EPI (Holdings) Limited
長盈集團(控股)有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code : 689)

Annual Report 2018

Contents

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 to 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. Liu Zhiyi *(Chairman and Chief Executive Officer)*
Mr. Sue Ka Lok
Mr. Yiu Chun Kong
Mr. Chan Shui Yuen

Non-executive Director

Mr. Suen Cho Hung, Paul

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

CORPORATE GOVERNANCE COMMITTEE

Mr. To Yan Ming, Edmond *(Chairman)*
Mr. Kwong Tin Lap
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
Lau, Horton & Wise LLP

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 2018.

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 2018, the Group reported a loss attributable to owners of the Company of HK$115,227,000 (2017: HK$54,855,000) that mainly due to the net fair value loss on derivative component of the convertible notes issued by the Company of HK$24,370,000, which was non-cash in nature, and the net loss on financial assets at fair value through profit or loss of HK$80,636,000, though the losses were partly offset by the profitable results contributed by the money lending business and the absence of the share-based payments expense this year whilst an amount of HK$73,257,000 was recognised last year relating to granting of share options. Basic loss per share was HK2.26 cents and increased by HK1.09 cents when compared to the prior year (2017: HK1.17 cents).

For the year under review, the Group recorded revenue of HK$71,419,000 which increased by 23% compared to the prior year (2017: HK$57,870,000). The increase was mainly due to the rise in interest income generated from the investment in securities and money lending businesses, and accompanied with the increase in revenue of the petroleum business resulting from the rise in average selling price of crude oil sold, though the incremental effect on revenue was partly offset by the drop in volume of crude oil produced by the Group's petroleum operation.

Overall speaking, the Group's petroleum exploration and production business recorded a small loss of HK$462,000 (2017: profit of HK$24,319,000), the money lending business posted a profitable result of HK$10,793,000 (2017: HK$7,927,000), and the investment in securities business recorded a loss result of HK$71,562,000 (2017: profit of HK$51,587,000) which mainly represented the net realised and unrealised loss on securities investments made by the Group.

PROSPECTS

The Group's petroleum exploration and production operation showed an improved operating performance in 2018 by reporting operating profit (before provision of impairment losses, which was non-cash in nature, on certain properties of the concession) of HK$2,921,000. The improved operating results was mainly attributed to the rise in crude oil selling price to an average of US$60.8 per barrel during the year (2017: average of US$52.4 per barrel), though the price rise effect was partly offset by the drop in the operation's production volume due to the extended maintenance works on several oil wells and the natural decline in output of the Group's oil wells. The international oil price has become rather volatile in the past few months, the fluctuations of international oil price owing to many factors including world demand and supply will to a considerable extent affect the operation's results in 2019.

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

The investment and stock market in Hong Kong have been rather volatile in 2018 owing to factors including the pace of interest rate rise in the United States and in particular the trade disputes and settlement negotiations between China and the United States. The Group had recorded losses for its securities investments for the year under review, the management will be more cautious and take a prudent and disciplined approach in managing the Group's securities investments portfolio in 2019, which comprises of equity securities listed in Hong Kong and corporate bonds 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 improve the Group's financial performance. The management will also seize business and investment opportunities with good prospects, particularly in the energy sector, aiming to create new value to shareholders. As referred to in the Company's announcement dated 8 November 2017, the Group had entered into a limited partnership agreement with two independent parties to establish a limited partnership for the purpose of investing 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 attractive investments returns and create 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, my fellow directors for their valuable services, and all staff members for their contributions and hard work during the past year.

Liu Zhiyi
Chairman and Chief Executive Officer

Hong Kong, 29 March 2019

Management Discussion and Analysis

BUSINESS REVIEW

For the year ended 31 December 2018, 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 recorded revenue of HK$71,419,000 which increased by 23% compared to the prior year (2017: HK$57,870,000). The increase was mainly due to the rise in interest income generated from the investment in securities and money lending businesses, and accompanied by the increase in revenue of the petroleum business resulting from the rise in average selling price of crude oil sold, though the incremental effect on revenue was partly offset by the drop in volume of crude oil produced by the Group's petroleum operation.

Petroleum Exploration and Production

During the year ended 31 December 2018, the Group continued to engage in petroleum exploration and production in the 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 ten existing oil wells.

Management Discussion and Analysis

For the year under review, the Group's petroleum exploration and production business generated a revenue of HK$43,998,000 (2017: HK$42,914,000) and recorded an operating profit before provision of impairment loss of HK$2,921,000 (2017: operating loss of HK$59,000). The increase in the operation's revenue was due to the rise in average crude oil selling price offered by YPF S.A., an Argentina state-owned oil company and the buyer of the operation's output, from an average of US$52.4 per barrel in 2017 to US$60.8 per barrel in 2018, though the incremental effect on revenue was partly offset by the drop in production volume of crude oil by about 15%. The drop in crude oil production volume during the year was mainly the combined results of the extended maintenance works performed on several oil wells and the natural decline of output of the ten oil wells the Group has interested in, such oil wells have been in production for over seven years. The Group had performed an impairment review on the exploration and evaluation assets and the oil and gas properties of the Concession at 31 December 2018. At 31 December 2018, 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 because, according to management's estimates, the prevailing and forecasted crude oil selling price has not yet reached a level that new well drillings will warrant a satisfactory return. As such, the Group determined that there was no reversal of impairment loss on the exploration and evaluation assets. For the impairment assessment of the oil and gas properties, the recoverable amount of the oil and gas properties was determined based on the discounted cash flow projection of the Group's ten oil wells with their production reserves and the estimated future oil prices being the major parameters. According to the selling price of crude oil being offered to the Group during 2018 and the future international oil price forecast released by the U.S. Energy Information Administration, the management in 2018 estimated that the range of crude oil selling price projected for the next five years (i.e. 2019 to 2023) will be in the range from US$47.15 to US$79.41 per barrel, which is lower than that projected in 2017 being in the range from US$55.51 to US$86.40 per barrel. As such, primarily owing to a drop in the forecasted range of crude oil selling price for the next five years, a provision of impairment loss on the oil and gas properties of the Concession of HK$3,383,000 (2017: reversal of impairment loss of HK$22,588,000) was recognised. Overall speaking, the operation recorded a small overall loss of HK$462,000 (2017: profit of HK$24,319,000) comprising operating profit of HK$2,921,000 (2017: operating loss of HK$59,000) and provision of impairment losses of HK$3,383,000 (2017: reversal of impairment losses of HK$24,378,000).

References are made to the announcement of the Company dated 15 August 2017 and the annual report of the Company for the year ended 31 December 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 concession extension for the CHE Area; and (ii) it declared the lapse of the concession in respect of the Puesto Pozo Cercado Area (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 had been drilled or were in operations 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 2018, the Group's money lending business reported an increase in revenue and operating profit by reporting HK$16,814,000 (2017: HK$7,797,000) and HK$10,793,000 (2017: HK$7,927,000) respectively. Such increases were mainly due to the higher average amount of loans advanced to borrowers during the year under review. Before granting loans to potential customers, the management uses internal credit assessment process to assess individual borrower's credit quality and defines the credit limit granted to the borrower. The credit limits granted to the borrowers are reviewed by the management regularly.

During the year under review, there was no default in repayments from borrowers, nevertheless, an expected credit loss of HK$5,613,000 was recognised against loan and interest receivables.

At 31 December 2018, the loans portfolio held by the Group amounted to HK$251,652,000 (after expected credit loss) with details as follows:

	Approximate weighting to the carrying amount of the Group's loan portfolio					
Category of borrowers	**Guaranteed (unsecured)**	**Secured**	**Unsecured**	**Total**	**Interest rate per annum**	**Maturity**
	%	%	%	%	%	
Corporate	18.49	31.90	6.45	56.84	10 – 18	Within one year
Individual	–	34.60	8.56	43.16	10 – 18	Within one year
	18.49	66.50	15.01	100.00		

As shown above, 18.49% of the loan portfolio is guaranteed by credible guarantor(s), 66.50% is secured by various collaterals and the remaining 15.01% is unsecured.

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 2018, the Group's investment in securities operation held a financial asset at fair value through profit or loss ("FVTPL") portfolio valued HK$71,816,000 (2017: HK$95,849,000), comprising equity securities listed in Hong Kong, and debt instrument at fair value through other comprehensive income ("FVTOCI") portfolio (constituted by non-current and current portions) valued at HK$130,330,000 (2017: HK$147,406,000, previously classified as available-for-sale ("AFS") investments), comprising debt securities listed in Hong Kong or overseas. As a whole, the operation recorded a revenue of HK$10,607,000 (2017: HK$7,159,000) and a loss of HK$71,562,000 (2017: profit of HK$51,587,000).

Financial assets at FVTPL

At 31 December 2018, the Group held a financial asset at FVTPL portfolio amounting to HK$71,816,000 (2017: HK$95,849,000) measured at market/fair value. During the year under review, the portfolio generated revenue of HK$1,052,000 representing dividends from equity securities (2017: HK$2,088,000, representing dividends from equity securities of HK$1,832,000 and interest income from debt securities of HK$256,000). The Group recognised a net loss on financial assets at FVTPL of HK$80,636,000, which comprised net unrealised loss and net realised loss of HK$55,237,000 and HK$25,399,000 respectively (2017: 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). The realised loss recorded during the year represented loss on disposal of equity securities in open market and the unrealised loss represented fall in market value of those equity securities held by the Group at the year end.

At 31 December 2018, 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$71,816,000 are as below:

Category of companies	**Approximate weighting to the market/fair value of the Group's financial asset at FVTPL portfolio %**
Conglomerate	20.65
Education	15.29
Game publishing and service	31.54
Property	25.96
Others	6.56
	100.00

Management Discussion and Analysis

At 31 December 2018, the weightings of the Group's top five and other investments to the market/fair value of the Group's financial asset at FVTPL portfolio of HK$71,816,000 (together with other information) are as below:

Investee company's name and its principal activities#	Approximate weighting to the market/ fair value of the Group's financial asset at FVTPL porfolio %	% of shareholding interest %	Acquisition costs *HK$'000*	*Acquisition costs during the year/carrying amount at 1 January 2018 *HK$'000*	Market/fair value at 31 December 2018 *HK$'000*	Accumulated unrealised gain (loss) recognised up to 31 December 2018 *HK$'000*	Unrealised gain (loss) recognised during the year ended 31 December 2018 *HK$'000*	#Investee company's financial performance	#Future prospects of the investee company
			A	B	C	D = C – A	E = C – B		
Equity securities listed in Hong Kong									
FingerTango Inc. (stock code: 6860) Leading mobile game publisher and a pioneer in the simulation game publishing industry in China	25.49	0.52	25,284	25,284	18,307	(6,977)	(6,977)	For the year ended 31 December 2018, revenue decreased by 9% to RMB1,085,931,000 and profit for the year decreased by 35% to RMB155,595,000 as compared to 2017.	The investee company will insist on developing products with the first-class technology, and extending the lifecycle of its games with the continuous enriched and enhanced player experience, thereby improving the ability to monetization and continuing to generate stable revenue for the investee company.
Emperor International Holdings Limited (stock code: 163) Property investments, property development and hospitality	19.27	0.20	18,278	19,598	13,838	(4,440)	(5,760)	For the six months ended 30 September 2018, revenue increased by 5% to HK$1,536,451,000 and profit for the period increased by 53% to HK$2,575,489,000 as compared to the same period in 2017.	The investee company will continue to replenish its land bank through multiple channels in order to strengthen earnings and shareholders' value, and believes its investment properties will drive solid recurrent rental income in the long-run with its well developed portfolio of Grade-A commercial buildings.
China E-Information Technology Group Limited (stock code: 8055) Provision of an internet platform for the facilitation of education program in Chinese medicine and other advisory and training programs	15.29	1.17	9,304	9,304	10,982	1,678	1,678	For the year ended 31 December 2018, revenue increased by 10% to HK$57,856,000 while loss for the year increased by 19% to HK$79,013,000 as compared to 2017.	The investee company will implement cost-effective measures to streamline the operation so as to enhance the profitability and value of the e-learning business and will continue to look for other attractive investments in the PRC and locally in an attempt to diversify into different business areas to reduce the reliance upon existing e-learning business and strengthen the positive cash flow and earnings in the long run.

Management Discussion and Analysis

Investee company's name and its principal activities#	Approximate weighting to the market/ fair value of the Group's financial asset at FVTPL porfolio %	% of shareholding interest %	Acquisition costs HK$'000	*Acquisition costs during the year/carrying amount at 1 January 2018 HK$'000	Market/fair value at 31 December 2018 HK$'000	Accumulated unrealised gain (loss) recognised up to 31 December 2018 HK$'000	Unrealised gain (loss) recognised during the year ended 31 December 2018 HK$'000	#Investee company's financial performance	#Future prospects of the investee company
			A	B	C	D = C – A	E = C – B		
Life Healthcare Group Limited (stock code: 928) Healthcare services, money lending, apparel retail and securities trading and investments	14.20	1.60	21,084	21,084	10,196	(10,888)	(10,888)	For the six months ended 30 September 2018, revenue from continuing operations increased by 71% to HK$44,024,000 while loss for the period from continuing operations increased by 67% to HK$69,457,000 as compared to the same period in 2017.	The investee company will focus on improving the biological information analysis system and interpretation of clinical medicine system. In addition, the investee company intends to enlarge and diversify the types of its genetic testing products and the health data analysis services, and optimise the cooperation with professionals and hospitals.
CNQC International Holdings Limited (stock code: 1240) Property development, foundation and construction business in Singapore and Southeast Asia, Hong Kong and Macau	6.69	0.19	4,769	4,769	4,805	36	36	For the year ended 31 December 2018, revenue decreased by 27% to HK$7,507,891,000 and profit for the year decreased by 55% to HK$305,210,000 as compared to 2017.	The investee company will strive to maintain and capitalise upon its superior competitive strength in the property development business and consolidate its market position as a major local developer in Singapore. In addition, the investee company is actively seeking and studying potential property projects in various districts, including the acquisition of residential and commercial projects and the redevelopment of old buildings.
Others	19.06	N/A	47,706	47,014	13,688	(34,018)	(33,326)	–	–
	100.00		126,425	127,053	71,816	(54,609)	(55,237)		

\# Extracted from published financial information of the investee companies.

* The amount represented the costs of the securities acquired during the year ended 31 December 2018 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

Debt instruments at FVTOCI (debt instruments previously classified as AFS Investments)

At 31 December 2018, the Group's debt instrument at FVTOCI portfolio (constituted by non-current and current portions) of HK$130,330,000 (2017: HK$147,406,000, previously classified as AFS investments) was measured at market/fair value. During the year under review, the Group's debt instrument at FVTOCI portfolio generated total revenue amounting to HK$9,555,000 (2017: HK$5,071,000) representing interest income from debt securities. According to the maturity of the debt instruments, HK$14,622,000 (2017: HK$25,873,000, previously classified as AFS investments) was classified as current assets.

