,764	3,632

14. EMPLOYEES' EMOLUMENTS (continued)

Their emoluments are within the following bands:

	Number of employees	
	2017	2016
HK$1,500,001 to HK$2,000,000	**–**	2
HK$7,000,001 to HK$7,500,000	**4**	–

15. DIVIDENDS

No dividend was paid or proposed for the years ended 31 December 2017 and 2016, nor has any dividend been proposed since the end of the reporting periods.

16. LOSS PER SHARE

Loss per share is calculated by dividing the loss for the year attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2017	2016
	HK$'000	*HK$'000*
Loss:		
Loss for the year attributable to the owners of the Company for the purpose of calculating basic and diluted loss per share	**(54,855)**	(31,079)

	2017	2016
	'000	*'000*
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share	**4,689,946**	4,098,651

The computation of diluted loss per share does not assume the conversion of the Company's outstanding convertible notes since their assumed exercise would result in a decrease in loss per share. In addition, the computation also does not assume the exercise of the Company's share options because the exercise price of the share options was higher than the average market price of shares.

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17. EXPLORATION AND EVALUATION ASSETS

	2017	2016
	HK$'000	*HK$'000*
Cost		
At 1 January and 31 December	**3,778,574**	3,778,574
Impairment		
At 1 January and 31 December	**3,778,574**	3,778,574
Carrying values		
At 1 January	**–**	–
At 31 December	**–**	–

Exploration and evaluation assets are related to the oil exploration rights in the Chañares Herrados Area ("CHE Area") and Puesto Pozo Cercado Area ("PPC Area") (together the "Concessions") in the Cuyana Basin, Mendoza Province of Argentina, covering a total surface area of approximately 40.0 and 169.4 square kilometres, respectively.

The Concessions were awarded to Chañares Herrados Empresa de Trabajos Petroleros S.A. ("Chañares"), the concessionaire. The terms of the Concessions are 25 years commencing from 24 September 1992 and 26 June 1992, respectively, with the possibility of obtaining a 10-year extension under certain conditions.

In 2011, Chañares obtained an extension of 10 years from the date of expiry of the original term of the Concessions under a decree dated 30 June 2011 issued by the Executive of the Province of Mendoza.

At 31 December 2015, based on prevailing available information on oil price forecast, investment costs and operating costs, the Group considered the future development of the investment plan on the Concessions using methods of breakeven analysis and investment return analysis and concluded that it was not economically feasible to drill any new wells. Given the nature of the Group's activities, information on the fair value of the exploration and evaluation assets is usually difficult to obtain unless negotiation with potential purchasers are taking place and no reliable fair value information in the market could be found. Therefore, in the opinion of the directors, the exploration and evaluation assets were fully impaired during the year ended 31 December 2015. At 31 December 2016, the Group reconsidered the future development of the investment plan on the Concessions and concluded that no well drilling programme would be relaunched.

As disclosed in the announcement of the Company dated 15 August 2017, the Group was notified by Chañares that the Executive of the Province of Mendoza had published a decree declaring the lapse of the concession in respect of the PPC Area by 30 October 2017, of which the exploration and evaluation assets in respect of the Group's right over the hydrocarbon production was fully impaired in the year ended 31 December 2015.

At 31 December 2017, the Group reconsidered the future development of the investment plan on the concession in respect of the CHE Area and concluded that no further well drilling programme would be launched.

18. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties *HK$'000*	Others *HK$'000*	Total *HK$'000*
Cost			
At 1 January 2016	495,630	3,462	499,092
Additions	1,902	23	1,925
Disposals	–	(332)	(332)
At 31 December 2016	497,532	3,153	500,685
Additions	–	329	329
Disposals	–	(1,270)	(1,270)
At 31 December 2017	**497,532**	**2,212**	**499,744**
Depletion, Depreciation and Impairment			
At 1 January 2016	457,984	2,385	460,369
Provided for the year	4,437	293	4,730
Reversal of impairment loss	(2,282)	–	(2,282)
Eliminated on disposals	–	(316)	(316)
At 31 December 2016	460,139	2,362	462,501
Provided for the year	4,048	296	4,344
Reversal of impairment loss	(22,588)	–	(22,588)
Eliminated on disposals	–	(964)	(964)
At 31 December 2017	**441,599**	**1,694**	**443,293**
Carrying values			
At 31 December 2017	**55,933**	**518**	**56,451**
At 31 December 2016	37,393	791	38,184

The above oil and gas properties are depreciated on a unit-of-production basis over the total proved reserve and the remaining items are depreciated on a straight-line basis at 20% to $33^1/_3$% per annum after taking into account their estimated residual values.

18. PROPERTY, PLANT AND EQUIPMENT (continued)

At 31 December 2017, the Group carried out a review of the recoverable amount of its oil and gas properties, having regard to the operating results in its developed oil and gas properties in the oil field in Mendoza, Argentina. During the year ended 31 December 2017, there was a reversal of impairment loss of HK$22,588,000 (2016: HK$2,282,000) recognised in profit or loss. The recoverable amount of the oil and gas properties was determined based on the discounted cash flow projections derived from production reserves covering the current term of the concessions period until 2027 and the estimated future oil prices with a discount rate of 16.19% (2016: 18.55%), which is categorised as 'Level 3' in the fair value hierarchy under fair value measurement. Significant unobservable inputs include the pre-tax discount rate, production decline rates and expected changes in future oil prices. The expected future oil prices for the petroleum exploration and production in Argentina for the next five years would range from US$55.51 to US$86.40 (2016: from US$49.50 to US$80.80) per barrel.

Should the expected oil prices be further increased by 19% (2016: decreased by 12%), the Group would have recognised reversal of impairment loss of HK$41,854,000 (2016: provision for impairment loss of HK$5,415,000) in respect of the oil and gas properties.

Should the discount rate used in the value in use calculation for the oil and gas properties had been one percentage point (2016: one percentage point) higher, reversal of impairment loss of HK$20,982,000 (2016: HK$1,316,000) would have been recognised.

