THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in EPI (Holdings) Limited (the "**Company**"), you should at once hand this circular, together with the accompanying proxy form, to the purchaser or the transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

EPI (Holdings) Limited
長盈集團(控股)有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 689)

VERY SUBSTANTIAL ACQUISITION PARTICIPATION IN THE BIDDING PROCESS FOR THE CHAÑARES CONCESSION AND NOTICE OF NEW SPECIAL GENERAL MEETING

Financial Adviser to the Company

八方金融有限公司
OCTAL Capital Limited

A notice convening the new special general meeting of the Company (the "**New SGM**") to be held at Plaza 3, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Tuesday, 27 October 2020 at 10:00 a.m. or any adjournment thereof is set out on pages SGM-1 to SGM-3 of this circular. Whether or not you propose to attend the New SGM, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return it to the Hong Kong branch share registrar and transfer office of the Company, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the New SGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from subsequently attending and voting at the New SGM or any adjourned meeting should you so wish and in such event, the instrument appointing a proxy shall be deemed to be revoked.

PRECAUTIONARY MEASURES FOR THE NEW SGM

To prevent the spread of COVID-19 pandemic and to safeguard the health and safety of the shareholders of the Company (the "**Shareholders**") and other attendees who will attend the New SGM, the Company will implement the following precautionary measures at the New SGM:

(i) compulsory body temperature checks will be conducted on Shareholders, proxies and other attendees at the entrance of the New SGM venue. Any person with a body temperature over 37.5 degrees Celsius shall not be permitted to enter the New SGM venue;

(ii) Shareholders, proxies and other attendees are required to wear surgical face masks inside the New SGM venue at all times, and maintain a safe distance between seats;

(iii) no corporate gift or souvenir will be distributed and no refreshment will be served; and

(iv) any person who does not comply with the precautionary measures to be taken at the New SGM venue may be denied entry into the meeting venue.

The Company reminds all Shareholders that any person who is subject to any quarantine order prescribed by the Hong Kong Government will be denied entry into the New SGM venue, in order to ensure the health and safety of all attendees at the New SGM. Additionally, the Company reminds all Shareholders that physical attendance in person at the New SGM is not necessary for the purpose of exercising voting rights and would like to encourage Shareholders to appoint the Chairman of the New SGM as his/her/its proxy to vote on the resolution at the New SGM, instead of attending the New SGM in person.

8 October 2020

* *For identification purpose only*

CONTENTS

In this Circular, the following expressions have the following meanings, unless the context otherwise is required.

"API"	API gravity is a commonly used index of the density of a crude oil or refined products. API stands for the American Petroleum Institute, which is the industry organisation that created this measure
"ARS"	Argentina Peso, the lawful currency of Argentina
"bbl/d"	barrels of oil per day
"Bid"	the revised bid offer for the Chañares Concession to be submitted by the Group under the Bidding Process on 28 October 2020 (Argentina time) (or such later date as may be determined by the Hydrocarbons Department of Mendoza Province)
"Bidding Process"	the formal bidding process held by the Hydrocarbons Department of Mendoza Province in relation to the Chañares Concession
"Board"	board of the Directors
"Bye-laws"	Bye-laws of the Company (as amended, modified or supplemented from time to time)
"CHE Concession"	the hydrocarbons exploitation concession rights in the Chañares Herrados area located in Cuyana Basin, Mendoza Province which the Group has interests
"Chañares"	Chañares Energía S.A. (formerly known as Chañares Herrados Empresa de Trabajos Petroleros S.A.), the holder of the Chañares Concession (including the CHE Concession)
"Chañares Concession"	the hydrocarbons exploitation concession rights in the Chañares Herrados area and the entitlement to all of the right, title and interest in and to the properties and interests of the Chañares Herrados area, of which the CHE Concession forms part, under the Bidding Process

"Circular"	this circular containing (i) further details and progress of the Proposed Transaction and the transactions contemplated thereunder; (ii) the New Competent Person's Report, the New Valuation Report and the Risk Assessment Report in respect of the Chañares Concession, which are in compliance with the requirements of Chapter 18 and Guidance Note 7 of the Listing Rules; (iii) the notice of New SGM; and (iv) other information as required under the Listing Rules
"Company"	EPI (Holdings) Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 689)
"Competent Person"	has the meaning ascribed to it under the Listing Rules
"Completion"	completion of the Proposed Transaction
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Director(s)"	director(s) of the Company
"D&M"	DeGolyer and MacNaughton, the Competent Person and Competent Evaluator (which has the meaning ascribed to it under the Listing Rules) appointed by the Company in respect of the Proposed Transaction
"Effective Date"	being the date following the publication of the decree awarding the Chañares Concession to the new concessionaire which is currently expected to be passed between 11 December 2020 (Argentina time) and 11 January 2021 (Argentina time) according to the latest circular issued by the Hydrocarbons Department of Mendoza Province in relation to the Bidding Process
"Enlarged Group"	the Group including the Petroleum Assets after the Completion
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hydrocarbons Department of Mendoza Province"	the Hydrocarbons Department of Mendoza Province administered by the Ministry of Economy, Infrastructure and Energy, Government of Mendoza Province