During the year under review, the Group invested HK$34,808,000 for acquiring debt securities issued by two property companies listed on the Stock Exchange.

At the year end, a net fair value loss on debt instruments at FVTOCI amounting to HK$13,583,000 (2017: HK$519,000, previously recognised as net fair value loss on AFS investments) was recognised as other comprehensive expense. Such fair value loss on debt instruments held by the Group was mainly a result of the general increase in market interest rates during the current year which caused the market value of debt instruments held by the Group to drop.

At 31 December 2018, the Group invested in bonds issued by an aircraft leasing company and seven property companies classified as debt instruments at FVTOCI and their respective weightings to the market/fair value of the Group's debt instruments at FVTOCI portfolio of HK$130,330,000 (together with other information) are as below:

Category of companies	Approximate weighting to the market/fair value of the Group's debt instrument at FVTOCI portfolio %	Yield to maturity on acquisition %	Acquisition costs HK$'000	*Acquisition costs during the year/carrying amount at 1 January 2018 HK$'000	Market/fair value at 31 December 2018 HK$'000	Accumulated fair value loss recognised up to 31 December 2018 HK$'000	Fair value loss recognised during the year ended 31 December 2018 HK$'000
			A	B	C	D = C – A	E = C – B
Debt securities listed in Hong Kong or overseas							
Aircraft leasing	10.41	4.93	15,444	15,461	13,562	(1,882)	(1,899)
Property	89.59	5.26 – 12.50	125,617	127,235	116,768	(8,849)	(10,467)
	100.00		141,061	142,696	130,330	(10,731)	(12,366)

* The amount represented the costs of the securities acquired during the year ended 31 December 2018 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.

The yield to maturity on acquisition of debt securities that were held by the Group at the year end ranged from 4.93% to 12.50% per annum.

Management Discussion and Analysis

Overall Results

For year ended 31 December 2018, the Group reported a loss attributable to owners of the Company of HK$115,227,000 (2017: HK$54,855,000) that mainly due to the net fair value loss on derivative component of the convertible notes issued by the Company of HK$24,370,000, which was non-cash in nature, and the net loss on financial assets at FVTPL of HK$80,636,000, though the losses were partly offset by the profitable results contributed by the money lending business and the absence of the share-based payments expense this year whilst an amount of HK$73,257,000 was recognised last year relating to granting of share options. Basic loss per share was HK2.26 cents and increased by HK1.09 cents when compared to the prior year (2017: HK1.17 cents).

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 the 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. During the year, on 4 April 2018, 8 October 2018 and 18 October 2018, convertible notes with aggregate principal amount of HK$26,000,000, HK$10,800,000 and HK$43,200,000 respectively were converted into ordinary shares of the Company and net fair value loss on derivative component of convertible notes totalling HK$24,370,000 was recognised. Such net fair value loss was calculated with reference to the fair values of the derivative component of convertible notes upon their conversion at the respective dates. 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.

At 31 December 2018, the net proceeds raised from the CN Subscription had been utilised as intended as approximately HK$40,000,000 had been applied by the money lending business for granting loans to borrowers and approximately HK$40,000,000 had been applied by the investment in securities business for acquiring corporate bonds.

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 placees 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 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.

Management Discussion and Analysis

At 31 December 2018, the net proceeds raised from the Share Placement had been utilised as intended as approximately HK$96,000,000 had been applied by the money lending business for granting loans to borrowers and approximately HK$99,000,000 had been applied by the investments in securities business for acquiring corporate bonds and listed equity securities as to approximately HK$60,000,000 and HK$39,000,000 respectively.

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 in the PRC. At 31 December 2018, capital had not yet been injected into the Limited Partnership, the Group is in negotiation of a project with good business potential and capital will be injected into the Limited Partnership if the Group has decided to invest in the project. Details of the Limited Partnership were set out in the announcement of the Company dated 8 November 2017.

During the year ended 31 December 2018, the Group financed its operation mainly by cash generated from its operations, funds raised through the CN Subscription and shareholders' funds. At the year end, the Group had current assets of HK$435,693,000 (2017: HK$524,860,000) and liquid assets comprising bank balances and cash as well as financial assets at FVTPL totaling HK$155,409,000 (2017: HK$383,198,000). The Group's current ratio, calculated based on current assets over current liabilities of HK$24,330,000 (2017: HK$143,613,000), was about 17.9 (2017: 3.7). The increase in current ratio in the current year was mainly due to the absence of convertible notes (2017: HK$76,145,000) and derivative financial liability (2017: HK$46,617,000) resulting from the full conversion of convertibles notes into ordinary shares of the Company during the year. At 31 December 2018, the Group's trade and other receivables and prepayments amounted to HK$12,780,000 (2017: HK$46,232,000). The decrease in trade and other receivables and prepayments was mainly due to the amount placed with securities brokers in relation to investment in securities activities decreased to HK$2,578,000 at the year end (2017: HK$37,411,000).

At 31 December 2018, the net assets of the Group increased to HK$575,053,000 (2017: HK$559,116,000). The Group's gearing ratio, calculated on the basis of total liabilities of HK$24,614,000 (2017: HK$147,804,000) divided by total assets of HK$599,667,000 (2017: HK$706,920,000), was about 4% (2017: 21%). The finance costs for the year amounted to HK$4,992,000 (2017: HK$4,955,000), which represented the effective interest on convertible notes issued in April 2017.

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.

Management Discussion and Analysis

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 operations 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. Any surplus funds in ARS are converted into US$ and remitted back to Hong Kong. As such, the ARS converted from the US$ denominated sale receipts and expenditures of the Argentinean operation are largely matched and the devaluation of ARS during the year does not have a significant impact on the foreign currency exposure of the operation. The Group currently does not have a formal foreign currency hedging policy for ARS, however, the management regularly monitors the foreign exchange exposure of ARS and will undertake appropriate hedging measures should significant exposures arise.

Contingent Liability

At 31 December 2018, the Group had no significant contingent liability (2017: nil).

Pledge of Assets

At 31 December 2018, the Group had no pledged assets (2017: nil).

Capital Commitment

Pursuant to the Limited Partnership Agreement, the Group is committed to contribute a total of RMB61,510,000 to subscribe for the interest in the Limited Partnership. At 31 December 2018, the Group had not yet injected any capital into the Limited Partnership.

Event After the Reporting Period

Save as disclosed above and in the "Chairman's Statement" section set out on pages 4 to 5 of this annual report, there has been no significant event affecting the Group since the end of the financial year.

HUMAN RESOURCES AND REMUNERATION POLICY

At 31 December 2018, the Group had a total 44 (2017: 27) employees including directors of the Company with 38 (2017: 20) employees in Hong Kong and the PRC and 6 (2017: 7) employees in Argentina. Staff costs, including directors' emoluments, amounted to HK$13,768,000 for the year (2017: HK$83,874,000, including staff costs of HK$10,617,000 and share-based payments expense for share options granted to directors and staff of HK$73,257,000 in aggregate). If the effect of the share-based payments expense in the prior year is excluded, the increase in staff costs of HK$3,151,000 was mainly due to the increase of the Group's headcounts during the year. 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 schemes for employees in the PRC and Argentina. In addition, the Group provides other employee benefits which include medical insurance, share option scheme and discretionary bonus.

Management Discussion and Analysis

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, earthquake, fire or other calamity. 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 37 to the consolidated financial statements.

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 2018, there were no significant dispute between the Group and its employees, customers and suppliers.

Biographical Details of Directors and Senior Management

The biographical details of Directors and senior management at 29 March 2019, the date of this annual report, are set out below:

EXECUTIVE DIRECTORS

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

Aged 45, joined the Company as an Executive Director in May 2017 and was appointed the Chief Executive Officer and the Chairman of the Board in January 2018 and July 2018 respectively. 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 53, 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, a fellow of the Hong Kong Securities and Investment Institute, and a fellow and Chartered Governance Professional of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. 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.

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

Aged 34, 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 38, joined the Company as an Executive Director in October 2016 and was appointed the Company Secretary in November 2017. Mr. Chan is a member of the Corporate Governance Committee. He is also a director of a subsidiary of the Company. Mr. Chan 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.

Biographical Details of Directors and Senior Management

NON-EXECUTIVE DIRECTOR

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

Aged 58, joined the Company as an Executive Director and the Chairman of the Board in October 2016. Mr. Suen stepped down from his position as the Chairman of the Board and was re-designated as a Non-executive Director in July 2018. 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

Aged 47, 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.

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

Aged 52, 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 has extensive experience in corporate finance, accounting and auditing. Mr. Pun is an independent non-executive director of Birmingham Sports and Huajun International Group 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.

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS (continued)

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

Aged 49, 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.

Mr. Kwong Tin Lap ("Mr. Kwong")

Aged 54, joined the Company as an Independent Non-executive Director in December 2018. Mr. Kwong is a member of the Audit Committee, the Remuneration Committee, the Nomination Committee and the Corporate Governance Committee. He holds a Professional Diploma in Accountancy from the Hong Kong Polytechnic (now known as The Hong Kong Polytechnic University) and a Master of Science in Information Systems degree from The Hong Kong Polytechnic University. Mr. Kwong is a Certified Public Accountants (Practising) in Hong Kong, an associate of the Hong Kong Institute of Certified Public Accountants and a fellow of the Association of Chartered Certified Accountants. He has extensive experience in accounting, finance, auditing and corporate management. Mr. Kwong had been a director of certain Hong Kong listed companies and is currently a director of CCTH CPA Limited.

SENIOR MANAGEMENT

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

Aged 48, joined the Company as Financial Controller in November 2009. Mr. Pak graduated from 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 (now known as TCL Electronics Holdings Limited) in its finance department 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 54, 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 Company for the year ended 31 December 2018.

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 businesses, 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. In addition, discussions on the Group's environmental policies and performance are contained in the Environmental, Social and Governance Report on pages 40 to 53 of this annual report.

RESULTS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 60.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: 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 144. 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 29 and 30 to the consolidated financial statements, respectively.

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 2018, 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 2018, 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$918,270,000 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 77% of the revenue for the year and revenue from the largest customer accounted for approximately 62%. 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. Liu Zhiyi
Mr. Sue Ka Lok
Mr. Yiu Chun Kong
Mr. Chan Shui Yuen

Non-executive Director:

Mr. Suen Cho Hung, Paul (re-designated on 1 July 2018)

Independent Non-executive Directors:

Mr. To Yan Ming, Edmond
Mr. Pun Chi Ping
Ms. Leung Pik Har, Christine
Mr. Kwong Tin Lap (appointed on 17 December 2018)

In accordance with bye-law 100(A) of the Company's Bye-laws, Mr. Liu Zhiyi, Mr. Sue Ka Lok and Mr. Pun Chi Ping will retire at the forthcoming annual general meeting of the Company (the "2019 AGM") by rotation and, being eligible, will offer themselves for re-election in the 2019 AGM.

In addition, in accordance with bye-law 103(B) of the Company's Bye-laws, Mr. Kwong Tin Lap will hold office until the 2019 AGM and, being eligible, will offer himself for re-election in the 2019 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 2019 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.

DIRECTORS' REMUNERATION

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save for the related party transactions as disclosed in Note 35 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

At 31 December 2018, 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 underlying shares held	Total interests	Approximate percentage of the Company's issued share capital *(Note (i))*
Mr. Liu Zhiyi ("Mr. Liu")	Interest of controlled corporation	1,000,000,000 *(Note (ii))*	–	–	–
	Beneficial owner	–	43,500,000 *(Note (iv))*	1,043,500,000	19.913%
Mr. Suen Cho Hung, Paul ("Mr. Suen")	Interest of controlled corporation	862,085,620 *(Note (iii))*	–	862,085,620	16.451%
Mr. Sue Ka Lok	Beneficial owner	–	22,800,000 *(Note (iv))*	22,800,000	0.435%
Mr. Yiu Chun Kong	Beneficial owner	–	600,000 *(Note (iv))*	600,000	0.011%
Mr. Chan Shui Yuen	Beneficial owner	–	900,000 *(Note (iv))*	900,000	0.017%
Mr. To Yan Ming, Edmond	Beneficial owner	–	300,000 *(Note (iv))*	300,000	0.006%
Mr. Pun Chi Ping	Beneficial owner	–	300,000 *(Note (iv))*	300,000	0.006%
Ms. Leung Pik Har, Christine	Beneficial owner	–	300,000 *(Note (iv))*	300,000	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 5,240,344,044 shares of the Company in issue at 31 December 2018.

(ii) These interests were held by BJHK Company Limited ("BJHK"), which was wholly owned by Mr. Liu. Mr. Liu was the sole director of BJHK. Accordingly, Mr. Liu was deemed to be interested in 1,000,000,000 shares of the Company under the SFO.

(iii) 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 was the sole director of Billion Expo and Premier United. Accordingly, Mr. Suen was deemed to be interested in 862,085,620 shares of the Company under the SFO.

(iv) This represented the interest of the underlying shares issuable under the share options granted by the Company 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).

Save as disclosed above, at 31 December 2018, 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 Shares, Underlying Shares and Debentures" above and in the "Share Option Scheme" disclosure in Note 30 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 30 to the consolidated financial statements.

Report of the Directors

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

At 31 December 2018, 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 and underlying shares of the Company:

Name of shareholders	Capacity and nature of interest	Number of shares held	Number of underlying shares held	Total interests	Approximate percentage of the Company's issued share capital *(Note (i))*
Mr. Liu	Interest of controlled corporation	1,000,000,000 *(Note (ii))*	–	–	–
	Beneficial owner	–	43,500,000 *(Note (iv))*	1,043,500,000	19.913%
BJHK	Beneficial owner	1,000,000,000 *(Note (ii))*	–	1,000,000,000 *(Note (ii))*	19.083%
Mr. Suen	Interest of controlled corporation	862,085,620 *(Note (iii))*	–	862,085,620	16.451%
Premier United	Interest of controlled corporation	862,085,620 *(Note (iii))*	–	862,085,620	16.451%
Billion Expo	Beneficial owner	862,085,620 *(Note (iii))*	–	862,085,620	16.451%
China Shipbuilding Capital Limited	Beneficial owner	700,170,000	–	700,170,000	13.361%
China Create Capital Limited	Beneficial owner	357,705,000	–	357,705,000	6.826%

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO (continued)

Notes:

(i) The approximate percentage of the Company's issued share capital was calculated on the basis of 5,240,344,044 shares of the Company in issue at 31 December 2018.

(ii) These interests were held by BJHK, which was wholly owned by Mr. Liu. Mr. Liu was the sole director of BJHK. Accordingly, Mr. Liu was deemed to be interested in 1,000,000,000 shares of the Company under the SFO.

(iii) 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 was the sole director of Billion Expo and Premier United. Accordingly, Mr. Suen was deemed to be interested in 862,085,620 shares of the Company under the SFO.

(iv) This represented the interest of the underlying shares issuable under the share options granted by the Company 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).

The interests of Mr. Liu and BJHK in 1,000,000,000 shares of the Company referred to in Note (ii) above related to the same parcel of shares.