19. AVAILABLE-FOR-SALE INVESTMENTS

	2017	2016
	HK$'000	*HK$'000*
Listed investments, at fair value:		
Debt securities listed in Hong Kong or overseas with fixed interests ranging from 4.70% to 8.75% per annum and maturity dates ranging from 12 June 2018 to 28 June 2025	**144,877**	–
Analysed as:		
Current portion	**23,344**	–
Non-current portion	**121,533**	–
	144,877	–

20. OTHER TAX RECOVERABLES

Pursuant to the relevant rules and regulation in Argentina, value-added tax on expenditure incurred in drilling and purchase of property, plant and equipment relating to the petroleum exploration and production operation in Argentina can be used to offset future value-added tax on sales made. The management estimated the recoverable amount of the value-added tax based on the future sales of petroleum which the Group expects with reference to the current oil production from existing wells. During the year ended 31 December 2017, a reversal of impairment loss on value-added tax of HK$1,790,000 (2016: provision of impairment loss of HK$797,000) was recognised in profit or loss (Note 9). The directors expect that an amount of HK$1,759,000 (2016: HK$1,465,000) and HK$4,076,000 (2016: HK$4,431,000) will be recovered from the sales of petroleum within and after twelve months from the end of the reporting period respectively, accordingly, such amounts were classified as current assets and non-current assets respectively.

21. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2017	2016
	HK$'000	*HK$'000*
Trade receivables *(Note (i))*	**2,253**	1,100
Deposits and prepayments	**2,375**	1,374
Deposits held for petroleum exploration and production operation	**4,189**	5,264
Interest receivables *(Note (ii))*	**3,092**	3,556
Others *(Note (iii))*	**37,415**	702
	49,324	11,996

Notes:

(i) The oil selling price for the Argentina operation is quoted in US$ and converted into ARS for invoicing. The Group allows an average credit period of 30 to 60 days. The trade receivables of HK$2,253,000 (2016: HK$1,100,000) were neither past due nor impaired and aged within 30 days based on the invoice date.

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Limits and credit quality attributed to customers are reviewed regularly. Receivables that were neither past due nor impaired related to a customer with no recent history of default.

(ii) The amount mainly represents interest receivables from AFS investments and the loans to third party borrowers of the money lending business.

(iii) The amount includes HK$37,411,000 (2016: HK$696,000) placed with securities brokers in relation to securities trading activities in Hong Kong.

21. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (continued)

Included in trade and other receivables are the following amounts denominated in currencies other than the functional currency of the relevant group entities:

	2017	2016
	HK$'000	*HK$'000*
ARS	**6,475**	6,384
US$	**2,529**	–

22. LOAN RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Fixed-rate loan receivables	**67,235**	102,000
Analysed as:		
Guaranteed	**48,235**	27,000
Unsecured	**19,000**	75,000
	67,235	102,000

At 31 December 2017, the range of interest rate attributed to the Group's loan receivables was 10% to 18% (2016: 8% to 18%) per annum.

Before granting loans to outsiders, the Group uses internal credit assessment process to assess the potential borrower's credit quality and defines its credit limits granted to the borrowers. The credit limits attributed to the borrowers are reviewed by the management regularly.

The Group has a policy for assessing the impairment on loan receivables on an individual basis. The assessment also includes evaluation of collectability and aged analysis of the loan receivable, and on management's judgment on creditworthiness, collateral and past collection history of each borrower.

In determining the recoverability of the loan receivables, the Group will consider the change in the credit quality of the loan receivables, if any, from the date the loans were initially granted up to the reporting date. This includes assessing the credit history of the borrowers, such as past experience of financial difficulties or default in payments, and current market conditions.

22. LOAN RECEIVABLES (continued)

As at 31 December 2017 and 2016, the Group's loan receivables were individually assessed for impairment and no impairment loss was identified.

No aged analysis of loan receivables is disclosed, as in the opinion of the directors, the aged analysis does not give additional value in view of the nature of money lending business.

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017	2016
	HK$'000	*HK$'000*
Listed investments, at fair value:		
– Equity securities listed in Hong Kong	**95,849**	22,454
Unlisted investment, at fair value:		
– Debt securities	**–**	5,000
	95,849	27,454

24. BANK BALANCES AND CASH

Bank balances carried interest ranging from 0.01% to 1.29% (2016: 0.01% to 1.30%) per annum.

In addition, included in the bank balances and cash are the following amounts denominated in currencies other than the functional currency of the relevant group entities:

	2017	2016
	HK$'000	*HK$'000*
ARS	**1,038**	631
US$	**7,310**	58
RMB	**30**	30

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25. TRADE AND OTHER PAYABLES

	2017	2016
	HK$'000	*HK$'000*
Trade payables	**552**	977
Other tax payables	**4,667**	2,447
Accrued professional fees	**10,331**	8,605
Interest payable on convertible notes	**1,203**	–
Payable for acquisition of financial assets at FVTPL	**–**	5,000
Other payables and accruals	**2,354**	4,772
	19,107	21,801

The following is an aged analysis of trade payables, presented based on the invoice date at the end of the reporting period:

	2017	2016
	HK$'000	*HK$'000*
0 – 30 days	**552**	451
31 – 60 days	**–**	20
61 – 120 days	**–**	40
121 – 365 days	**–**	466
	552	977

The average credit period on purchases of goods was 30 days.

All of the other payables were unsecured, interest-free and expected to be settled within one year.

Included in trade and other payables is the following amount denominated in currency other than the functional currency of the relevant group entities:

	2017	2016
	HK$'000	*HK$'000*
ARS	**6,178**	5,780

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26. CONVERTIBLE NOTES

On 11 April 2017, the Company entered into a subscription agreement with a subscriber, an independent third party, for the subscription of the 3% convertible notes in aggregate principal amount of HK$80,000,000 which could be converted into ordinary shares of HK$0.01 each of the Company at an initial conversion price of HK$0.36 per share (the "CN Subscription").

On 26 April 2017, the completion of the CN Subscription took place and the convertible notes were issued to the subscriber.