"Latest Practicable Date"	5 October 2020, being the latest practicable date for ascertaining certain information referred to in this Circular prior to its printing
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Mendoza Government"	Government of Mendoza Province
"Mendoza Province"	Mendoza Province of Argentina
"New Competent Person's Report"	the competent person's report issued by D&M on the Chañares Concession in compliance with the requirements of Chapter 18 of the Listing Rules, which is set out in Appendix IV of this Circular
"New SGM"	the special general meeting of the Company to be convened at Plaza 3, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Tuesday, 27 October 2020 at 10:00 a.m. for the Shareholders to consider and, if thought fit, approve the Proposed Transaction and the transactions contemplated thereunder
"New Valuation Report"	the valuation report issued by D&M on the Chañares Concession in compliance with the requirements of Chapter 18 of the Listing Rules, which is set out in Appendix V of this Circular
"NPV"	net present value
"Petroleum Assets"	(a) exclusive right to exploit hydrocarbons existing in the Chañares Herrados area for the term of the Chañares Concession; (b) right to perform works for search and extraction of hydrocarbons; build and operate treatment and refining plants, communication and transport systems, buildings, deposits, camps, docks and other facilities and operations required to carry out the activities of the concessionaire; (c) ownership of hydrocarbons extracted from the Chañares Herrados area; (d) right to transport, commercialise and industrialise hydrocarbons extracted from the Chañares Herrados area; and (e) right to request a concession for the non-conventional exploitation of hydrocarbons in the Chañares Herrados area

"Previous Circular"	the circular of the Company dated 12 March 2020 in relation to, among other things, the Company's intention to submit a bid offer for the Chañares Concession under the Bidding Process through the Company's indirect wholly owned subsidiary
"Proposed Transaction"	proposed acquisition of the Chañares Concession upon the successful winning of the Bid under the Bidding Process, which constitutes a very substantial acquisition for the Company under Chapter 14 of the Listing Rules
"Risk Assessment Report"	the risk assessment report issued by D&M on the Chañares Concession in accordance with Guidance Note 7 of the Listing Rules, which is set out in Appendix VI of this Circular
"SFO"	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.01 each in the share capital of the Company
"Shareholder(s)"	holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US$"	United States dollars, the lawful currency of the United States of America
"%"	per cent.

For the purpose of this Circular, unless otherwise indicated, the exchange rate of US$1.00 = HK$7.80 has been used, where applicable, for the purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be exchanged at such rate or any other rate or at all on the date or dates in question or any other date.

In the event of any inconsistency, the English text of this Circular, the notice of New SGM and the accompanying proxy form shall prevail over the Chinese text.

EPI (Holdings) Limited
長盈集團(控股)有限公司*

(Incorporated in Bermuda with limited liability)
(Stock Code: 689)

Executive Directors:
Mr. Sue Ka Lok
Mr. Yiu Chun Kong
Mr. Chan Shui Yuen

Independent Non-executive Directors:
Mr. Pun Chi Ping
Ms. Leung Pik Har, Christine
Mr. Kwong Tin Lap

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

8 October 2020

To the Shareholders

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION PARTICIPATION IN THE BIDDING PROCESS FOR THE CHAÑARES CONCESSION AND NOTICE OF NEW SPECIAL GENERAL MEETING

References are made to (i) the Previous Circular dated 12 March 2020; (ii) the announcements of the Company dated 30 June 2020 and 7 September 2020 in relation to the revision of the timeline of the Bidding Process; and (iii) the announcement of the Company dated 7 October 2020 in relation to the Proposed Transaction.

* *For identification purpose only*

REVISED BID UNDER THE BIDDING PROCESS

In light of the revised timeline under the Bidding Process and after due evaluation of the prevailing market conditions including the international price of Brent crude oil and the latest information of the Chañares Concession (of which the CHE Concession forms part), the Company intends, through the Company's indirect wholly owned subsidiary, to submit a revised bid offer for the Chañares Concession under the Bidding Process. The amount of the Bid will be in the region ranging from US$26.5 million (approximately HK$206.7 million) to US$43 million (approximately HK$335.4 million).