The interests of Mr. Suen, Premier United and Billion Expo in 862,085,620 shares of the Company referred to in Note (iii) 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 at 31 December 2018 as required pursuant to section 336 of the SFO.

CONNECTED TRANSACTIONS

The related party transactions as disclosed in Note 35 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.

Report of the Directors

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 and the share option scheme of the Company as disclosed in Notes 27 and 30 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 at the date of this report.

AUDIT COMMITTEE

The audited consolidated financial statements of the Company for the year ended 31 December 2018 have been reviewed by the Audit Committee 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 2018 have been audited by Deloitte Touche Tohmatsu.

A resolution will be proposed at the 2019 AGM to re-appoint Deloitte Touche Tohmatsu as the auditor of the Company.

On behalf of the Board

Liu Zhiyi
Chairman and Chief Executive Officer

Hong Kong, 29 March 2019

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 to the Listing Rules for the year ended 31 December 2018, except for the following deviations with reasons as explained:

Chairman and chief executive

Code Provision A.2.1

Code Provision A.2.1 of the CG Code requires the roles of the chairman and chief executive should be separate and should not be performed by the same individual.

Deviation

There has been a deviation from the Code Provision A.2.1 due to Mr. Liu Zhiyi, an Executive Director of the Company, has served both roles of the chairman and the chief executive officer since 1 July 2018. The Board believes that vesting the roles of chairman and chief executive officer in the same person provides the Company with strong and consistent leadership in the development and execution of long-term business strategy.

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 former Chairman of the Board, Mr. Suen Cho Hung, Paul, was unable to attend the annual general meeting of the Company held on 27 June 2018 (the "2018 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 2018.

Corporate Governance Report

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.

At 29 March 2019, the date of this annual report, the Board comprises nine directors, four of which are Executive Directors, namely Mr. Liu Zhiyi ("Mr. Liu") (Chairman and Chief Executive Officer), Mr. Sue Ka Lok ("Mr. Sue"), Mr. Yiu Chun Kong ("Mr. Yiu") and Mr. Chan Shui Yuen, and one Non-executive Director, namely Mr. Suen Cho Hung, Paul ("Mr. Suen"), and four are Independent Non-executive Directors, namely Mr. To Yan Ming, Edmond ("Mr. To"), Mr. Pun Chi Ping ("Mr. Pun"), Ms. Leung Pik Har, Christine ("Ms. Leung") and Mr. Kwong Tin Lap. 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 is the substantial shareholder of PT International Development Corporation Limited ("PT International") (HKEX stock code: 372) of which Mr. Sue is an executive director. Mr. Suen was a deemed substantial shareholder of PYI Corporation Limited ("PYI") (HKEX stock code: 498) through his interest in PT International until 4 October 2018 and Mr. Sue is an executive director of PYI. 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 Mr. Liu, the Chairman and the Chief Executive Officer, and among members of the Board.

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.

The Directors have participated in continuous professional development by attending seminars, in-house briefings and reading materials on the related areas to develop and refresh their knowledge and skills. During the year ended 31 December 2018, all the Directors (including Mr. Liu Zhiyi (Chairman and Chief Executive Officer), Mr. Sue Ka Lok, Mr. Yiu Chun Kong, Mr. Chan Shui Yuen, Mr. Suen Cho Hung, Paul, Mr. To Yan Ming, Edmond, Mr. Pun Chi Ping, Ms. Leung Pik Har, Christine and Mr. Kwong Tin Lap) have complied with Code Provision A.6.5 of the CG Code and have provided the Company with their respective training records pursuant to the CG Code.

During the year ended 31 December 2018, four regular Board meetings and 2018 AGM were held and the attendance of each director is set out as follows:

	Number of attendance	
	Board Meetings	**2018 AGM**
Executive Directors		
Mr. Liu Zhiyi	4/4	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
Non-executive Director		
Mr. Suen Cho Hung, Paul (re-designated on 1 July 2018)	4/4	0/1
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
Mr. Kwong Tin Lap (appointed on 17 December 2018)	1/1	N/A

Corporate Governance Report

CHAIRMAN AND CHIEF EXECUTIVE

Code Provision A.2.1 of the CG Code requires the roles of the chairman and chief executive should be separate and should not be performed by the same individual. The Company has deviated from the requirement commencing from 1 July 2018 due to Mr. Liu Zhiyi, an Executive Director of the Company, has served both roles of the chairman and the chief executive officer since 1 July 2018. Although this arrangement constitutes a deviation from the CG Code, the Board considers that the management structure of the Company, where the leadership of the Board is distinct from the executive responsibilities for running of the business operations, will not impair the balance of power and authority between the Board and the management of the business, the Board further believes that vesting the roles of chairman and chief executive officer in the same person provides the Company with strong and consistent leadership in the development and execution of long-term business strategy.

TERM OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

According to the CG Code, the non-executive directors should be appointed for a specific term and subject to re-election. All the Non-executive Directors (including the Independent Non-executive Directors) are 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 Non-executive Directors (including 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. At the date of this annual report, the Remuneration Committee comprises four Independent Non-executive Directors, namely Mr. To Yan Ming, Edmond, Mr. Pun Chi Ping, Ms. Leung Pik Har, Christine and Mr. Kwong Tin Lap. 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.

REMUNERATION COMMITTEE (continued)

The Remuneration Committee met one time during the year ended 31 December 2018 to review the remuneration package for an executive director. 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
Mr. Kwong Tin Lap (appointed on 17 December 2018)	N/A

In addition to the Remuneration Committee meeting, the Remuneration Committee also reviewed and made recommendation to the Board on the letters of appointment for a non-executive director and an independent non-executive director by way of circulation during the year ended 31 December 2018.

NOMINATION COMMITTEE

The Nomination Committee has specific written terms of reference that is in compliance with the CG Code. At the date of this annual report, the Nomination Committee comprises four Independent Non-executive Directors, namely Mr. To Yan Ming, Edmond, Mr. Pun Chi Ping, Ms. Leung Pik Har, Christine and Mr. Kwong Tin Lap. 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 2018 to review the independence of independent non-executive directors, review the structure, size and composition of the Board; and review and make recommendation to the Board on the re-election of directors. 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
Mr. Kwong Tin Lap (appointed on 17 December 2018)	N/A

In addition to the Nomination Committee meeting, the Nomination Committee also reviewed and made recommendation to the Board on the appointment of the chief executive officer and the appointment of an independent non-executive director by way of circulation during the year ended 31 December 2018.

NOMINATION COMMITTEE (continued)

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 2018 is set out in the "Independent Auditor's Report" on pages 54 to 59 of this annual report.

For the year ended 31 December 2018, remuneration payable to the Company's auditor, Deloitte Touche Tohmatsu, for the provision of audit services was HK$2,200,000. During the year, HK$139,000 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. At the date of this annual report, the Audit Committee comprises four Independent Non-executive Directors, namely Mr. To Yan Ming, Edmond, Mr. Pun Chi Ping, Ms. Leung Pik Har, Christine and Mr. Kwong Tin Lap, 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.

AUDIT COMMITTEE (continued)

The Audit Committee met two times during the year ended 31 December 2018 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
Mr. Kwong Tin Lap (appointed on 17 December 2018)	N/A

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 2017 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 2018 and recommended to the Board for approval;

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 2017;

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 Report

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. At the date of this annual report, the Corporate Governance Committee comprises four members, including two Executive Directors, namely Mr. Sue Ka Lok and Mr. Chan Shui Yuen, and two Independent Non-executive Directors, namely Mr. To Yan Ming, Edmond and Mr. Kwong Tin Lap. 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 2018 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	1/1
Mr. Kwong Tin Lap (appointed on 17 December 2018)	N/A
Mr. Sue Ka Lok	1/1
Mr. Chan Shui Yuen	1/1

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2018, which give a true and fair view of the state of affairs of the Company and of the Group at that date and of the Group's results and cash flows for the year then ended and are properly prepared on the going concern basis in accordance with the statutory requirements and applicable accounting standards.

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.

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 2018. 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.

Corporate Governance Report

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

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 2018. The Company has complied with the relevant code provisions of the CG Code relating to risk management and internal control.

COMPANY SECRETARY

Mr. Chan Shui Yuen ("Mr. Chan"), an Executive Director of the Company, was appointed the Company Secretary on 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 2018.

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.

SHAREHOLDER RIGHTS (continued)

Procedures for shareholders to put forward proposals at general meetings (continued)

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.

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

OVERVIEW

The Board of EPI (Holdings) Limited is pleased to present this Environmental, Social and Governance (the "ESG") report of the Company and its subsidiaries (hereinafter referred to as the "Group" or "we" or "our") which summarises the efforts and achievements made by the Group in corporate responsibility and sustainable development.

The Board is responsible for the Group's ESG strategy and reporting, evaluating and determining the Group's ESG-related risks, and ensuring that appropriate and effective ESG risk management and internal control systems are in place. In order to determine the ESG reporting scopes, the key management personnel has discussed internally and identified the environmental, social and operating items, and assessed their importance to the stakeholders and the Group. The summary of material ESG items are listed out in this report.

REPORT SCOPE AND BOUNDARIES

This report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide and complied under the "comply or explain" provision as set out in Appendix 27 to the Listing Rules. With regard to corporate governance aspect, please refer to the Corporate Governance Report on pages 29 to 39 of this annual report. This ESG report mainly covers the petroleum exploration and production, money lending and investment in securities businesses of the Group for the year ended 31 December 2018.

A. STAKEHOLDERS' ENGAGEMENT

The Group is committed to maintaining the sustainable development of its business and providing support to environmental protection and the community in which it operates. The Group maintains a close tie with its stakeholders, including government/regulatory organisations, shareholders/investors, employees, customers, suppliers, community etc. and strives to balance their opinions and interests through constructive communications in order to determine the directions of its sustainable development. The Group assesses and determines its environmental, social and governance risks, and ensures that the relevant risk management and internal control systems are operating properly and effectively.

Environmental, Social and Governance Report

The following table contains the main expectations and concerns of the key stakeholders, as identified by the Group, and the corresponding management response:

Stakeholders	Expectations and Concerns	Management Response
Government/ regulatory organisations	➢ Compliance in laws and regulations ➢ Fulfill tax obligation	➢ Uphold integrity and compliance in operations ➢ Pay tax on time in return contributing to the society ➢ Establish comprehensive and effective internal control system
Shareholders/ investors	➢ Return on investment ➢ Information transparency ➢ Corporate governance system	➢ Management possesses experience and professional knowledge in business sustainability ➢ Ensure transparency and efficient communications published in websites of the Stock Exchange and the Company ➢ Continuous improvement to the internal control system and focus on risk management
Employees	➢ Labour rights ➢ Career development ➢ Compensation and welfare ➢ Health and workplace safety	➢ Set up contractual obligations to protect labour rights ➢ Encourage employees to participate in continuous education and professional trainings to enhance competency ➢ Establish fair, reasonable and competitive remuneration scheme ➢ Pay attention to occupational health and workplace safety
Customers	➢ High quality products and customer services	➢ Provide high quality products and services continuously in order to maintain customer satisfaction ➢ Ensure proper contractual obligations are in place
Suppliers	➢ Integrity ➢ Corporate reputation	➢ Ensure proper contractual obligations are in place ➢ Establish policy and procedures in supply chain management ➢ Select suppliers with due care
Community	➢ Environmental protection ➢ Community contribution ➢ Economic development	➢ Pay attention to climate change ➢ Encourage employees to actively participate in charitable activities and voluntary services ➢ Ensure good and stable financial performance and business growth

B. MATERIALITY MATRIX

During the reporting period, the Group has evaluated a number of environmental, social and operating items, and assessed their importance to stakeholders and the Group through various channels. This assessment helps to ensure that the Group's business objectives and development direction are in line with the stakeholders' expectations and requirements. The Group's and stakeholders' matters of concern are presented in the following materiality matrix:

Materiality Matrix

Importance to Stakeholders	Low	Medium	High
High	◆ Anti-discrimination measures ◆ Labour rights protection	◆ Talent management ◆ Staff training and promotion opportunity ◆ Staff compensation and welfare	➢ Customers' satisfaction ➢ Product and customer service quality ➢ Suppliers management ◆ Occupational health and workplace safety
Medium	➢ Community contribution	➢ Anti-corruption measures ✧ Air and greenhouse gas emissions ✧ Energy conservation measures	➢ Operational compliance ➢ Client's privacy measures and protection
Low	➢ Product safety ◆ Preventive measures for child and forced labour ✧ Water resources utilisation ✧ Generation of non-hazardous wastes		

Importance to the Group

✧ Environmental ◆ Employee ➢ Operation

C. ENVIRONMENTAL

The Group has commenced its petroleum exploration and production business since the end of 2009. During the reporting period, the Group continued to engage in petroleum exploration and production in the Chañares Herrados 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"). According to the agreements signed between the Group and Chañares, the Group has the right to drill new wells and perform workover on its existing oil wells. Chañares also act as the operator of the Concession. Once the Group completes drilling 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 Concession, 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 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.

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 daily production and sales processes of the Group's petroleum exploration and production operation 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:

Emissions and Energy Consumption

The Group has always been committed to assessing and reporting its carbon footprint to the public. As the Group's other operations mainly operate in an office setting, the major environmental impact are the greenhouse gas and air emissions generated by electricity, natural gas and fuel consumption of office vehicles. The Group's operating initiatives is to reduce the emission of carbon dioxide generated in its business activities. Therefore, the Group focuses on carrying out various energy saving measures to minimise the impact on the environment resulted from emissions. During the reporting period, the Group produced 56.64 Carbon Dioxide Equivalent ("CO_{2e}") tonnes of greenhouse gas ("GHG") emission, including 37.96 CO_{2e} tonnes of Scope 1 GHG emissions and 18.68 CO_{2e} tonnes of Scope 2 GHG emissions.

Emissions and Energy Consumption (continued)

The greenhouse gas emission from the operation has been calculated and measured as follows:

	2018		2017	
Scope 1 – Direct Emission	**Consumption**	**Carbon Dioxide Equivalent Emission (in tonne)**	**Consumption**	**Carbon Dioxide Equivalent Emission (in tonne)**
Gasoline and diesel	5,916 Liters	37.96	4,436 Liters	45.47
Intensity (per employee)	134 Liters	0.86	164 Liters	1.68

	2018		2017	
Scope 2 – Indirect Emission	**Consumption**	**Carbon Dioxide Equivalent Emission (in tonne)**	**Consumption**	**Carbon Dioxide Equivalent Emission (in tonne)**
Electricity	21,390 kWh	13.35	27,249 kWh	17.35
Natural gas	2,402,930 Liters	5.33	3,262,110 Liters	7.23
		18.68		24.58
Intensity (per employee):				
Electricity	486 kWh	0.30	1,009 kWh	0.64
Natural gas	54,612 Liters	0.12	120,819 Liters	0.27
		0.42		0.91

Emissions and Energy Consumption (continued)

Fuel Consumption

During the reporting period, the Nitrogen Oxides ("NO_X"), Sulphur Oxides ("SO_X") and Particulate Matter ("PM") emitted by vehicles used by the Group accounted for 1.62 tonnes, 0.20 tonne, 0.45 tonne respectively, compared to 1.58 tonnes, 0.26 tonne, 0.67 tonne in 2017. During the reporting period, one of the vehicles was discarded and a rental car with smaller fuel consumption was used in Argentina, and hence emissions of NO_X, SO_X and PM were generally reduced compared to 2017. However, as the Group has expanded its business into the PRC, the fuel consumption of the vehicles used by the PRC operation which consumed gasoline contributed to a slight increase in NO_X emissions. Since the CO_{2e} of gasoline emission factor is less than that of diesel, the increase in the proportion of the gasoline consumption caused the overall CO_{2e} from fuel consumption to decrease.