The convertible notes are denominated in HK$ and shall be matured on the end of the eighteenth month from the issue date, i.e. on 26 October 2018 (the "Maturity Date"). The Company shall redeem all the convertible notes remain outstanding and not converted on the Maturity Date at 100% of the principal amount outstanding plus accrued and unpaid interest. The Company may at any time after the issue date and prior to the Maturity Date, by giving not less than five business days prior notice to the noteholder, redeem the outstanding convertible notes at 100% of the principal amount outstanding plus accrued and unpaid interest.

The holder of the convertible notes shall, subject to certain conditions, have the right on any business days prior to the earlier of the date on which the Company gives notice to exercise the redemption rights or five business days prior to the Maturity Date convert the whole or part of the outstanding principal amount of the convertible notes at an initial conversion price of HK$0.36 per share into ordinary shares of the Company. At 31 December 2017, the convertible notes with principal amount of HK$80,000,000 remained outstanding. Assuming full conversion of these convertible notes at a conversion price of HK$0.36 at 31 December 2017, 222,222,222 new ordinary shares of HK$0.01 each of the Company will be issued.

The convertible notes contains two components, a liability component and a conversion component. The conversion component gives the holders the right at any time to convert the convertible notes into ordinary shares of the Company. However, since the conversion component would be settled other than by the exchange of a fixed amount of cash, the conversion component is accounted for as derivative liability and is measured at fair value with subsequent changes in fair value recognised in profit or loss.

The fair value of the liability component upon the issuance of the convertible notes was calculated at the present value of the redemption amount, at 100% of the principal amount plus coupon interest of 3% discounted at the Company's cost of borrowing.

26. CONVERTIBLE NOTES (continued)

The fair value of the conversion component was determined using the binomial option pricing model, and the key inputs into the model at the relevant dates were as follows:

	Issue date as at 26 April 2017	As at 31 December 2017
Conversion price	HK$0.360	HK$0.360
Share price	HK$0.445	HK$0.540
Volatility	41.31%	33.08%
Remaining life	1.5 years	0.82 year
Risk-free rate	0.68%	1.15%

The liability component and the conversion component are included in "convertible notes" and "derivative financial liability" on the consolidated statement of financial position, respectively.

The fair value of the convertible notes on 26 April 2017 amounted to HK$98,889,000. The subscription agreement entered into on 11 April 2017 represented a forward contract to issue the convertible notes on 26 April 2017 in exchange for cash proceeds of HK$80,000,000 which met the definition of a derivative. Accordingly the Company recorded a fair value loss of HK$18,889,000 in profit or loss in relation to the change in fair value of this subscription agreement (mainly driven by the increase in the Company's share price between 11 April 2017 and 26 April 2017). On 26 April 2017, the Company derecognised the derivative and recognised the cash proceeds and the convertible notes at their fair value and at that date split between a derivative element of HK$26,387,000 in respect of the conversion option and a non-derivative liability component of HK$72,502,000. The effective interest rate of the non-derivative liability component was 10.37%.

During the year ended 31 December 2017, none of the convertible notes were converted into ordinary shares of the Company.

	Liability component *HK$'000*	Conversion component *HK$'000*	Total *HK$'000*
Fair value of convertible notes at issue date	72,502	26,387	98,889
Transaction costs	(109)	(39)	(148)
Change of fair value on derivative component recognised in profit or loss	–	20,269	20,269
Effective interest *(Note 10)*	4,955	–	4,955
Interest paid/payable	(1,203)	–	(1,203)
At 31 December 2017	**76,145**	**46,617**	**122,762**

27. DEFERRED TAX LIABILITIES

The movement of deferred tax liabilities recognised and movements thereon during the current and prior years are as follows:

	Temporary difference related to net unrealised gain on financial assets at FVTPL and AFS investments
	HK$'000
At 1 January 2016 and 31 December 2016	–
Charged to profit or loss *(Note 11)*	4,191
At 31 December 2017	**4,191**

At 31 December 2017, the Group had unused tax losses of HK$68,709,000 (2016: HK$48,594,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams. Included in unused tax losses are losses of HK$23,320,000 (2016: HK$29,793,000) that will expire within 5 years. All other tax losses may be carried forward indefinitely.

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28. SHARE CAPITAL

	Number of ordinary shares *'000*	Share capital *HK$'000*
Authorised:		
Ordinary shares of HK$0.01 each		
At 1 January 2016, 31 December 2016 and **31 December 2017**	**100,000,000**	**1,000,000**
Issued and fully paid:		
Ordinary shares of HK$0.01 each		
At 1 January 2016	727,854	7,279
Issue of share upon rights issue *(Note (i))*	3,639,268	36,392
At 31 December 2016	4,367,122	43,671
Issue of shares on share placement *(Note (iii))*	651,000	6,510
At 31 December 2017	**5,018,122**	**50,181**

Notes:

(i) On 27 January 2016, the Company completed an issue and allotment of 3,639,268,185 rights shares at a subscription price of HK$0.14 per rights share by way of a rights issue on the basis of five rights shares for every one share. The net proceeds from the rights issue, after deducting directly attributable costs of HK$7,651,000 from gross proceeds of HK$509,497,000, were approximately HK$501,846,000. Details of these are set out in the announcements of the Company dated 12 November 2015, 18 December 2015, 21 December 2015 and 26 January 2016, the circular of the Company dated 2 December 2015 and the prospectus of the Company dated 31 December 2015.

28. SHARE CAPITAL (continued)

Notes: (continued)

(ii) As part of the placing agreement for placing of shares completed in March 2013 (the "March 2013 Placing Shares"), the Company issued non-listed warrants (the "Warrants") on the basis of five Warrants for each of the March 2013 Placing Shares issued, at no initial price. The exercise price of the Warrants was at HK$0.20 each and could be exercised at any time for a period of three years from the issue date.

Upon the completion of capital reorganisation on 14 May 2015, the number of shares that could be subscribed for upon exercise of the outstanding Warrants were adjusted from 625,000,000 shares to 62,500,000 shares and the exercise price of the Warrant was adjusted from HK$0.20 per share to HK$2.00 per share.

Upon the completion of the open offer of the Company on 17 June 2015, the number of shares that could be subscribed for upon exercise of the outstanding Warrants were adjusted from 62,500,000 shares to 73,529,411 shares and the exercise price of the Warrants was adjusted from HK$2.00 per share to HK$1.70 per share.