The purpose of this Circular is to provide you with, among other things, (i) further details and progress of the Proposed Transaction and the transactions contemplated thereunder; (ii) the New Competent Person's Report, the New Valuation Report and the Risk Assessment Report in respect of the Chañares Concession, which are in compliance with the requirements of Chapter 18 and Guidance Note 7 of the Listing Rules; (iii) the notice of New SGM; and (iv) other information as required under the Listing Rules, in order to enable you to make an informed decision on how to vote at the New SGM.

THE BID

Set out below are the principal terms of the Bid:

Bid submission date

Bid submission date: 28 October 2020 (Argentina time) (or such later date as may be determined by the Hydrocarbons Department of Mendoza Province)

The target assets

The Chañares Concession, being the hydrocarbons exploitation concession rights in the Chañares Herrados area and the entitlement to all of the right, title and interest in and to the properties and interests of the Chañares Herrados area described in the relevant Hydrocarbons Laws of Argentina and the bidding documents under the Bidding Process effective as of the Effective Date, mainly including the following:

(i) the Petroleum Assets;

(ii) all the existing wells in operation and the new wells to be drilled in the Chañares Herrados area; and

(iii) the right to use any assets and infrastructure in the Chañares Herrados area owned by the Mendoza Province to be transferred to the new concessionaire together with the Petroleum Assets.

The Chañares Concession has a term of 25 years counted as from the Effective Date with the possibility of successive extensions for terms not exceeding 10 years each from the date of expiry of the original term and of each extension, subject to the approval by the Executive of the Mendoza Province.

Consideration under the Bidding Process

According to the bidding documents of the Bidding Process, the Hydrocarbons Department of Mendoza Province has set minimum requirements on (i) initial upfront payment (the "**Upfront Payment**"), which is US$5 million (approximately HK$39.0 million); (ii) capital investment commitment (the "**Capital Investment Commitment**"), which is US$20 million (approximately HK$156.0 million); and (iii) royalty percentage applied on the future revenue on oil sales (the "**Royalty %**"), which is 12%. Each of the bidders under the Bidding Process is required to pay a deposit of US$40,000 (approximately HK$312,000) (the "**Initial Deposit**") on the date of submission of the Bid. The winner of the bid under the Bidding Process is required to pay to the Hydrocarbons Department of Mendoza Province (i) the Upfront Payment within 30 calendar days after the Effective Date; and (ii) a deposit representing 10% of the amount of the Capital Investment Commitment within 10 business days after the Effective Date, while the Initial Deposit will be returned to the bidders.

The evaluation of the Bidding Process will be based on the ranking factor calculated in the formula as stated below:

Ranking factor =

(a) 1.5 × (intended Upfront Payment / minimum Upfront Payment of US$5 million (approximately HK$39.0 million)) +

(b) 1.3 × (intended Royalty % / minimum Royalty % of 12%) +

(c) 1.1 × (intended Capital Investment Commitment / minimum Capital Investment Commitment of US$20 million (approximately HK$156.0 million))

The Group intends to submit the Bid with the amount that ranges from the minimum amount of US$26.5 million (approximately HK$206.7 million) to the maximum amount of US$43 million (approximately HK$335.4 million), summarised as follows:

	Upfront Payment (a)	Capital Investment Commitment (b)	Total (a) + (b)
The minimum amount of the Bid	US$5 million (approximately HK$39.0 million)	US$21.5 million (approximately HK$167.7 million)	US$26.5 million (approximately HK$206.7 million)
The maximum amount of the Bid	US$7.2 million (approximately HK$56.2 million)	US$35.8 million (approximately HK$279.2 million)	US$43 million (approximately HK$335.4 million)

The valuation opinion of D&M, the Competent Person, for the Chañares Concession (set out at page 8 (V-8) of the New Valuation Report in Appendix V of this Circular) states that the valuation of the 100 percent working interest in the Chañares Concession, considering a range of discount rates and potential additional Royalty % and the minimum Upfront Payment of US$5 million (approximately HK$39.0 million), is in a range from approximately US$6 million (approximately HK$46.8 million) to approximately US$17.1 million (approximately HK$133.4 million).