Natural Gas Consumption

The operation in Argentina mainly uses natural gas for heating. To minimise gas consumption, the Group reminds its employees to turn off the heater after work; conducts regular inspection and carries out corrective repairs and maintenance to the equipment and pipelines to enhance thermal efficiency of natural gas. In 2018, the natural gas consumption was 2,402,930 liters. The relatively warm winter this year led to a 26.34% decrease when compared to the consumption in 2017, and the CO_{2e} emission decreased accordingly.

Energy Conservation Initiatives

The Group encourages its employees to change their habit of using electrical appliances; and introduced control measures include switching off lightings, air-conditioners, computers, personal electronic devices and office equipment after work and/or when they are idle; and turned on power saving mode. The Group also focuses on keeping all electronic appliances well-maintained so as to extend the life of the equipment. As a result of various energy conservation initiatives, the Group consumed electricity of 21,390 kWh during the reporting period, representing a decrease of 21.50% when compared to the consumption in 2017, and the CO_{2e} emission decreased accordingly. Besides, the Group has established policies relating to business vehicles such as restricting their use, eliminating excessive fuel consumption, and regular vehicle inspection and maintenance.

Water Consumption

The Group does not face any water supply control problem as it is provided by municipal to the office building; and regularly orders drinking water from external supplier to eliminate use of electricity in running a water supply system. Although the Group does not has full controls over water supply, it recognises the scarcity of resources the environment could offer and always encourages its staff members to cherish water usage, such as putting up "save water" sign in the prominent places in the pantry and toilets as a reminder. The water consumption was 259 tonnes in 2018, as compared to 216 tonnes in previous year. The increase was mainly due to an isolated incident of water leakages related to the operation in Argentina during the year. The Group will pay attention to the water pipes maintenance to improve the situation.

Waste Reduction

The Group does not generate any hazardous waste. Waste management mainly involves recycling waste papers and collection of domestic wastes. During the reporting period, the Group's business consumed 0.73 tonne of paper, with a 4.29% increase from 2017's consumption of 0.70 tonne. A slight increase in consumption of paper was due to the inclusion of paper usage from the new business in the PRC. In addition to our energy conservation practices, the Group has introduced measures to reduce wastes production. The Group encourages its employees to read documents in electronic format, to consider the environment before printing, to dispatch memos and announcements via emails, to preview document layout, and to print documents on both side of the papers. Clearly labelled recycling bins are provided to collect waste papers, plastic bottles, ink cartridges, etc. The Group also encourages its employees to reduce use of non-recyclable materials to minimise the adverse impact on the environment.

The Environment and Natural Resources

The Group's other operations do not have significant impact on the environment and natural resources. The Company encourages staff to adopt environmentally responsible behaviour and raise awareness of environmental protection. As mentioned in the above sections, the Company has implemented various measures to reduce energy consumption, protect water resources and reduce waste.

Compliance

During the reporting period, the Group did not involve in any non-compliance incidents relating to environmental protection. In addition, the Group did not involve in any non-compliance in relation to air and greenhouse gas emissions, discharge into water and land, and generation of hazardous and non-hazardous waste.

D. SOCIAL

Connecting with the right people, building social capital and relationships, showing appreciation to staff, vendors and customers who make the business run are the cornerstones of business success.

Employment and Labour Practices

Employment

Our employees are critical in our operations. We always view employees as core asset 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 strive 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 regulations.

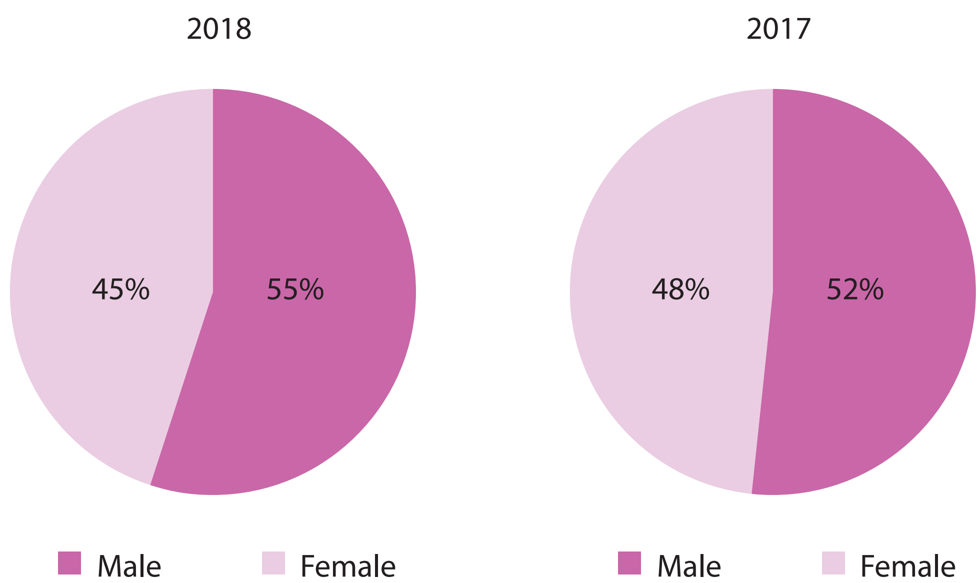
Employment and Labour Practices (continued)

The Group always follows the principles of fairness, equality, competitive and non-discrimination to hire outstanding talents, and devotes 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 the Group.

Workforce

The composition of the Group's employees is analysed by gender, employment type and age group as follows:

(i) Percentage of Employees by Gender

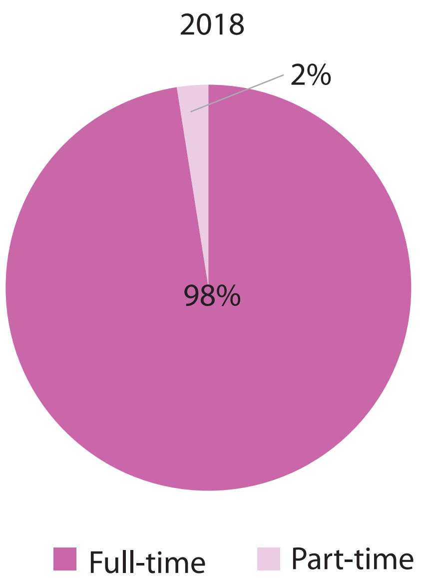


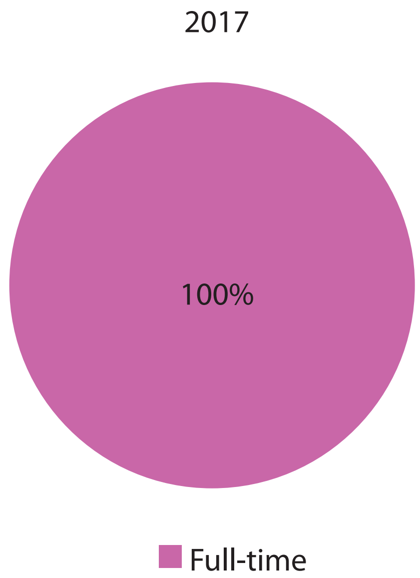
Note: The analysis for Percentage of Employees by Gender was based on full-time employees.

Employment and Labour Practices (continued)

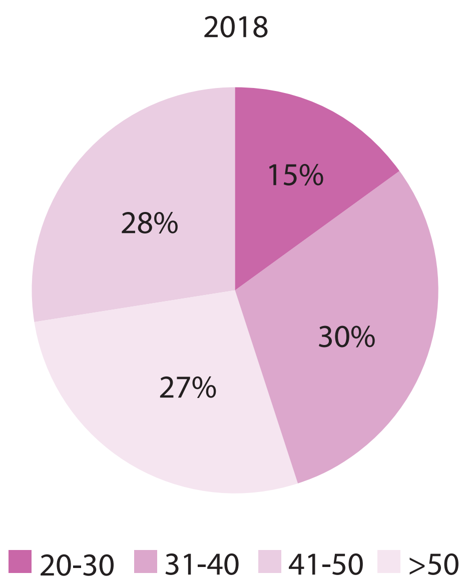
Workforce (continued)

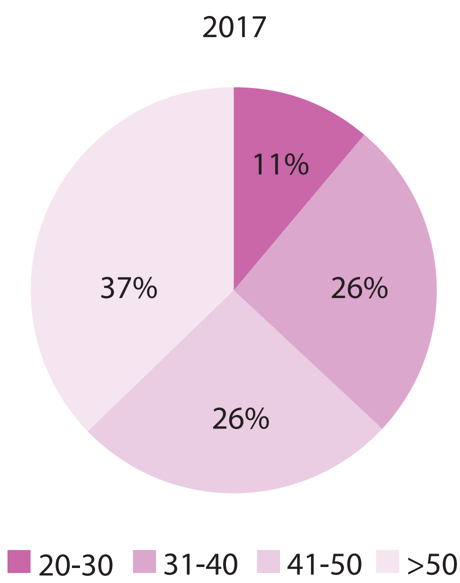
(ii) Percentage of Employees by Employment Type





(iii) Percentage of Employees by Age Group





Note: The analysis for Percentage of Employees by Age Group was based on full-time employees.

There is no significant difference between the two years in respect of the above employee composition analyses.

Employment and Labour Practices (continued)

Working Hours, Promotion, Termination, Compensation and Other Benefits

At 31 December 2018, the Group had 44 (2017: 27) employees in total; 27 (2017: 11) in Hong Kong, 11 (2017: 9) in the PRC and 6 (2017: 7) in Argentina. During the reporting period, 4 employees left the Group, all of them were compensated in accordance with the applicable local labour and employment laws and regulations. There was no employee left or being terminated in 2017. The employee turnover rate for 2018 is about 9.1% (2017: nil), which is still at a relatively low level.

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 operate retirement plans (pension schemes for employees in the PRC and Argentina and Mandatory Provident Fund Scheme for employees in Hong Kong) for employees in compliance with local law requirements.

In addition to national mandatory holidays, employees are entitled to annual leave, compensated leave and other compassionate leave. 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. In general, 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. 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.

Environmental, Social and Governance Report

Employment and Labour Practices (continued)

Working Hours, Promotion, Termination, Compensation and Other Benefits (Continued)

In order to improve employee satisfaction, to enhance the cohesion between employees and help them to build up sense of belongings, the Group continues to optimise the annual performance appraisal, remuneration, recognition and reward process, to improve the work environment and organised various recreational activities.

Health and Safety

The Group always puts health and safety of its employees as its first priority, and injury prevention is especially important as part of our management practices. The Group established 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 organises 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 programs as they strengthen safety awareness and self-protecting tendencies of employees and maintain 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, shockproof 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 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.

Employment and Labour Practices (continued)

Development and Training

An excellent corporate team is critical to the Group's sustainable and long-term business development. Therefore, the Group encourages its employees to continue study and lifelong learning. The Group organized internal and external trainings in explaining the operational procedures by business, risk assessment and management policies and contingency plan; subsidised employees to attend training courses whenever necessary. New hires are required to participate in induction orientation introducing the corporate culture, industry knowledge, the Group's organisational structure, and operational safety, etc. Ongoing training can enhance the employees' professional knowledge and work skills; and also provide a reasonable guarantee to ensure that the employees have the necessary technical knowledge, professional skills and business ethics; and are able to discharge of duties efficiently and with integrity. For example, the Argentina finance team provided technical updates to the Group's employees on topics relating to their local tax, legal and accounting standards.

Labour Standards

The Group cherishes human rights and prohibits any unethical hiring practices, including child and forced labour, by conducting background checks and reference checks in its hiring process. During the reporting period, the Group did not hire any applicant under the legal working age in order to comply with the local laws and regulations in respect of child and forced labour.

Compliance

During the reporting period, the Group did not involve in any non-compliance incidents relating to employment, human rights and labour practices, and occupational health and safety.

Operating Practices

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 oil field located. We have also established strict policy in selecting suppliers and service providers. Periodic supplier and service provider performance evaluation is conducted to better control and assure good quality.

The Group also serves to maintain long-term, stable and strategic cooperative relationships with suppliers with good credit history, high product or service quality, proven environmental compliance and sound commitment to social responsibility. Such bases are used to establish an efficient and green supply chain system in selecting suppliers and service providers; and to conduct regular performance reviews with an aim to effectively control its product and service quality.

Environmental, Social and Governance Report

Operating Practices (continued)

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 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.

Anti-corruption

The Group always attach importance to creating a harmonious and honest working environment and we commit to achieving and maintaining 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, and strictly follow the 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 litigation of corruption.

Community Involvement

The Group views sustainable development and community contribution as our goals. We believe in people-oriented management principle, carry out 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 taxpayer 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. SUMMARY OF ENVIRONMENTAL DATA AND PERFORMANCE

	Unit	2018	2017
Greenhouse gas emissions:			
Scope 1:			
Total	Tonne	37.96	45.47
Intensity	Tonne (per employee)	0.86	1.68
Scope 2:			
Total	Tonne	18.68	24.58
Intensity	Tonne (per employee)	0.42	0.91
Air emissions:			
Nitrogen Oxides	Tonne	1.62	1.58
Sulphur Oxides	Tonne	0.20	0.26
Particulate Matter	Tonne	0.45	0.67
Energy and water consumption:			
Electricity:			
Total	kWh	21,390.00	27,249.00
Intensity	kWh (per employee)	486.14	1,009.22
Diesel:			
Total	Liter	1,699.09	3,069.14
Intensity	Liter (per employee)	38.62	113.67
Gasoline:			
Total	Liter	4,217.05	1,366.45
Intensity	Liter (per employee)	95.84	50.61
Natural gas:			
Total	Liter	2,402,930.00	3,262,110.00
Intensity	Liter (per employee)	54,612.05	120,818.89
Water:			
Total	Tonne	259.00	216.00
Intensity	Tonne (per employee)	5.89	8.00

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 60 to 143, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 the 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.

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 period. 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 management judgement involved. The carrying value of oil and gas properties reported under property, plant and equipment as at 31 December 2018 was HK$46,130,000 (Note 18 to the consolidated financial statements). As detailed in Notes 4 and 18 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 projections. 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 at a suitable discount rate in order to calculate the present value. The management of the Group determined that there was impairment loss being recognised in profit or loss amounting to HK$3,383,000 on the oil and gas properties during the year ended 31 December 2018.	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 competence, capabilities and objectivity of the external independent valuer; • 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.