Upon the completion of the rights issue of the Company on 27 January 2016 (see (i) above), the number of shares that could be subscribed for upon exercise of the outstanding Warrants were adjusted from 73,529,411 shares to 162,337,662 shares and the exercise price of the Warrants was adjusted from HK$1.70 per share to HK$0.77 per share.

During the year ended 31 December 2016, no shares were issued as a result of the exercise of the Warrants. All outstanding Warrants expired on 29 February 2016. As at 31 December 2017 and 31 December 2016, the Company had no Warrants outstanding.

(iii) On 4 July 2017, the Company completed a share placement and issued 651,000,000 placing shares at a placing price of HK$0.308 each. The net proceeds from the share placement, after deducting directly attributable costs of HK$5,117,000 from gross proceeds of HK$200,508,000, were approximately HK$195,391,000. Details of these are set out in the announcements of the Company dated 16 June 2017 and 4 July 2017.

All ordinary shares issued by the Company during both years rank pari passu with the then existing ordinary shares in all respects.

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29. SHARE OPTION SCHEME

The existing share option scheme of the Company (the "Share Option Scheme") was adopted by the Company at the annual general meeting of the Company held on 22 June 2016 and the previous share option scheme of the Company adopted on 6 November 2006 (the "Old Share Option Scheme") was terminated on the same date. Unless otherwise cancelled or amended, the Share Option Scheme will be valid and effective for a period of ten years commencing on the date of adoption. The purpose of the Share Option Scheme is to enable the Group to grant options to the participants as incentives or rewards for their contribution to the Group or any entity in which the Group holds any equity interest (the "Invested Entity"). Eligible participants of the Share Option Scheme include any employees of any member of the Group or any Invested Entity; any directors (including executive, non-executive and independent non-executive directors) of any member of the Group or any Invested Entity; any supplier of goods or services to any member of the Group or any Invested Entity; any customer of any member of the Group or any Invested Entity; any person or entity that provides research, development or other technological support to any member of the Group or any Invested Entity; any consultant or adviser of any member of the Group or any Invested Entity; and any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity.

The offer of a grant of share options shall remain open for acceptance by the participant concerned for a period of fifteen (15) business days from the date of grant provided that no such offer shall be open for acceptance after the expiry of the option period or after the Share Option Scheme has been terminated. The amount payable by each grantee of options to the Company on acceptance of the offer for the grant of options is HK$1.00.

The subscription price for the shares on the exercise of options under the Share Option Scheme shall be a price determined by the Board in its absolute discretion at the time of the grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option) but in any case the subscription price shall not be less than the higher of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share. The exercise period of the share options granted is determined by the Board but in any event, no longer than ten years from the date of grant.

29. SHARE OPTION SCHEME (continued)

The total number of shares issued and to be issued upon exercise of the options granted to each participant, together with all options granted and to be granted to the participant under any other share option scheme(s) of the Company within the 12-month period immediately preceding the proposed date of grant (including exercised, cancelled and outstanding options) shall not exceed 1% of the total number of the shares in issue as at the proposed date of grant. Any further grant of options to a participant in excess of the 1% limit shall be subject to the shareholders' approval of the Company with such participant and the participant's associates abstaining from voting.

The limit on the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme(s) of the Company must not exceed 30% of the total number of the shares in issue from time to time. In addition, the total number of the shares which may be issued upon exercise of all options to be granted under the Share Option Scheme, together with all options to be granted under any other share option scheme(s) of the Company (excluding lapsed options), must not represent more than 10% of the total number of the shares in issue as at the date of approval of the Share Option Scheme (the "Scheme Mandate Limit") or as at the date of the approval of the refreshed Scheme Mandate Limit as the case maybe.

No share options were granted under the Share Option Scheme since its adoption and up to 31 December 2016.

On 4 May 2017, the Company granted share options to eligible persons to subscribe for a total of 436,710,000 ordinary shares of the Company under the Share Option Scheme. The exercise price of the options granted is HK$0.53 per share and the exercisable period is from 4 May 2017 to 3 May 2020 (both dates inclusive).

In the annual general meeting of the Company held on 22 June 2017, the shareholders of the Company approved the refreshment of the Scheme Mandate Limit (the "Scheme Mandate Limit Refreshment"). The total number of shares of the Company available for issue under the Share Option Scheme is 436,712,182 shares as refreshed, representing approximately 10% of the issued shares of the Company as at the date of approval of the Scheme Mandate Limit Refreshment and approximately 8.7% of the issued shares of the Company as at the date of this annual report.

29. SHARE OPTION SCHEME (continued)

Details of the movements in the number of share options during the year ended 31 December 2017 under the Share Option Scheme are as follows:

Name or category of participant	Date of grant	Exercisable period (both dates inclusive)	Exercise price HK$ *(Note (ii))*	Outstanding at 1 January 2017	Granted during the year	Exercised during the year	Reclassified during the year	Cancelled/ lapsed during the year	Outstanding at 31 December 2017
Directors:									
Mr. Liu Zhiyi *(Note (iv))*	4 May 2017	4 May 2017 – 3 May 2020	0.53	–	–	–	43,500,000	–	43,500,000
Mr. Sue Ka Lok	4 May 2017	4 May 2017 – 3 May 2020	0.53	–	22,800,000	–	–	–	22,800,000
Ms. Chan Yuk Yee *(Note (v))*	4 May 2017	4 May 2017 – 3 May 2020	0.53	–	1,200,000	–	(1,200,000)	–	–
Mr. Yiu Chun Kong	4 May 2017	4 May 2017 – 3 May 2020	0.53	–	600,000	–	–	–	600,000
Mr. Chan Shui Yuen	4 May 2017	4 May 2017 – 3 May 2020	0.53	–	900,000	–	–	–	900,000
Mr. To Yan Ming, Edmond	4 May 2017	4 May 2017 – 3 May 2020	0.53	–	300,000	–	–	–	300,000
Mr. Pun Chi Ping	4 May 2017	4 May 2017 – 3 May 2020	0.53	–	300,000	–	–	–	300,000
Ms. Leung Pik Har, Christine	4 May 2017	4 May 2017 – 3 May 2020	0.53	–	300,000	–	–	–	300,000
				–	26,400,000	–	42,300,000	–	68,700,000
Employees:									
In aggregate	4 May 2017	4 May 2017 – 3 May 2020	0.53	–	410,310,000	–	(42,300,000)	–	368,010,000
				–	436,710,000	–	–	–	436,710,000

29. SHARE OPTION SCHEME (continued)

Notes:

(i) The share options granted are vested upon granted.