Independent Auditor's Report

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of loan and interest receivables	
We identified the impairment assessment of loan and interest receivables as a key audit matter due to the significance of balances to the Group's consolidated financial position and the involvement of significant management judgement in evaluating the expected credit losses ("ECL") of loan and interest receivables at the end of the reporting period. As detailed in Note 4 to the consolidated financial statements, in making the assessment, the loan and interest receivables from borrowers are assessed individually by the management of the Group, based on the financial background, financial condition and the historical settlement records, including the past due dates and default rates, of each borrower and reasonable and supportable forward-looking information such as macroeconomic data that is available without undue cost or effort. Each borrower is assigned a risk grading under internal credit ratings to calculate the ECL, taking into consideration of the estimates of expected cash shortfalls. At every reporting date, the historical settlement records are reassessed and changes in the forward-looking information are considered. The carrying amount of the loan and interest receivables is HK$251,652,000 in aggregate and the Group's impairment allowance on loan and interest receivables is HK$7,052,000 in aggregate as at 31 December 2018 as set out in Note 22 to the consolidated financial statements.	Our procedures in relation to impairment assessment of loan and interest receivables included: • Understanding the Group's policy on granting loans to its borrowers and the Group's credit and impairment assessments including the related credit control and loan monitoring process; • Checking the past due dates of outstanding loan and interest receivables against the loan agreements for the terms of the loans to identify any significant change in credit risk or default in loan and interest receivables; • Testing the integrity of information used by management to develop the impairment assessment of the loan and interest receivables as at year-end by checking the historical settlement records on a sample basis; • Evaluating the expected cash shortfalls estimated by the management by checking the expected cash flows from the realisation of collaterals received against publicly available information; and • Assessing the reasonableness of forward-looking information used by the Group.

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.

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.

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

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.

- 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.

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

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 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	5	**71,419**	57,870
Sales of petroleum		**43,998**	42,914
Interest income		**26,369**	12,868
Others		**1,052**	2,088
Purchases, processing and related expenses		**(29,017)**	(31,752)
Other income and losses, net	7	**(577)**	(430)
Net (loss) gain on financial assets at fair value through profit or loss	8	**(80,636)**	45,101
Loss on disposal of debt instruments at fair value through other comprehensive income		**(610)**	–
Net fair value changes on derivative component of convertible note and forward to issue convertible notes	27	**(24,370)**	(39,158)
Wages, salaries and other benefits		**(13,768)**	(10,617)
Share-based payments expense	30	**–**	(73,257)
Depreciation and depletion		**(6,657)**	(4,344)
Expected credit loss on financial assets of:			
Loan and interest receivables	22	**(5,613)**	–
Debt instruments at fair value through other comprehensive income		**(395)**	–
(Provision) reversal of impairment losses on non-financial assets, net	9	**(3,383)**	24,378
Other expenses		**(16,488)**	(11,260)
Finance costs	10	**(4,992)**	(4,955)
Loss before tax		**(115,087)**	(48,424)
Income tax expense	11	**(140)**	(6,431)
Loss for the year attributable to owners of the Company	12	**(115,227)**	(54,855)
Other comprehensive (expense) income			
Items that may be reclassified subsequently to profit or loss:			
Net fair value loss on:			
Available-for-sale investments		**–**	(519)
Debt instruments at fair value through other comprehensive income		**(13,583)**	–
Release on disposal of debt instruments at fair value through other comprehensive income		**610**	–
Exchange differences arising on translation of foreign operations		**(4,631)**	–
Other comprehensive expense for the year, net of income tax		**(17,604)**	(519)
Total comprehensive expense for the year attributable to owners of the Company		**(132,831)**	(55,374)
Loss per share attributable to owners of the Company			
– Basic	16	**HK(2.26) cents**	HK(1.17) cents

Consolidated Statement of Financial Position

At 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Exploration and evaluation assets	17	–	–
Property, plant and equipment	18	47,951	56,451
Available-for-sale investments	19	–	121,533
Debt instruments at fair value through other comprehensive income	20	115,708	–
Other tax recoverables	21	315	4,076
Total non-current assets		163,974	182,060
Current assets			
Available-for-sale investments	19	–	25,873
Debt instruments at fair value through other comprehensive income	20	14,622	–
Loan and interest receivables	22	251,652	67,798
Trade and other receivables and prepayments	23	12,780	46,232
Other tax recoverables	21	1,230	1,759
Financial assets at fair value through profit or loss	24	71,816	95,849
Bank balances and cash	25	83,593	287,349
Total current assets		435,693	524,860
Current liabilities			
Trade and other payables	26	19,126	19,107
Income tax payable		5,204	1,744
Derivative financial liability	27	–	46,617
Convertible notes	27	–	76,145
Total current liabilities		24,330	143,613
Net current assets		411,363	381,247
Total assets less current liabilities		575,337	563,307

Consolidated Statement of Financial Position

At 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current liability			
Deferred tax liabilities	28	**284**	4,191
Net assets		**575,053**	559,116
Capital and reserves			
Share capital	29	**52,403**	50,181
Reserves		**522,650**	508,935
Total equity		**575,053**	559,116

The consolidated financial statements on pages 60 to 143 together with the Company's statement of financial position set out in Note 39 to the consolidated financial statements have been approved and authorised for issue by the Board of Directors on 29 March 2019 and are signed on its behalf by:

Liu Zhiyi
Director

Sue Ka Lok
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Share capital HK$'000	Share premium HK$'000	Share options reserve HK$'000	Investment revaluation reserve HK$'000	Translation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2017	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 30)*	–	–	73,257	–	–	–	73,257
Issue of shares upon share placement *(Note (i))*	6,510	193,998	–	–	–	–	200,508
Transaction costs attributable to issue of shares upon share placement *(Note (i))*	–	(5,117)	–	–	–	–	(5,117)
At 31 December 2017	50,181	770,285	201,645	(519)	–	(462,476)	559,116
Adjustments *(see Note 2.2)*	–	–	–	2,191	–	(3,630)	(1,439)
At 1 January 2018 (restated)	**50,181**	**770,285**	**201,645**	**1,672**	**–**	**(466,106)**	**557,677**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(115,227)**	**(115,227)**
Net fair value loss on debt instruments at fair value through other comprehensive income	**–**	**–**	**–**	**(13,583)**	**–**	**–**	**(13,583)**
Release on disposal of debt instruments at fair value through other comprehensive income	**–**	**–**	**–**	**610**	**–**	**–**	**610**
Exchange differences arising on translation of foreign operations	**–**	**–**	**–**	**–**	**(4,631)**	**–**	**(4,631)**
Total comprehensive expense for the year	**–**	**–**	**–**	**(12,973)**	**(4,631)**	**(115,227)**	**(132,831)**
Issue of shares upon conversion of convertible notes *(Note (ii))*	**2,222**	**147,985**	**–**	**–**	**–**	**–**	**150,207**
At 31 December 2018	**52,403**	**918,270**	**201,645**	**(11,301)**	**(4,631)**	**(581,333)**	**575,053**

Notes:

(i) 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 set out in Note 29(i).

(ii) During the year ended 31 December 2018, all the convertible notes with an aggregate principal amount of HK$80,000,000 were converted into ordinary shares of the Company at the conversion price of HK$0.36 per share and 222,222,222 ordinary shares of HK$0.01 each were issued to the holders of convertible notes. Details of the conversion are set out in Note 27.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Cash flows from operating activities			
Loss before tax		**(115,087)**	(48,424)
Adjustments for:			
Depreciation and depletion of property, plant and equipment		**6,657**	4,344
Loss on disposal of debt instruments at fair value through other comprehensive income		**610**	–
Provision (reversal) of impairment loss of property, plant and equipment	9	**3,383**	(22,588)
Reversal of impairment loss of other tax recoverables	9	**–**	(1,790)
Expected credit loss on loan and interest receivables		**5,613**	–
Expected credit loss on debt instruments at fair value through other comprehensive income		**395**	–
Loss on disposal of property, plant and equipment		**–**	306
Net loss (gain) on financial assets at fair value through profit or loss	8	**80,636**	(45,101)
Net fair value changes on derivative component of convertible notes and forward to issue convertible notes		**24,370**	39,158
Bank interest income		**(662)**	(935)
Interest expense	10	**4,992**	4,955
Share-based payments expense	30	**–**	73,257
Dividend income		**(1,052)**	(1,832)
Interest income from money lending business		**(16,814)**	(7,797)
Interest income from debt instruments at fair value through other comprehensive income/available-for-sale investments		**(9,555)**	(5,071)
Interest income from financial assets at fair value through profit or loss		**–**	(256)
Operating cash flows before movements in working capital		**(16,514)**	(11,774)
Decrease (increase) in trade and other receivables and prepayments		**32,721**	(37,384)
(Increase) decrease in loan and interest receivables		**(195,490)**	34,765
Decrease in other tax recoverables		**4,290**	1,851
Increase in financial assets at fair value through profit or loss		**(56,603)**	(23,294)
Increase (decrease) in trade and other payables		**74**	(3,897)
Cash used in operations		**(231,522)**	(39,733)
Withholding tax on interest income from a group entity paid		**(560)**	(587)
Dividend received		**1,052**	1,832
Interest received from money lending business		**16,814**	7,797
Interest received from debt instruments at fair value through other comprehensive income/available-for-sale investments		**9,555**	5,071
Interest received from financial assets at fair value through profit or loss		**–**	256
Net cash outflow from operating activities		**(204,661)**	(25,364)

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Cash flows from investing activities			
Purchase of property, plant and equipment		**(1,540)**	(329)
Purchase of debt instruments at fair value through other comprehensive income		**(34,808)**	–
Purchase of available-for-sale investments		**–**	(145,396)
Proceeds from redemption of debt instruments at fair value through other comprehensive income		**23,400**	–
Proceeds from disposal of debt instruments at fair value through other comprehensive income		**15,133**	–
Bank interest received		**662**	991
Net cash inflow (outflow) from investing activities		**2,847**	(144,734)
Cash flows from financing activities			
Proceeds from issue of convertible notes	*27*	**–**	80,000
Transaction costs attributable to issue of convertible notes	*27*	**–**	(148)
Proceeds from issue of shares	*29*	**–**	200,508
Transaction costs attributable to issue of shares	*29*	**–**	(5,117)
Interest paid		**(1,917)**	–
Net cash (outflow) inflow from financing activities		**(1,917)**	275,243
Net (decrease) increase in cash and cash equivalents		**(203,731)**	105,145
Cash and cash equivalents at beginning of the year		**287,349**	182,204
Effect of foreign exchange rate changes		**(25)**	–
Cash and cash equivalents at end of the year, represented by bank balances and cash		**83,593**	287,349

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

1. GENERAL

The Company is a public limited liability company incorporated in Bermuda and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (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 Hong Kong dollars ("HK$"), which is also the functional currency of the Company.

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

New and amendments to HKFRSs that are mandatorily effective for the current year

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

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 "Financial Instruments" with HKFRS 4 "Insurance Contracts"
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

Except as described below, the application of the new and amendments to HKFRSs and the interpretation 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.

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

New and amendments to HKFRSs that are mandatorily effective for the current year (continued)

2.1 HKFRS 15 "Revenue from Contacts with Customers"

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction Contracts" and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 "Revenue" and HKAS 11 "Construction Contracts" and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers/external sources:

- Petroleum exploration and production (HKFRS 15);
- Interest income from money lending (HKFRS 9);
- Investments in securities (HKFRS 9); and
- Other interest income (HKFRS 9).

Information about the Group's accounting policies and performance obligations resulting from application of HKFRS 15 are disclosed in Notes 3 and 5 respectively.

Summary of effects arising from initial application of HKFRS 15

The adoption of HKFRS 15 has had no material impact on the Group's financial performance and positions for the current year or at 1 January 2018.

2.2 HKFRS 9 "Financial Instruments"

In the current year, the Group has applied HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (i) the classification and measurement of financial assets and financial liabilities, (ii) expected credit losses ("ECL") for financial assets and (iii) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised at 1 January 2018. The difference between carrying amounts at 31 December 2017 and the carrying amounts at 1 January 2018 are recognised in the opening accumulated losses and other components of equity, without restating comparative information.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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

New and amendments to HKFRSs that are mandatorily effective for the current year (continued)

2.2 HKFRS 9 "Financial Instruments" (continued)

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial Instruments: Recognition and Measurement".

Accounting policies resulting from application of HKFRS 9 are disclosed in Note 3.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement of financial assets subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Notes	Available for-sale ("AFS") investments *HK$'000*	Debt instruments at fair value through other comprehensive income ("FVTOCI") *HK$'000*	Loan and interest receivables *HK$'000*	Investment revaluation reserve *HK$'000*	Accumulated losses *HK$'000*
Closing balance at 31 December 2017 – HKAS 39 (audited)		147,406	–	67,798	(519)	(462,476)
Effect arising from initial application of HKFRS 9:						
Reclassification						
From AFS investments	*(a)*	(147,406)	147,406	–	–	–
Remeasurement						
Impairment under ECL model	*(b)*	–	–	(1,439)	2,191	(3,630)
Opening balance at 1 January 2018 (restated)		–	147,406	66,359	1,672	(466,106)

(a) AFS investments

Reclassification from AFS investments to debt instruments at FVTOCI

Listed bonds with a fair value of HK$147,406,000 were reclassified from AFS investments to debt instruments at FVTOCI, as these investments are held within a business model whose objective is achieved by both collecting contractual cash flows and selling of these assets and the contractual cash flows of these investments are solely payments of principal and interest on the principal amount outstanding. Related net fair value loss of HK$519,000 previously accumulated up to 31 December 2017 continued to accumulate in investment revaluation reserve at 1 January 2018.

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

New and amendments to HKFRSs that are mandatorily effective for the current year (continued)

2.2 HKFRS 9 "Financial Instruments" (continued)

Summary of effects arising from initial application of HKFRS 9 (continued)

(b) Impairment under ECL model

Loss allowances for financial assets at amortised cost comprising mainly other receivables, loan and interest receivables and bank balances, and debt instruments at FVTOCI are measured on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition. The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables.

At 1 January 2018, credit loss allowance of HK$3,630,000 in aggregate for loan and interest receivables and debt instruments at FVTOCI was recognised against accumulated losses. Loss allowance of HK$1,439,000 was recognised against the loan and interest receivables while for the debt instruments at FVTOCI, the loss allowance of HK$2,191,000 was recognised against the investment revaluation reserve. No credit loss allowance for other financial assets has been recognised as the directors of the Company consider that the amount is immaterial.

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[2]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
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 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle[1]

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

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

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

4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

5 Effective for annual periods beginning on or after 1 January 2020.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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

New and amendments to HKFRSs in issue but not yet effective (continued)

Except as disclosed below, the directors anticipate that the application of other new and amendments to HKFRSs and the interpretation will have no material impact on the Group's financial performance and financial positions and/or the disclosures to the consolidated financial statements of the Group in the foreseeable future.

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. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

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. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group, upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance to the nature, as appropriate.

Furthermore, extensive disclosures are required by HKFRS 16.

At 31 December 2018, the Group has non-cancellable operating lease commitments of HK$8,417,000 as disclosed in Note 33. 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.

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

New and amendments to HKFRSs in issue but not yet effective (continued)

HKFRS 16 "Leases" (continued)

In addition, the Group currently considers refundable rental deposits paid of HK$1,913,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 "Determining Whether an Arrangement Contains a Lease" and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC) – Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening accumulated losses without restating comparative information.

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 Rules Governing the Listing of Securities on the Stock Exchange (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.

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".

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 2)

Under HKFRS 15, the Group 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.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates or enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

Revenue recognition (prior to 1 January 2018)

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.

Sale of goods

Revenue from sale of goods is recognised when the goods are delivered and titles have 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 ("FVTPL") 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (prior to 1 January 2018) (continued)

Arrangement fee income

Arrangement fee income on loan and interest 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 meters at custody transfer or sales transaction points at the outlet valve on the field storage tank.

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 progress 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 are on the same basis as other property assets which commence when the assets are ready for their intended use.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Exploration and evaluation assets (continued)

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.

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).

The recoverable amount of tangible assets are estimated individually, 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.

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) (continued)

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. 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 market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. 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.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and 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 asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest and dividend income which are derived from the Group's ordinary course of business are presented as revenue.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income ("OCI") if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

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.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 2) (continued)

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(ii) Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in OCI and accumulated under the heading of investment revaluation reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in OCI are reclassified to profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the “net gain (loss) on financial assets at FVTPL” line item.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with Note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, loan and interest receivables, bank balances and debt instruments at FVTOCI). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment is done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL is assessed individually for trade receivables.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit ratings;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with Note 2) (continued)

(i) Significant increase in credit risk (continued)

- an actual or expected significant deterioration in the operating results of the debtor; or

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers the credit risk of the debt instrument mainly with reference to external credit rating of 'investment grade' as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with Note 2) (continued)

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application of HKFRS 9 with transitions in accordance with Note 2) (continued)

(v) Measurement and recognition of ECL (continued)

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis, the financial instruments are grouped on the basis below:

- Nature of financial instruments (i.e. the Group's other receivables are assessed as a separate group);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Except for investments in debt instruments that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade and other receivables and loan and interest receivables where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the investment revaluation reserve without reducing the carrying amount of these debt instruments.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

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 assets and is determined at the time of initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) (continued)

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 FVTPL' line item. Fair value is determined in the manner described in respective notes.

AFS financial assets

AFS financial assets 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 OCI and accumulated under the heading of "investment revaluation reserve".

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 and interest 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

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.

Certain categories of financial assets, such as trade and other receivables and loan and interest receivables, 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.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

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 and interest 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 trade and other receivables or loan and interest receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (continued)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

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.

Modification of financial assets

For modifications that do not result in derecognition, the gross carrying amount of the asset is recalculated by discounting the modified contractual cash flows using the effective interest rate before modification. Any difference between this recalculated amount and the existing gross carrying amount is recognised in profit or loss as a modification gain or loss. Any costs or fees incurred as part of the modification adjust the carrying amount of the modified financial asset, and are amortised over the remaining term of the modified financial asset.

Derecognition of financial assets

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 measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

On derecognition of an AFS financial asset, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments 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 Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination to which HKFRS 3 applies, (ii) held for trading or (iii) it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been acquired principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is 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, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

Financial liabilities at amortised cost

Financial liabilities including trade and other payables and liability component of convertible notes are subsequently measured at amortised cost, 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity (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.

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees and directors

Equity-settled share-based payments to employees and directors 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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 OCI 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.

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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

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.

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 at 31 December 2018 was HK$46,130,000 (2017: HK$55,933,000).

Judgement is required by the directors to determine the 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Impairment assessment of loan and interest receivables (upon application of HKFRS 9 with transitions in accordance with Note 2)

Management regularly reviews the impairment assessment and evaluates the ECL of the loan and interest receivables. Appropriate impairment allowance is recognised in profit or loss.

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the one at the date of initial recognition. In making this assessment, the loan and interest receivables from borrowers are assessed individually by the management of the Group, based on the financial background, financial condition and the historical settlement records, including past due dates and default rates, of each borrower and reasonable and supportable forward-looking information such as macroeconomic data (e.g. respective industry projected growth rates for certain borrowers) that is available without undue cost or effort.

Each borrower is assigned a risk grading under internal credit ratings to calculate the ECL, taking into consideration of the estimates of expected cash shortfalls which are driven by estimates of possibility of default and the amount and timing of cash flows that are expected from foreclosure on the collaterals (if any) less the costs of obtaining and selling the collaterals. At every reporting date, the financial background, financial condition and the historical settlement records are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's loan and interest receivables are disclosed in Notes 37 and 22 respectively.

Recoverability of loan and interest receivables (before application of HKFRS 9 on 1 January 2018)

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

In determining the recoverability of loan and interest receivables, in particular the timing and quantum of future cash flows, the Group had set different credit limits granted to each borrower according to their creditability. As this business was new to the Group, limited past collection history could be obtained to assess the recoverability of loan and interest receivables. The Group had a policy for assessing the impairment on loan and interest receivables on an individual basis. The assessment also included 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 considered any change in the credit quality of the loan and interest receivables from the date of credit initially granted up to the reporting date. This included assessing the credit history of the borrowers, such as financial difficulties or default in payments, and current market conditions. Specific provision was only made for the loan and interest receivables that were unlikely to be collected due to objective evidence of impairment. Where the actual future cash flows are less than expected, a further impairment loss might arise. At 31 December 2017, the carrying amount of loan and interest receivables was HK$67,798,000 and no impairment provision was made at 31 December 2017.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

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 the respective notes.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

5. REVENUE

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

	2018	2017
	HK$'000	*HK$'000*
Sales of petroleum	**43,998**	42,914
Interest income from money lending business*	**16,814**	7,797
Interest income from debt instruments at FVTOCI/AFS investments*	**9,555**	5,071
Dividend and interest income from financial assets at FVTPL	**1,052**	2,088
	71,419	57,870

* Under effective interest method

During the year, revenue is recognised at a point in time except for dividend income and interest income which fall outside the scope of HKFRS 15.

Revenue is derived principally from sales of petroleum, which is recognised once the control of the crude oil is transferred from the Group to the customer. Revenue is measured based on the oil price agreed with the customer at the point of sales.

This is consistent with the revenue information disclosed for each reportable segment.

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 representing the Board of Directors (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 2018

	Petroleum exploration and production *HK$'000*	Money lending *HK$'000*	Investment in securities *HK$'000*	Total *HK$'000*
Segment revenue				
External sales/sources	43,998	16,814	10,607	71,419
Results				
Segment results before provision of impairment losses/expected credit loss	2,921	16,406	(71,167)	(51,840)
Provision of impairment losses/expected credit loss	(3,383)	(5,613)	(395)	(9,391)
Segment results	(462)	10,793	(71,562)	(61,231)
Other income and losses, net				(1,257)
Corporate expenses				(23,237)
Net fair value changes on derivative component of convertible notes				(24,370)
Finance costs				(4,992)
Loss before tax				(115,087)
Income tax expense				(140)
Loss for the year				(115,227)
Other information				
Depreciation and depletion	(6,571)	(53)	(33)	(6,657)
Provision of impairment loss of property, plant and equipment	(3,383)	–	–	(3,383)
Expected credit loss on loan and interest receivables	–	(5,613)	–	(5,613)
Expected credit loss on debt instruments at FVTOCI	–	–	(395)	(395)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

6. SEGMENT INFORMATION (continued)

Segment revenue and results (continued)

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 income and losses, net				(588)
Corporate expenses				(14,299)
Net fair value changes on derivative component of convertible notes and forward to issue 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

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 income and losses, net, corporate expenses, net fair value changes on derivative component of convertible notes (2017: net fair value changes on derivative component of convertible notes and forward to issue 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:

	2018	2017
	HK$'000	*HK$'000*
Segment assets		
Petroleum exploration and production	**54,355**	69,509
Money lending	**268,145**	138,959
Investment in securities	**204,723**	280,665
Total segment assets	**527,223**	489,133
Unallocated:		
Property, plant and equipment	**1,783**	329
Bank balances and cash	**65,185**	214,643
Other assets	**5,476**	2,815
Consolidated assets	**599,667**	706,920
Segment liabilities		
Petroleum exploration and production	**2,406**	4,508
Money lending	**1,210**	393
Investment in securities	**414**	5,542
Total segment liabilities	**4,030**	10,443
Unallocated:		
Other payables	**20,584**	14,599
Derivative financial liability	**–**	46,617
Convertible notes	**–**	76,145
Consolidated liabilities	**24,614**	147,804

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 People's Republic of China (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		**Non-current assets** *(Note)*	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Argentina	**43,998**	42,914	**46,168**	56,122
Hong Kong	**21,863**	14,391	**258**	329
The PRC	**5,558**	565	**1,525**	–
	71,419	57,870	**47,951**	56,451

Note: Non-current assets excluded debt instruments at FVTOCI, AFS investments and other tax recoverables.

Information about major customers

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

	2018	2017
	HK$'000	*HK$'000*
Customer A	**43,998**	42,914

7. OTHER INCOME AND LOSSES, NET

	2018 HK$'000	2017 HK$'000
Bank interest income	662	935
Interest and other income from a securities broker	276	–
Exchange losses, net	(2,157)	(1,556)
Loss on disposal of property, plant and equipment	–	(306)
Others	642	497
	(577)	(430)

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

	2018 HK$'000	2017 HK$'000
Net unrealised (loss) gain on financial assets at FVTPL *(Note (i))*	(55,237)	25,921
Net realised (loss) gain on disposal of financial assets at FVTPL *(Note (ii))*	(25,399)	19,180
	(80,636)	45,101

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 as compared to the fair values of the financial assets at FVTPL held by the Group as of 31 December 2018 and 2017.

(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 as compared to the fair values of the financial assets at FVTPL disposed upon disposal.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

9. (PROVISION) REVERSAL OF IMPAIRMENT LOSSES ON NON-FINANCIAL ASSETS, NET

	2018	2017
	HK$'000	*HK$'000*
(Provision) reversal of impairment loss of property, plant and equipment	**(3,383)**	22,588
Reversal of impairment loss of other tax recoverables	**–**	1,790
	(3,383)	24,378

10. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Interest on convertible notes *(Note 27)*	**4,992**	4,955

11. INCOME TAX EXPENSE

	2018	2017
	HK$'000	*HK$'000*
Tax charge (credit) comprises:		
Current tax		
Hong Kong	**2,461**	1,653
The PRC	**749**	–
Argentina		
– Withholding tax paid on interest income from a group entity	**560**	587
	3,770	2,240
Underprovision in prior year		
Hong Kong	**277**	–
Deferred tax *(Note 28)*	**(3,907)**	4,191
Income tax expense recognised in profit or loss	**140**	6,431

11. INCOME TAX EXPENSE (continued)

On 21 March 2018, the Hong Kong Legislative Council passed the Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduced the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, starting from current year, the Hong Kong profits tax of the nominated group entity is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the subsidiaries in the PRC is 25%. No provision for PRC EIT was made for the previous year as there was no assessable profit during that year.

Argentina withholding tax on interest income received from an Argentinean subsidiary by the Group was calculated at 35% on such income for both years.

The tax expense 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:

	2018	2017
	HK$'000	*HK$'000*
Loss before tax	**(115,087)**	(48,424)
Tax at the applicable rates of 16.5% (2017: 16.5%)	**(18,989)**	(7,990)
Tax effect of income not taxable for tax purpose	**(8,235)**	(10,077)
Tax effect of expenses not deductible for tax purpose	**6,297**	25,442
Tax effect of deductible temporary difference not recognised	**(10,679)**	(13,112)
Underprovision in prior year	**277**	–
Tax effect of tax losses not recognised	**31,851**	7,630
Withholding tax on interest income from a group entity	**560**	587
Income tax at concessionary rate	**(165)**	–
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(777)**	3,951
Income tax expense for the year	**140**	6,431

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

12. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging:

	2018	2017
	HK$'000	*HK$'000*
Staff costs		
– directors' emoluments (excluding share-based payments expense) *(Note 13)*	**3,109**	2,460
– other staff's retirement benefit schemes contributions (excluding directors)	**1,108**	76
– other staff costs	**9,551**	8,081
	13,768	10,617
Share-based payments expense		
– directors *(Note 13)*	**–**	11,962
– employees	**–**	61,295
	–	73,257
Total staff costs	**13,768**	83,874
Auditor's remuneration	**2,200**	2,100
Minimum lease payments under operating leases in respect of office properties and buildings	**2,735**	2,445
Professional and consultancy fees	**6,618**	2,265

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

13. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

The emoluments paid or payable to each of the nine (2017: ten) 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
2018						
Executive directors						
Mr. Liu Zhiyi		–	1,259	11	–	1,270
Mr. Sue Ka Lok		–	390	20	–	410
Mr. Yiu Chun Kong		–	130	7	–	137
Mr. Chan Shui Yuen		–	505	23	–	528
Mr. Suen Cho Hung, Paul	*(i)*	–	260	19	–	279
Non-executive director						
Mr. Suen Cho Hung, Paul	*(i)*	120	–	–	–	120
Independent non-executive directors						
Mr. To Yan Ming, Edmond		120	–	–	–	120
Mr. Pun Chi Ping		120	–	–	–	120
Ms. Leung Pik Har, Christine		120	–	–	–	120
Mr. Kwong Tin Lap	*(ii)*	5	–	–	–	5
Total		485	2,544	80	–	3,109

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

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
2017						
Executive directors						
Mr. Suen Cho Hung, Paul		–	520	26	–	546
Mr. Liu Zhiyi	*(iii)*	–	395	–	7,444	7,839
Mr. Sue Ka Lok		–	390	20	3,902	4,312
Ms. Chan Yuk Yee	*(iv)*	–	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

The emoluments of the Chief Executive Officer of the Company, Mr. Sue Ka Lok (stepped down on 17 January 2018) and Mr. Liu Zhiyi (appointed on 26 January 2018), disclosed above included those for services rendered by each of them as chief executive.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Group. The emoluments of the non-executive director 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 re-designated from an executive director to a non-executive director on 1 July 2018

(ii) Being appointed on 17 December 2018

(iii) Being appointed on 5 May 2017

(iv) Resigned on 10 November 2017

(v) Resigned on 31 March 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, two (2017: one) are directors whose emoluments are included in the disclosure in Note 13. The emoluments of the remaining three (2017: four) individuals were as follows:

	2018	2017
	HK$'000	*HK$'000*
Salaries and other benefits	**4,365**	190
Retirement benefits schemes contributions	**508**	–
Share-based payments expense	**–**	28,574
	4,873	28,764

Their emoluments were within the following bands:

	Number of employees	
	2018	2017
Nil to HK$1,000,000	**1**	–
HK$1,000,001 to HK$1,500,000	**1**	–
HK$3,000,001 to HK$3,500,000	**1**	–
HK$7,000,001 to HK$7,500,000	**–**	4

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

15. DIVIDENDS

No dividend was paid or proposed for the years ended 31 December 2018 and 2017, 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.