(ii) The exercise price of the share options is subject to adjustments in case of capitalisation of profits or reserve, bonus issues, rights issue, open offer, subdivision or consolidation of shares, or reduction of the share capital or other changes in the capital structure of the Company.

(iii) The closing price per share quoted on the Stock Exchange on the trading date immediate before the date on which the share options granted on 4 May 2017 was HK$0.46.

(iv) 43,500,000 share options of the Company were granted to Mr. Liu Zhiyi on 4 May 2017 when he was an employee of the Group. He was then appointed as an executive director of the Company on 5 May 2017.

(v) Ms. Chan Yuk Yee resigned as an executive director of the Company on 10 November 2017 but remains as an employee of the Group.

The binomial option pricing model was used to estimate the fair value of the share options. The variables and assumptions used in computing the fair value of the share options are based on the independent professional valuer's best estimate. The value of an option varies with different variables of certain subjective assumptions. The estimated fair value of the options on their respective grant dates are as follows:

Option type	**Grant date**	**Exercisable period (both dates inclusive)**	**Fair value on grant date** *HK$*
Senior management	4 May 2017	4 May 2017 – 3 May 2020	0.171
Employees	4 May 2017	4 May 2017 – 3 May 2020	0.167

29. SHARE OPTION SCHEME (continued)

The inputs into the model in respect of the share options granted were as follows:

	Option type	
	Senior management	Employees
Share price on grant date	HK$0.530	HK$0.530
Exercise price on grant date	HK$0.530	HK$0.530
Volatility	47.10%	47.10%
Expected life	3 years	3 years
Risk-free rate	0.95%	0.95%

Volatility was determined by using the historical volatility of comparable companies with business natures and operations similar to the Company over the previous three years.

The Group recognised share-based payments expense of HK$73,257,000 during the year ended 31 December 2017 (2016: nil) in relation to the share options granted by the Company.

Details of the Old Share Option Scheme were set out in the Company's 2015 Annual Report. Details of the movements in the number of share options granted to suppliers and others during the year ended 31 December 2016 under the Old Share Option Scheme are as follows:

Date of grant	Exercisable period (both dates inclusive)	Exercise price HK$ *(Note (i))*	Outstanding at 1 January 2016	Adjusted during the year *(Note (ii))*	Lapsed during the year	Outstanding at 31 December 2016
11 April 2013	11 April 2013 – 10 April 2016	1.5459	15,025,920	6,087,000	(21,112,920)	–
25 November 2013	25 February 2014 – 24 November 2016	1.3277	7,512,960	3,043,500	(10,556,460)	–
			22,538,880	9,130,500	(31,669,380)	–

Notes:

(i) The exercise price of the share options was subject to adjustments in case of capitalisation of profits or reserve, bonus issues, rights issue, open offer, subdivision or consolidation of shares, or reduction of share capital or other changes in the capital structure of the Company.

(ii) Upon the completion of the rights issue of the Company on 27 January 2016, the number of shares that can be subscribed for upon exercise of the outstanding share options and the exercise price of the share options were adjusted. Details of these were set out in the announcement of the Company dated 26 January 2016.

30. JOINT OPERATIONS

Chañares, an independent third party, entered into a joint venture agreement ("2007 JV Agreement") with another independent third party ("Third Party") on 14 November 2007 in connection with the development of incremental hydrocarbons production in the Concessions, through the investments made by the Third Party. Under the 2007 JV Agreement, it was established that the hydrocarbons obtained from the wells drilled within the scope of the 2007 JV Agreement, as well as any other benefit obtained from the exploration and production of the works performed thereunder, shall be distributed in the following proportion: 28% for Chañares and 72% for the Third Party.

A wholly owned subsidiary of the Company, Have Result Investments Limited ("Have Result"), entered into an agreement "Assignment of Rights, Investment and Technical Cooperation" with the Third Party dated 24 November 2007, as amended and/or supplemented by (i) a deed of undertaking executed by the Third Party on 12 December 2007; (ii) a supplementary deed of undertaking executed by the Third Party on 28 December 2007; and (iii) a document entitled "Amendment to Contract of Assignment of Rights, Investment and Technical Cooperation" executed by and between the Third Party and Have Result, dated 19 December 2008 (the "Assignment Agreement"). Under the Assignment Agreement, the Third Party assigned in favour of Have Result 51% of its rights on the future production as a consequence of new drillings and the operation of new wells in the Concessions. The incremental hydrocarbon production derived from the new wells in the Concessions will first cover the operating costs and thereafter is shared by the proportion of 51% to Have Result, 21% to the Third Party and 28% to Chañares. As from the date the wells drilled under the terms of the Assignment Agreement go into production, the Third Party shall also reimburse Have Result for 21% of the aggregate investments made by Have Result in the Concessions.

On 2 December 2010, Have Result sent a letter to the Third Party acknowledging the notice of the termination of the 2007 JV Agreement ("Termination") while as advised by the Argentina legal advisers of the Company, notwithstanding the Termination, Have Result remains entitled to a 51% right in the production from the five existing wells drilled by Have Result in the Concessions (the "Existing Wells"), provided that Have Result continues to pay the relevant operating costs as required by the production allocated to it.

On 2 December 2010, another wholly owned subsidiary of the Company, Southstart Limited, and Chañares entered into a new joint venture agreement ("2010 JV Agreement"), pursuant to which, EP Energy S.A. ("EP Energy"), a wholly owned subsidiary of the Company, is entitled to share 72% of hydrocarbon production from the wells drilled by EP Energy in the current and future years until the end of the Concessions period and paid US$6,000,000 (equivalent to approximately HK$46,800,000) to Chañares in consideration for the oil exploration and production right in the Concessions during the current term of the Concessions.