	2018	2017
	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	**(115,227)**	(54,855)

	2018	2017
	'000	*'000*
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share	**5,103,586**	4,689,946

The computation of diluted loss per share for the year ended 31 December 2018 does not assume the exercise of the Company's share options since their assumed exercise would result in a decrease in loss per share.

The computation of diluted loss per share for the year ended 31 December 2017 did 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 did 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 Company's shares.

17. EXPLORATION AND EVALUATION ASSETS

	2018	2017
	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. In addition, 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 as no reliable fair value information in the market could be found. As a result, in the opinion of the directors of the Company, 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 on 9 August 2017 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 during the year ended 31 December 2015. The Group was also notified by Chañares that the concession in respect of the CHE Area would be extended until 14 November 2027.

At 31 December 2017 and 31 December 2018, 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

18. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties *HK$'000*	Others *HK$'000*	Total *HK$'000*
Cost			
At 1 January 2017	497,532	3,153	500,685
Additions	–	329	329
Disposals	–	(1,270)	(1,270)
At 31 December 2017	497,532	2,212	499,744
Additions	–	1,540	1,540
Disposals	–	(3)	(3)
At 31 December 2018	**497,532**	**3,749**	**501,281**
Depletion, depreciation and impairment			
At 1 January 2017	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
Provided for the year	6,420	237	6,657
Provision of impairment loss	3,383	–	3,383
Eliminated on disposals	–	(3)	(3)
At 31 December 2018	**451,402**	**1,928**	**453,330**
Carrying values			
At 31 December 2018	**46,130**	**1,821**	**47,951**
At 31 December 2017	55,933	518	56,451

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 2018, 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 and the expected future oil prices in the local market. According to the selling price of crude oil being offered to the Group during 2018 and the international oil price forecast released by the U.S. Energy Information Administration, the management in 2018 estimated that the range of crude oil selling price projected for the next five years (i.e. 2019 to 2023) will be in the range from United States dollars ("US$")47.15 to US$79.41 per barrel, which is lower than that projected in 2017 being in the range from US$55.51 to US$86.40 per barrel. As such, primarily owing to a drop in the forecasted range of crude oil selling price of the next five years, a provision of impairment loss on the oil and gas properties of HK$3,383,000 (2017: reversal of impairment loss of HK$22,588,000) was recognised in profit or loss. The recoverable amount of the oil and gas cash-generating unit amounting to HK$47,190,000 (2017: HK$58,186,000) was determined on the basis of their value in use, which was based on the discounted cash flow projections derived from production reserves covering the current term of the concession period until 2027 and the estimated future oil prices with a discount rate of 17.80% (2017: 16.19%). Significant estimates adopted including the discount rate, production decline rates and expected changes in future oil prices.

If the pre-tax discount rate was used, it would be 19.56% (2017: 21.81%).

Should the expected future oil price increase/decrease by 10% (2017: 20%), the Group would have recognised reversal of impairment loss of HK$7,069,000 (2017: HK$42,790,000) and provision of impairment loss of HK$14,225,000 (2017: HK$890,000) respectively in respect of the oil and gas properties.

19. AVAILABLE-FOR-SALE INVESTMENTS

	2017 *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	147,406
Analysed as:	
Current portion	25,873
Non-current portion	121,533
	147,406

At 31 December 2017, AFS investments were stated at fair values. The fair values of the listed debt securities were determined based on the quoted market closing prices available on the Stock Exchange or another recognised stock exchange.

Upon initial application of HKFRS 9 during the current year, AFS investments were reclassified as debt instruments at FVTOCI, which are detailed in Note 2.2(a).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

20. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 *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 13 February 2019 to 28 June 2025	**130,330**
Analysed as:	
Current portion	**14,622**
Non-current portion	**115,708**
	130,330

At 31 December 2018, debt instruments at FVTOCI were stated at fair values which were determined based on the quoted market closing prices available on the Stock Exchange or another recognised stock exchange.

Debt instruments at FVTOCI are listed bonds with the credit loss allowance measured on 12m ECL basis as the credit risk on financial instrument has not increased significantly since initial recognition. The Group assessed the ECL for debt instruments at FVTOCI by reference to credit rating of the bond investment by rating agencies, macroeconomic factors affecting the respective industry for each issuer, corporate historical default and loss rate and exposure of default of each bond investment.

Upon initial application of HKFRS 9 during the year, the Group recognised expected credit loss of HK$2,191,000. Expected credit loss of HK$395,000 was recognised for the current year.

Details of impairment assessment are set out in Note 37.

21. 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 the existing wells. During the year ended 31 December 2018, no impairment loss on value-added tax (2017: reversal of impairment loss of HK$1,790,000) was recognised in profit or loss (Note 9). The directors of the Company expect that an amount of HK$1,230,000 (2017: HK$1,759,000) and HK$315,000 (2017: HK$4,076,000) 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.

22. LOAN AND INTEREST RECEIVABLES

	2018 HK$'000	2017 HK$'000
Fixed-rate loan receivables	**250,997**	67,235
Interest receivables	**7,707**	563
	258,704	67,798
Less: Impairment allowance	**(7,052)**	–
	251,652	67,798
Analysed as:		
Guaranteed (unsecured)	**46,535**	48,704
Secured	**167,349**	–
Unsecured	**37,768**	19,094
	251,652	67,798

At 31 December 2018, the range of interest rate and maturity dates attributed to the Group's loan receivables was 10% to 18% (2017: 10% to 18%) per annum and from 3 January 2019 to 16 November 2019 (2017: 23 May 2018 to 21 November 2018) respectively.

Before granting loans to outsiders, the Group 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.

Impairment assessment (upon application of HKFRS 9 with transition in accordance with Note 2)

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument at the reporting date with the one at the date of initial recognition. In making this assessment, the loan and interest receivables from borrowers are assessed individually by the management of the Group, based on the financial background, financial condition and the historical settlement records, including past due dates and default rates, of each borrower and reasonable and supportable forward-looking information such as macroeconomic data (e.g. respective industry projected growth rates for certain borrowers) that is available without undue cost or effort. Each borrower is assigned a risk grading under internal credit ratings to calculate the ECL, taking into consideration of the estimates of expected cash shortfalls which are driven by estimates of possibility of default and the amount and timing of cash flows that are expected from foreclosure on the collaterals (if any) less the costs of obtaining and selling the collaterals. At every reporting date, the financial background, financial condition and the historical settlement records are reassessed and changes in the forward-looking information are considered.

The Group is not permitted to sell or repledge the collaterals in the absence of default by the borrower. There have not been any significant changes in the quality of the collateral held for the loan and interest receivables.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

22. LOAN AND INTEREST RECEIVABLES (continued)

Impairment assessment (before application of HKFRS 9 on 1 January 2018)

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

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

At 31 December 2018 and 2017, all the Group's loan and interest receivables balance were not past due.

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

The movement of impairment allowance on loan and interest receivables for the year was as follows:

	12m ECL *HK$'000*	Lifetime ECL (not credit–impaired) *HK$'000*	Total *HK$'000*
At 31 December 2017	–	–	–
Impairment allowance recognised on transition to HKFRS 9 *(Note 2.2)*	–	1,439	1,439
At 1 January 2018 (restated)	–	1,439	1,439
Impairment allowance recognised for			
– new loan granted during the year *(Note)*	46	2,796	2,842
– prior year loans extended during the year	–	2,771	2,771
At 31 December 2018	**46**	**7,006**	**7,052**

Note: The impairment loss of HK$2,842,000 related to loan and interest receivables with gross carrying amount of HK$191,664,000, of which HK$186,992,000 was transferred from 12m ECL to lifetime ECL (not credit-impaired) because there have been significant increases in credit risk after origination.

No loan and interest receivables were derecognised during the current year as all loan agreements in relation to the outstanding balances were extended in 2018. Details of ECL assessment for the year ended 31 December 2018 are set out in Note 37.

23. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2018	2017
	HK$'000	*HK$'000*
Trade receivables *(Note (i))*	**1,060**	2,253
Deposits and prepayments	**5,001**	2,375
Deposits held for petroleum exploration and production operation	**3,265**	4,189
Others *(Note (ii))*	**3,454**	37,415
	12,780	46,232

Notes:

(i) The oil selling price for the Argentina operation is quoted in US$ and converted into Argentina Peso ("ARS") for invoicing. The Group allows an average credit period of 30 to 60 days. The trade receivables of HK$1,060,000 (2017: HK$2,253,000) 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.

Details of impairment assessment of trade receivables for the year ended 31 December 2018 are set out in Note 37.

(ii) The amount included HK$2,578,000 (2017: HK$37,411,000) placed with securities brokers in relation to securities trading activities in Hong Kong.

(iii) To better reflect the "interest receivables" on debt instruments at FVTOCI and loan receivables of the Group, the Group has decided to combine the interest receivables to their respective financial instruments. Comparative information has been reclassified to conform with the current year's presentation.

(iv) No credit loss allowance had been recognised on the other receivables (Note 37) as the directors considered that the amount was immaterial.

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

	2018	2017
	HK$'000	*HK$'000*
ARS	**4,727**	6,475
US$	**887**	–

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018	2017
	HK$'000	*HK$'000*
Listed investments, at fair value:		
– Equity securities listed in Hong Kong	**71,816**	95,849

Listed equity securities were stated at fair values which were determined based on the quoted market closing prices available on the Stock Exchange.

25. BANK BALANCES AND CASH

Bank balances carried interest ranging from 0.01% to 2.25% (2017: 0.01% to 1.29%) per annum.

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

	2018	2017
	HK$'000	*HK$'000*
ARS	**1,879**	1,038
US$	**4,493**	7,295
Renminbi ("RMB")	**30**	30

26. TRADE AND OTHER PAYABLES

	2018	2017
	HK$'000	*HK$'000*
Trade payables	**338**	552
Other tax payables	**3,885**	4,667
Accrued professional fees	**10,865**	10,331
Interest payable on convertible notes	**–**	1,203
Other payables and accruals	**4,038**	2,354
	19,126	19,107

26. TRADE AND OTHER PAYABLES (continued)

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

	2018	2017
	HK$'000	*HK$'000*
0 – 30 days	**338**	552

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 were the following amounts denominated in currencies other than the functional currency of the relevant group entities:

	2018	2017
	HK$'000	*HK$'000*
ARS	**4,499**	6,178
US$	**504**	111

27. 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 the 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 were denominated in HK$ and would be matured on the end of the eighteenth month from the issue date, i.e. on 26 October 2018 (the "Maturity Date"). The Company should redeem all the convertible notes remained outstanding and not converted on the Maturity Date at 100% of the principal amount outstanding plus accrued and unpaid interest. The Company might 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.

27. CONVERTIBLE NOTES (continued)

The holder of the convertible notes should, 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 to 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. On 4 April 2018, 8 October 2018 and 18 October 2018, convertible notes with aggregate principal amount of HK$80,000,000 were converted into ordinary shares at the conversion price of HK$0.36 per share and 222,222,222 ordinary shares of HK$0.01 each were issued to the holders of the convertible notes. All convertible notes were converted into shares of the Company before the Maturity Date.

The convertible notes contained two components, a liability component and a conversion component. The conversion component gave 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 was accounted for as derivative liability and was 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.

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 at 26 April 2017	At 31 December 2017	**Conversion at 4 April 2018**	**Conversion at 8 October 2018**	**Conversion at 18 October 2018**
Conversion price	HK$0.360	HK$0.360	**HK$0.360**	**HK$0.360**	**HK$0.360**
Share price	HK$0.445	HK$0.540	**HK$0.920**	**HK$0.560**	**HK$0.560**
Volatility	41.31%	33.08%	**35.51%**	**49.11%**	**40.76%**
Remaining life	1.5 years	0.82 year	**0.56 year**	**0.05 year**	**0.02 year**
Risk-free rate	0.68%	1.15%	**1.10%**	**1.86%**	**1.72%**

The liability component and the conversion component were classified as "convertible notes" and "derivative financial liability" in the consolidated statement of financial position, respectively.

27. CONVERTIBLE NOTES (continued)

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 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 2018, convertible notes with aggregate principal amount of HK$80,000,000 were converted into ordinary shares at the conversion price of HK$0.36 per share and 222,222,222 ordinary shares of HK$0.01 each were issued to the holders of the convertible notes. The weighted average share price at the dates of conversion during the year was HK$0.68.

	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 and 1 January 2018	76,145	46,617	122,762
Change in fair value on derivative component recognised in profit or loss	–	24,370	24,370
Effective interest *(Note 10)*	4,992	–	4,992
Interest paid	(1,917)	–	(1,917)
Conversion of convertible notes	(79,220)	(70,987)	(150,207)
At 31 December 2018	–	–	–

28. DEFERRED TAX LIABILITIES

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

	Temporary difference related to net unrealised gain on financial assets at FVTPL and AFS investments/ debt instruments at FVTOCI *HK$'000*
At 1 January 2017	–
Charged to profit or loss *(Note 11)*	4,191
At 31 December 2017	4,191
Credited to profit or loss *(Note 11)*	(3,907)
At 31 December 2018	**284**

At 31 December 2018, the Group had unused tax losses of HK$173,621,000 (2017: HK$68,709,000) 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$52,020,000 (2017: HK$23,320,000) that will expire within 5 years. All other tax losses may be carried forward indefinitely.

29. SHARE CAPITAL

	Number of ordinary shares *'000*	Share capital *HK$'000*
Authorised:		
Ordinary shares of HK$0.01 each		
At 1 January 2017, 31 December 2017 and **31 December 2018**	**100,000,000**	**1,000,000**
Issued and fully paid:		
Ordinary shares of HK$0.01 each		
At 1 January 2017	4,367,122	43,671
Issue of shares on share placement *(Note (i))*	651,000	6,510
At 31 December 2017	5,018,122	50,181
Issue of shares upon conversion of convertible notes *(Note (ii))*	222,222	2,222
At 31 December 2018	**5,240,344**	**52,403**

Notes:

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

(ii) During the year ended 31 December 2018, convertible notes with aggregate principal amount of HK$80,000,000 were converted into ordinary shares at the conversion price of HK$0.36 per share and 222,222,222 ordinary shares of HK$0.01 each were issued.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

30. 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. 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.

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 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.

30. SHARE OPTION SCHEME (continued)

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 at the date of approval of the Share Option Scheme (the "Scheme Mandate Limit") or at the date of the approval of the refreshed Scheme Mandate Limit as the case maybe.