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30. JOINT OPERATIONS (continued)

Pursuant to the 2010 JV Agreement, the total consideration for the oil exploration and production right is subject to adjustment with reference to whether or not Chañares can obtain the extension of the term of Concessions (the "Extension") by 31 December 2011. On 14 July 2011, the Company was informed by Chañares that the Executive of the Province of Mendoza has issued a Decree, pursuant to which Chañares obtained an extension of 10 years from the date of expiry of the original term of the Concessions until 2027 (Note 17). EP Energy paid an aggregate amount of US$4,000,000 (equivalent to approximately HK$31,200,000) to Chañares in consideration for the oil exploration and production right in the Concessions during the extended term of the Concessions. A sum of US$1,404,000 (equivalent to approximately HK$10,952,000) was paid in 2011 and the remaining balance of US$2,596,000 (equivalent to approximately HK$20,248,000) was paid in 2012.

According to the 2010 JV Agreement, EP Energy is obliged to drill a minimum of five production wells per year during the five consecutive years from 2012, and two production wells per year for the following years until the seventh year before the expiration of the extended term of the Concessions. Failure to meet the minimum drilling requirements may render the 2010 JV Agreement to be terminated and EP Energy will be forfeited any rights to continue drilling but it will not be forfeited any right in respect of the wells already drilled.

On 5 June 2012, EP Energy, Have Result and Chañares entered into an operation agreement ("the Operation Agreement").

Pursuant to the Operation Agreement, Chañares agreed to release EP Energy from the above commitment. EP Energy, however, retains the right to drill and invest in the Concessions during the life of the Concessions awarded with respect to any extension thereof. If five or more new wells are drilled by EP Energy in a year, EP Energy shall be entitled to 72% and Chañares shall be entitled to 28% of the hydrocarbon production of the new wells; and if less than five new wells are drilled by EP Energy in a year, EP Energy shall be entitled to 65% and Chañares shall be entitled to 35% of the hydrocarbon production of the new wells. The Operation Agreement confirms that the hydrocarbon production of the existing five wells drilled by EP Energy shall continue to be distributed in accordance with the 2010 JV Agreement (i.e., 72% to EP Energy and 28% to Chañares). On the other hand, Chañares becomes entitled to be associated with third parties for carrying out any work or drilling any wells in the Concessions.

The Operation Agreement reconfirms that Have Result has the right to receive 51% of the hydrocarbon production obtained from the Existing Wells until the termination of the Concessions held with respect to any extension thereof.

30. JOINT OPERATIONS (continued)

The aggregate amount of assets and liabilities, revenue and expenses recognised in the consolidated financial statements in relation to the Group's interest in the joint operations are as follows:

	2017	2016
	HK$'000	*HK$'000*
Assets	**69,509**	50,653
Liabilities	**4,508**	5,807
Revenue	**42,914**	51,320
Expenses	**18,595**	57,390

31. PLEDGE OF ASSETS

At 31 December 2016, the following assets were pledged to secure the Group's bank borrowings which had been fully repaid during the year ended 31 December 2016 but the release of the security pledged was in process:

(i) the entire issued share capital of EP Energy;

(ii) the entire issued share capital of Have Result; and

(iii) the entire issued share capital of two wholly owned subsidiaries of the Company which together hold the entire stock capital of EP Energy.

At 31 December 2017, the release of the security pledged was completed and the Group had no pledged assets.

32. OPERATING LEASE COMMITMENTS

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017	2016
	HK$'000	*HK$'000*
Within one year	**1,795**	1,785
In the second to fifth year, inclusive	**2,970**	126
	4,765	1,911

The Group leases its office properties and buildings under operating lease arrangements. Leases for properties are negotiated for terms of three (2016: three) years.

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33. RETIREMENT BENEFIT SCHEMES

The Group contributes to MPF Scheme for all qualifying employees in Hong Kong under the Mandatory Provident Fund Scheme Ordinance (Chapter 485 of the Laws of Hong Kong). Contributions to the MPF Scheme by the Group and the employees are calculated as a percentage of employee's relevant income. The retirement benefit scheme costs recognised in profit or loss represent contributions payable by the Group to the funds. The assets of the MPF Scheme are held separately from those of the Group in independently administered funds.

The Group also participates in the employees' pension scheme of the respective municipal governments in the countries where the Group operates. The Group makes monthly contributions calculated as a percentage of the monthly basic salary and the relevant municipal government undertakes to assume the retirement benefit obligations of all existing and future retirees of the Group.

The Group has no other obligations for the payment of pension and other post-retirement benefits of employees other than the above contributions payments.

34. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	2017	2016
	HK$'000	*HK$'000*
Short-term employee benefits	**3,364**	8,656
Post-employment benefits	**105**	78
Share-based payments expense	**12,029**	–
	15,498	8,734

The remuneration of directors and key executives is determined by the remuneration committee of the Company having regard to the performance and experience of individuals and prevailing market terms.

35. CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group does not have a target gearing ratio, but has a policy of maintaining a flexible financing structure so as to be able to take advantage of new investment opportunities that may arise.

36. FINANCIAL INSTRUMENTS

Financial risk management objectives

Financial instruments are fundamental to the Group's daily operations. The Group's major financial instruments include AFS investments, trade and other receivables, loan receivables, financial assets at FVTPL, bank balances and cash, trade and other payables, derivative financial liability and convertible notes. Details of these financial instruments are disclosed in respective notes. The risks associated with the financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure that appropriate measures are implemented on a timely and effective manner.