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 at the date of approval of the Scheme Mandate Limit Refreshment and approximately 8.3% of the issued shares of the Company at the date of this annual report.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

30. SHARE OPTION SCHEME (continued)

Details of the movements in the number of share options during the year ended 31 December 2018 under the Share Option Scheme were as follows:

Name or category of participant	Date of grant	Exercisable period (both dates inclusive)	Exercise price HK$ *(Note (ii))*	Outstanding at 1 January 2018	Granted during the year	Exercised during the year	Reclassified during the year	Cancelled/ lapsed during the year	Outstanding at 31 December 2018
Directors:									
Mr. Liu Zhiyi	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
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
				68,700,000	–	–	–	–	68,700,000
Employees:									
In aggregate	4 May 2017	4 May 2017 – 3 May 2020	0.53	368,010,000	–	–	–	–	368,010,000
				436,710,000	–	–	–	–	436,710,000

30. 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 were 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

30. 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 were based on the independent professional valuer's best estimate. The value of an option varied with different variables of certain subjective assumptions. The estimated fair value of the share options on their respective grant dates were 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

30. 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.

No share-based payments expense was recognised during the year ended 31 December 2018 (2017: HK$73,257,000, in relation to the share options granted by the Company).

31. 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.

31. JOINT OPERATIONS (continued)

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.

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 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").

31. JOINT OPERATIONS (continued)

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 and any extension thereof.

In August 2017, the Group was notified by Chañares that the concession in respect of the PPC Area was lapsed, and the concession in respect of the CHE Area would be extended until 14 November 2027 (Note 17).

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:

	2018	2017
	HK$'000	*HK$'000*
Assets	**54,355**	69,509
Liabilities	**2,406**	4,508
Revenue	**43,998**	42,914
Expenses	**44,460**	18,595

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

32. 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 derivative component of convertible notes and forward to issue 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
Financing cash flows	(1,917)
Interest expense	4,992
Conversion of convertible notes	(79,220)
At 31 December 2018	**–**

33. 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:

	2018 ***HK$'000***	2017 *HK$'000*
Within one year	**4,366**	1,795
In the second to fifth year, inclusive	**4,051**	2,970
	8,417	4,765

The Group leases its office properties and buildings under operating lease arrangements. Leases for properties are negotiated for terms of three (2017: three) years.

34. RETIREMENT BENEFIT SCHEMES

The Group contributes to MPF Scheme for all qualifying employees in Hong Kong under the Mandatory Provident Fund Schemes 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.

35. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

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

	2018 ***HK$'000***	2017 *HK$'000*
Short-term employee benefits	**7,845**	3,364
Post-employment benefits	**594**	105
Share-based payments expense	**–**	12,029
	8,439	15,498

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

36. 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 and raise or repay debts.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

37. 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, debt instruments at FVTOCI, trade and other receivables, loan and interest 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 the 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

	2018	2017
	HK$'000	*HK$'000*
Financial assets		
Financial assets at FVTPL	**71,816**	95,849
Financial assets at amortised cost	**345,048**	–
Debt instruments at FVTOCI	**130,330**	–
Loans and receivables (including cash and cash equivalents)	**–**	400,659
AFS investments	**–**	147,406
	547,194	643,914
Financial liabilities		
Amortised cost	**1,693**	78,282
Derivative financial liability	**–**	46,617
	1,693	124,899

Interest rate risk

The cash flow interest rate risk relates primarily to the Group's short-term deposits placed in banks and variable-rate bank balances 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.

37. FINANCIAL INSTRUMENTS (continued)

Interest rate risk (continued)

Total interest revenue/income from financial assets that are measured at amortised cost or at FVTOCI is as follows:

	2018
	HK$'000
Interest revenue	
Financial assets at amortised cost	**16,814**
Debt instruments at FVTOCI	**9,555**
Other income and losses, net	
Financial assets at amortised cost	**662**
Total interest income	**27,031**

Total interest income from financial assets that are measured at amortised cost is as follows:

	2017
	HK$'000
Interest revenue	
Loans and receivables (including bank balances and cash)	7,797
AFS investments	5,071
Other income and losses, net	
Loans and receivables (including bank balances and cash)	935
Total interest income	13,803

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 2018 of the Group would decrease/increase by HK$418,000 (2017: HK$1,436,000).

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 2018 would decrease/increase by HK$544,000 (2017: HK$615,000) as a result of the changes in the fair value of debt instruments at FVTOCI (2017: AFS investments).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

37. 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 were as follows:

	Assets		Liabilities	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
ARS	**6,606**	7,513	**(4,499)**	(6,178)
US$	**5,380**	7,295	**(504)**	(111)
RMB	**30**	30	**–**	–

Foreign currency sensitivity

The following table details the Group's sensitivity to 10% increase and decrease in HK$ against the relevant foreign currencies. Under the pegged exchange rate system, the financial impact on exchange difference between HK$ and US$ will be immaterial as most US$ denominated monetary assets are held by group entities having HK$ as their functional currency, and therefore no sensitivity analysis has been prepared against US$.

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, trade receivables and bank balances where the denomination are in ARS and RMB, the major foreign currencies. A positive number below indicates an increase in loss after tax where Hong Kong dollars strengthen 10% (2017: 10%) against the relevant currencies. For a 10% (2017: 10%) weakening of Hong Kong dollars against the relevant currency, there would be an equal and opposite impact on the loss after tax.

37. FINANCIAL INSTRUMENTS (continued)

Foreign currency risk management (continued)

Foreign currency sensitivity (continued)

	ARS impact		RMB impact	
	2018	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Increase in loss after tax	**137**	87	**3**	3

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

Other price risk

The Group is exposed to price risk from investments in listed 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 2018 would decrease/increase by HK$11,993,000 (2017: HK$16,007,000) as a result of the change in fair value of financial assets at FVTPL.

Credit risk and impairment assessment

At 31 December 2018 and 2017, 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 24 as stated in the consolidated statement of financial position.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

37. FINANCIAL INSTRUMENTS (continued)

Credit risk and impairment assessment (continued)

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables	Financial assets other than trade receivables
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL – not credit-impaired	12m ECL
Medium risk	Debtor frequently settles after due dates	Lifetime ECL – not credit-impaired	12m ECL
High risk	There have been significant increases in credit risk since initial recognition through information developed internally or external resources	Lifetime ECL – not credit-impaired	Lifetime ECL – not credit-impaired
Loss	There is evidence indicating the asset is credit-impaired	Lifetime ECL – credit-impaired	Lifetime ECL – credit-impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

37. FINANCIAL INSTRUMENTS (continued)

Credit risk and impairment assessment (continued)

The table below details the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

2018	*Notes*	External credit rating	Internal credit rating	12m or lifetime ECL	Gross carrying amount *HK$'000*
Debt instruments at FVTOCI					
Investments in listed bonds	*20*	B+ to BB–	N/A	12m ECL	116,768
		N/A	Low risk	12m ECL	13,562
Financial assets at amortised cost					
Loan and interest receivables	*22*	N/A	Low risk	12m ECL	56,151
			Medium risk	12m ECL	82,767
			High risk	Lifetime ECL	119,786
Other receivables	*23*	N/A	*(Note (i))*	12m ECL	8,743
Trade receivables	*23*	N/A	*(Note (ii))*	Lifetime ECL (simplified approach)	1,060
Bank balances	*25*	BBB to AA–	N/A	12m ECL	83,505

Notes:

(i) For the purpose of internal credit impairment, the Group considers if there is any past due record or other relevant information available without undue cost or effort to assess whether credit risk has increased significantly since initial recognition.

(ii) The Group has applied the simplified approach in HKFRS 9 to measure the loss allowance for trade receivables on lifetime ECL basis.

Trade receivables

At 31 December 2018 and 2017, 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 62% (2017: 74%) 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 and ECL is minimal at 31 December 2018.

There was no impairment provision made at 31 December 2017.

37. FINANCIAL INSTRUMENTS (continued)

Credit risk and impairment assessment (continued)

Loan and interest receivables

At 31 December 2018, the carrying amount of loan and interest receivables was HK$251,652,000 (2017: HK$67,798,000). The Group had concentration of credit risk for its loan and interest receivables as 70% (2017: 100%) of the loans at 31 December 2018 was due from five (2017: two) borrowers. The balance due from these borrowers was in an aggregate amount of HK$176,094,000 (2017: HK$67,798,000) at 31 December 2018. The Group seeks to maintain strict control over its outstanding loan and interest 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 and interest receivables are determined by an evaluation of financial background, financial condition and the historical settlement records, including past due rates and default rates, of the borrowers at the end of each reporting period. The borrowers are assigned different risk grading under internal credit ratings to calculate the ECL, taking into consideration of the estimates of expected cash shortfalls which are driven by estimates of possibility of default and the amount and timing of cash flows that are expected from foreclosure on the collaterals (if any) less the costs of obtaining and selling the collaterals. During the year ended 31 December 2018, expected credit loss on loan and interest receivables amounting to HK$5,613,000 was recognised in profit or loss.

Debt instruments at FVTOCI

The Group assesses the credit risk of investments in debt securities at the end of each reporting period. The Group's debt instruments at FVTOCI mainly comprise listed bonds that are graded by credit-rating agencies as per globally understood definitions and some bonds without external credit rating that are assessed by internal credit rating. During the year ended 31 December 2018, expected credit loss on debt instruments at FVTOCI amounting to HK$395,000 was recognised in profit or loss. At 31 December 2018, the impairment allowance for debt instruments at FVTOCI amounted to HK$2,586,000.

	12m ECL *HK$'000*
At 31 December 2017	–
Impairment allowance recognised on transition to HKFRS 9 *(Note 2.2)*	2,191
At 1 January 2018 (restated)	2,191
Changes due to debt instruments recognised at 1 January:	
– Impairment allowance recognised	165
– Impairment allowance reversed *(Note (i))*	(535)
New debt instruments purchased *(Note (ii))*	765
At 31 December 2018	**2,586**

Notes:

(i) Debt instruments with gross carrying amount of HK$40,381,000 was derecognised resulting in a reversal of impairment allowance amounting to HK$535,000 during the year ended 31 December 2018.

(ii) The gross carrying amount of the new debt instruments purchased during the year ended 31 December 2018 amounting to HK$36,844,000.

37. 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
At 31 December 2018						
Non-derivative financial liabilities						
Trade payables	**–**	**338**	**–**	**–**	**338**	**338**
Other payables	**–**	**1,355**	**–**	**–**	**1,355**	**1,355**
		1,693	**–**	**–**	**1,693**	**1,693**
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

At 31 December 2017, derivative financial liability of HK$46,617,000 represented a conversion option which would not result in cash outflow. If the conversion option was exercised, then shares of the Company would be delivered for settlement of the convertible notes rather than cash payments of principal and accrued interest as shown in the above table relating to the convertible notes. At 31 December 2018, all the convertible notes had been converted by holders of the convertible notes.

37. 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 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
	2018	2017			
	HK$'000	*HK$'000*			
Financial assets					
AFS investments					
Listed debt securities	**N/A**	147,406	Level 1	Quoted bid prices in active markets	N/A
Debt instruments at FVTOCI					
Listed debt securities	**130,330**	N/A	Level 1	Quoted bid prices in active markets	N/A
Financial assets at FVTPL					
Listed equity securities	**71,816**	95,849	Level 1	Quoted bid prices in an active market	N/A
Financial liability					
Derivative financial liability in relation to convertible notes	**–**	46,617	Level 3	Binomial option pricing model	Discount rate *(Note)*

Note: For the derivative financial liability, the most significant unobservable input was the discount rate. For the year ended 31 December 2017, 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.

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 to their fair values.

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, which are limited liability companies, at 31 December 2018 and 2017, 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 (2017: ARS303,600)	–	100% (2017: 100%)	Petroleum exploration and production
Have Result Investments Limited	British Virgin Islands/ Argentina	US$10,000 (2017: US$10,000)	–	100% (2017: 100%)	Petroleum exploration and production
Have Result Finance Limited	Hong Kong	HK$100 (2017: HK$100)	–	100% (2017: 100%)	Money lending
EPI Management Limited	Hong Kong	HK$1 (2017: HK$1)	–	100% (2017: 100%)	Investment in securities and management
Mobilewise (Hong Kong) Limited	Hong Kong	HK$1 (2017: HK$1)	–	100% (2017: 100%)	Investment in securities and management
Xiamen Mega Link Hengtian Zhichuang Investment Management Partners Corporation (Limited Partnership) (literal translation of its Chinese name 廈門兆聯恒天智創投資管理合夥企業(有限合夥))	The PRC	RMB60,824,578 (2017: RMB41,613,210)	–	100% (2017: 100%)	Investment holding and money lending

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 2018, the Group disposed of one (2017: two) inactive subsidiary(ies) 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 were set out in the announcement of the Company dated 8 November 2017. At 31 December 2018, no capital had been injected by the Group to the Limited Partnership.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018 HK$'000	2017 HK$'000
Non-current assets		
Property, plant and equipment	**1**	12
Interests in subsidiaries – unlisted	**8**	8
Amounts due from subsidiaries	**185,853**	–
Total non-current assets	**185,862**	20
Current assets		
Other receivables, prepayment and deposits	**449**	1,103
Amounts due from subsidiaries	**390,063**	487,972
Bank balances and cash	**474**	135,636
Total current assets	**390,986**	624,711
Current liabilities		
Other payables	**13,489**	13,616
Amounts due to subsidiaries	**93,745**	95,398
Tax payable	**2,938**	–
Derivative financial liability	**–**	46,617
Convertible notes	**–**	76,145
Total current liabilities	**110,172**	231,776
Net current assets	**280,814**	392,935
Total assets less current liabilities	**466,676**	392,955
Capital and reserves		
Share capital	**52,403**	50,181
Reserves *(Note)*	**414,273**	342,774
Total equity	**466,676**	392,955

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 2017	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
Loss and total comprehensive expense for the year	**–**	**–**	**(76,486)**	**(76,486)**
Issue of shares upon conversion of convertible notes	**147,985**	**–**	**–**	**147,985**
At 31 December 2018	**918,270**	**201,645**	**(705,642)**	**414,273**

40. RECLASSIFICATION

Certain comparative figures have been restated to conform with the current year's presentation.

Five-Year Financial Summary

For the year ended 31 December 2018

RESULTS

	Year ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Continuing operations					
Revenue	**71,419**	57,870	62,253	66,571	85,689
Loss before tax	**(115,087)**	(48,424)	(30,988)	(276,548)	(180,233)
Income tax expense	**(140)**	(6,431)	(91)	–	–
Loss for the year from continuing operations	**(115,227)**	(54,855)	(31,079)	(276,548)	(180,233)
Discontinued operation					
Loss for the year from discontinued operation	**–**	–	–	–	(200,910)
Loss for the year	**(115,227)**	(54,855)	(31,079)	(276,548)	(381,143)

ASSETS AND LIABILITIES

	At 31 December				
	2018	2017	2016	2015	2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**599,667**	706,920	367,734	92,903	361,892
Total liabilities	**(24,614)**	(147,804)	(21,892)	(217,828)	(331,207)
Equity attributable to owners of the Company	**575,053**	559,116	345,842	(124,925)	30,685