Categories of financial instruments

	2017	2016
	HK$'000	*HK$'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	**403,188**	290,305
Financial assets at FVTPL	**95,849**	27,454
AFS investments	**144,877**	–
	643,914	317,759
Financial liabilities		
Amortised cost	**78,282**	6,481
Derivative financial liability	**46,617**	–
	124,899	6,481

Interest rate risk

The cash flow interest rate risk relates primarily to the Group's short-term deposits placed in banks that are interest-bearing at market interest rates. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

The Group's sensitivity to interest rate risk has been determined based on the exposure to interest rates for bank balances at the end of the reporting period and the reasonably possible change taking place at the beginning of each year and held constant throughout the year. If interest rates on bank balances had been 50 basis points higher/lower and all other variables were held constant, loss after tax for the year ended 31 December 2017 of the Group would decrease/increase by HK$1,436,000 (2016: HK$911,000).

If interest rates had been 50 basis points higher or lower and all other variables were held constant, the Group's other comprehensive expense for the year ended 31 December 2017 would decrease/increase by HK$605,000 (2016: nil) as a result of the changes in the fair value of AFS investments.

36. FINANCIAL INSTRUMENTS (continued)

Foreign currency risk management

Several subsidiaries of the Company have assets and liabilities denominated in foreign currencies which expose the Group to foreign currency risk. During the year under review, the Group had not experienced any significant exchange rate exposure to US$ as HK$ and US$ exchange rate is pegged. Besides, the Group continuously monitors foreign exchange exposure of RMB and will consider a formal foreign currency hedging policy for it should the needs arise. As for the Group's petroleum operation in Argentina, the oil selling proceeds are quoted at US$ and converted into ARS for settlement at official exchange rate on a monthly basis, and a majority of the investment and operating costs including infrastructure and equipment, drilling costs, completion costs and workover jobs are based on US$ and converted into ARS for payments. The Group currently does not have a formal foreign currency hedging policy for ARS, however, the management regularly monitors foreign exchange exposure of ARS and will undertake appropriate hedging measures should significant exposures arise.

The carrying amounts of the group entities' foreign currency denominated monetary assets and monetary liabilities, at the reporting date are as follows:

	Assets		**Liabilities**	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
ARS	**3,309**	1,751	**(400)**	(1,153)
RMB	**49,499**	–	**(121)**	–

Foreign currency sensitivity

The following table details the Group's sensitivity to 10% increase and decrease in HK$ against the relevant foreign currencies. Sensitivity rate of 10% is used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 10% change in foreign currency rates. The sensitivity analysis represents the trade payables, loan receivables, trade receivables and bank balances where the denomination are in ARS and RMB, the major foreign currencies. A positive number below indicates a decrease in loss after tax where Hong Kong dollars strengthen 10% (2016: 10%) against the relevant currencies. For a 10% (2016: 10%) weakening of Hong Kong dollars against the relevant currency, there would be an equal and opposite impact on the loss after tax.

	ARS impact		**RMB impact**	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Decrease in loss after tax	**189**	39	**4,123**	–

In management's opinion, the sensitivity analysis reflects the exposure at the year end, but not the exposure during the year.

36. FINANCIAL INSTRUMENTS (continued)

Other price risk

The Group is exposed to price risk from investments in listed debt and equity securities. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risk at the reporting date.

If equity prices had been 20% higher/lower, loss after tax for the year ended 31 December 2017 would decrease/increase by HK$16,007,000 (2016: HK$4,585,000) as a result of the change in fair value of financial assets at FVTPL.

Credit risk

As at 31 December 2017 and 2016, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets except for equity securities as detailed in Note 23 as stated in the consolidated statement of financial position.

The credit risk on liquid funds is limited because the counterparties are banks and brokers with high credit ratings assigned by international credit-rating agencies and state-owned banks of good reputation.

As of 31 December 2017 and 2016, the Group had concentration of credit risk for its trade receivables as 100% of the amount was attributable to the Group's only trading customer in Argentina and it contributed to approximately 74% (2016: 82%) of the Group's revenue. However, since the trade receivable is due from a state-owned enterprise oil company of good creditability, the management considers that the Group's credit risk is low.

The Group had concentration of credit risk for its loan receivables as 100% (2016: 100%) of the loans as at 31 December 2017 was due from two (2016: four) borrowers. The balance due from these borrowers was in an aggregate amount of HK$67,235,000 (2016: HK$102,000,000) as at 31 December 2017. The Group seeks to maintain strict control over its outstanding loan receivables to minimise credit risk. The management has a credit policy in place and the exposures to the credit risk are monitored on an ongoing basis. Impairment allowances on outstanding loan receivables are determined by an evaluation of financial background, as well as financial condition of the borrower and the anticipated receipts for that individual loan, at the end of each reporting period.

36. FINANCIAL INSTRUMENTS (continued)

Liquidity risk

Liquidity risk reflects the risk that the Group will have insufficient resources to meet its financial liabilities as they fall due. In managing liquidity risk, the Group monitors and maintains sufficient funds to meet all its potential liabilities as they fall due, including shareholder distributions. It is applicable to normal market conditions as well as negative projections against expected outcomes, so as to avoid any risk of incurring contractual penalties or damaging the Group's reputation.

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms.

For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest in effect at the end of the reporting period.

Liquidity table

	Weighted average interest rate %	On demand or less than 1 month *HK$'000*	1 to 6 months *HK$'000*	7 months to 1 year *HK$'000*	Total undiscounted cash flows *HK$'000*	Carrying amount *HK$'000*
As at 31 December 2017						
Non-derivative financial liabilities						
Trade payables	**–**	**552**	**–**	**–**	**552**	**552**
Other payables	**–**	**1,585**	**–**	**–**	**1,585**	**1,585**
Convertible notes	**10.37**	**–**	**1,197**	**81,203**	**82,400**	**76,145**
		2,137	**1,197**	**81,203**	**84,537**	**78,282**
As at 31 December 2016						
Non-derivative financial liabilities						
Trade payables	–	977	–	–	977	977
Other payables	–	5,504	–	–	5,504	5,504
		6,481	–	–	6,481	6,481

Note: For the derivative financial liability, it represents a conversion option which will not result in cash outflow. If the conversion option is exercised, then shares of the Company will be delivered in settlement of the convertible notes rather than cash payments of principal and accrued interest that are included in the above table relating to the convertible notes.

36. FINANCIAL INSTRUMENTS (continued)

Fair value measurements of financial instruments

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how that fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

	Fair value		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs
	2017	2016			
	HK$'000	*HK$'000*			
Financial assets					
AFS investments					
Listed debt securities	**144,877***	–	Level 1	Quoted bid prices in active markets	N/A
Financial assets at FVTPL					
Listed equity securities	**95,849**	22,454	Level 1	Quoted bid prices in an active market	N/A
Unlisted debt securities	**–**	5,000	Level 2	Quoted price in an over-the-counter market	N/A
Financial liability					
Derivative financial liability in relation to convertible notes	**46,617**	–	Level 3	Binomial option pricing model	Discount rate *(Note)*

* Exclude interest receivables as disclosed in Note 21.

Note: For the derivative financial liability, the most significant unobservable input is discounted rate. If the discount rate were 5.0% higher/lower while the other variables were held constant, the carrying amount of the derivative financial liability would increase/decrease by HK$2,515,000 and HK$2,723,000 respectively.

There were no transfers between Level 1, 2 and 3 in the current and prior years.

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36. FINANCIAL INSTRUMENTS (continued)

Fair value measurements of financial instruments (continued)

Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis

The directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

37. RECONCILIATION OF LIABILITY ARISING FROM FINANCING ACTIVITY

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Convertible notes *HK$'000*
At 1 January 2017	**–**
Financing cash flows	**79,852**
Net fair value changes on convertible notes	**39,158**
Interest expense	**4,955**
Reclassified to trade and other payables	**(1,203)**
Recognised as derivative financial liability	**(46,617)**
At 31 December 2017	**76,145**

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, which are limited liability companies, at 31 December 2017 and 2016, are as follows:

Name of subsidiary	Place of incorporation/ operations	Nominal value of issued and fully paid ordinary share/ registered capital	Attributable proportion of nominal value of issued/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
EP Energy S.A.	Argentina	ARS303,600	–	100% (2016: 100%)	Petroleum exploration and production
Have Result Investments Limited	British Virgin Islands/ Argentina	US$10,000	–	100% (2016: 100%)	Petroleum exploration and production
Have Result Finance Limited	Hong Kong	HK$100	–	100% (2016: 100%)	Money lending
EPI Management Limited	Hong Kong	HK$1	–	100% (2016: 100%)	Investment in securities and management

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results of the Group. To give details of other insignificant subsidiaries which are mainly inactive or engaged in investment holding would, in the opinion of the directors, result in particulars of excessive length.

During the year ended 31 December 2017, the Group disposed of two inactive subsidiaries by transfer of interest to an independent third party and the financial impact is insignificant.

None of the subsidiaries had any debt securities outstanding at the end of the year, or at any time during the year.

On 8 November 2017, two indirect wholly owned subsidiaries of the Company entered into a limited partnership agreement ("Limited Partnership Agreement") with two independent third parties in respect of, among other matters, the establishment of a limited partnership ("Limited Partnership") and the subscription of interest therein. Pursuant to the Limited Partnership Agreement, the total capital commitment to the Limited Partnership is RMB120,000,000 in which the Group has committed to contribute RMB61,510,000. Details of these are set out in the announcement of the Company dated 8 November 2017. As at 31 December 2017, no capital has been injected by the Group to the Limited Partnership.

Notes to the Consolidated Financial Statements

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39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2017	2016
	HK$'000	*HK$'000*
Non-current assets		
Property, plant and equipment	**12**	479
Interests in subsidiaries – unlisted	**8**	8
Total non-current assets	**20**	487
Current assets		
Other receivables, prepayment and deposits	**1,103**	1,286
Amounts due from subsidiaries	**487,972**	325,064
Financial assets at fair value through profit or loss	**–**	8,254
Bank balances and cash	**135,636**	483
Total current assets	**624,711**	335,087
Current liabilities		
Other payables	**13,616**	10,938
Amounts due to subsidiaries	**95,398**	95,042
Derivative financial liability	**46,617**	–
Convertible notes	**76,145**	–
Total current liabilities	**231,776**	105,980
Net current assets	**392,935**	229,107
Total assets less current liabilities	**392,955**	229,594
Capital and reserves		
Share capital	**50,181**	43,671
Reserves *(Note)*	**342,774**	185,923
Total equity	**392,955**	229,594

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

Movements of the Company's reserves are as follows:

	Share premium *HK$'000*	Share options reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2016	115,950	128,388	(499,440)	(255,102)
Loss and total comprehensive expense for the year	–	–	(24,429)	(24,429)
Issue of shares upon rights issue	473,105	–	–	473,105
Transaction costs attributable to issue of shares upon rights issue	(7,651)	–	–	(7,651)
At 31 December 2016	581,404	128,388	(523,869)	185,923
Loss and total comprehensive expense for the year	**–**	**–**	**(105,287)**	**(105,287)**
Recognition of equity-settled share-based payments expense	**–**	**73,257**	**–**	**73,257**
Issue of shares upon share placement	**193,998**	**–**	**–**	**193,998**
Transaction costs attributable to issue of shares upon share placement	**(5,117)**	**–**	**–**	**(5,117)**
At 31 December 2017	**770,285**	**201,645**	**(629,156)**	**342,774**

Five-Year Financial Summary

RESULTS

	Year ended 31 December				
	2017	2016	2015	2014	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Continuing operations					
Revenue	**57,870**	62,253	66,571	85,689	89,853
Loss before tax	**(48,424)**	(30,988)	(276,548)	(180,233)	(665,113)
Income tax expense	**(6,431)**	(91)	–	–	–
Loss for the year from continuing operations	**(54,855)**	(31,079)	(276,548)	(180,233)	(665,113)
Discontinued operation					
Loss for the year from discontinued operation	**–**	–	–	(200,910)	(14,058)
Loss for the year	**(54,855)**	(31,079)	(276,548)	(381,143)	(679,171)

ASSETS AND LIABILITIES

	At 31 December				
	2017	2016	2015	2014	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**706,920**	367,734	92,903	361,892	676,343
Total liabilities	**(147,804)**	(21,892)	(217,828)	(331,207)	(458,157)
Equity attributable to owners of the Company	**559,116**	345,842	(124,925)	30,685	218,186