The Company has constructed its proposed range of bids for the Chañares Concession based on the following factors:

(i) the Company's proposed development plan in respect of the 39 producing wells and the new wells to be drilled in the Chañares Herrados area which sets out the estimated capital expenditure on the drilling of new wells, the workover jobs to improve the efficiency of the producing wells and the maintenance jobs on the non-producing wells to restart oil production (the "**Development Plan**");

(ii) the minimum intended Capital Investment Commitment of US$21.5 million (approximately HK$167.7 million) for developing "Proved" reserves of the Chañares Concession and the maximum intended Capital Investment Commitment of US$35.8 million (approximately HK$279.2 million) for developing "Proved" plus "Probable" reserves of the Chañares Concession, which are determined in accordance with the Development Plan and are set out in more details at page 25 (IV-27) of the New Competent Person's Report in Appendix IV of this Circular;

(iii) the Company has selected the NPV of the Chañares Concession of approximately US$14.1 million (approximately HK$110.0 million) which is stated at page 7 (V-7) of the New Valuation Report in Appendix V of this Circular under the heading of Present Worth After Argentine Income Taxes (i.e. "Proved" plus "Probable" reserves of the Chañares Concession) at the discount rate of 15% with 0% additional Royalty % as the basis in determining the maximum amount of the Bid and its principal assumptions adopted for arriving at the NPV comprise the followings:

1. the NPV at discount rate of 15%;

2. the Royalty % of 12% (i.e. no additional Royalty %);

3. the maximum intended Capital Investment Commitment of US$35.8 million (approximately HK$279.2 million) as capital expenditure to develop the "Proved" plus "Probable" reserves of the Chañares Concession under the Development Plan;

4. the discount for the export tax is applied until the year 2045 at the rate between 0% and 8% (when Brent oil price is between US$45.0 per barrel and US$60.0 per barrel), and at 8% (when Brent oil price exceeds US$60.0 per barrel);

5. the oil price discount for quality being 10% on Brent crude oil price;

6. the transport differential of US$1.5 per barrel, escalated 2% per year (as a reimbursement); and

7. the minimum Upfront Payment of US$5 million (approximately HK$39.0 million) is a minimum payment payable to the Hydrocarbons Department of Mendoza Province which D&M deducted from the valuation of the Chañares Concession.

(iv) the maximum amount of the Bid of US$43 million (approximately HK$335.4 million) represents a discount of approximately 21.7% to the sum of (i) the maximum intended Capital Investment Commitment of US$35.8 million (approximately HK$279.2 million) and (ii) the estimated amount of the Chañares Concession of approximately US$19.1 million (approximately HK$149.0 million) (being the NPV of the Chañares Concession of approximately US$14.1 million (approximately HK$110.0 million) by adding back the minimum Upfront Payment of US$5 million (approximately HK$39.0 million)) totalling approximately US$54.9 million (approximately HK$428.2 million) after taking into account the Company's financial resources.

Further information on the detailed basis and methodology of the valuation on the Chañares Concession are set out at pages 1 (V-1) to 8 (V-8) of the New Valuation Report in Appendix V of this Circular.

As stated at page 7 (V-7) of the New Valuation Report in Appendix V of this Circular, under the "1P" case (i.e. to develop the "Proved" reserves of the Chañares Concession with capital expenditure of approximately US$21.5 million (approximately HK$167.7 million)), as a reference, D&M presented that the NPV of the Chañares Concession ranged from (i) approximately US$6.0 million (approximately HK$46.8 million) with the highest discount rate of 20% and 5% additional Royalty % (i.e. Royalty % of 17%), representing the minimum NPV; to (ii) approximately US$14.9 million (approximately HK$116.2 million) with the discount rate of 12% and 0% additional Royalty % (i.e. Royalty % of 12%), representing the maximum NPV.

Based on the NPVs and capital expenditure presented by D&M under the "1P" case, the Board derives the adjusted NPVs before any capital outlay under different discount rates and additional Royalty % to determine the financial feasibility of the minimum amount of the Bid which are summarised as follows:

	"1P" Reserves NPV with capital expenditure of approximately US$21.5 million (approximately HK$167.7 million)			
	(discount rate of 12% and 0% additional Royalty %)		**(discount rate of 20% and 5% additional Royalty %)**	
	(US$ million) (approximately)	*(HK$ million) (approximately)*	*(US$ million) (approximately)*	*(HK$ million) (approximately)*
NPV (a)	14.9	116.2	6.0	46.8
Adjusted NPV after adding back the initial minimum Upfront Payment of US$5 million (approximately HK$39 million) (b) *(Note)*	19.9	155.2	11.0	85.8
Capital expenditure (c)	21.5	167.7	21.5	167.7
Adjusted NPV before any capital outlay (b) + (c) = (d)	41.4	322.9	32.5	253.5
Minimum Bid (e)	26.5	206.7	26.5	206.7
Minimum Bid represents a discount to Adjusted NPV [(d) – (e)]/(d)	36.0%	36.0%	18.5%	18.5%

Note: The minimum Upfront Payment of US$5 million (approximately HK$39 million) is a minimum payment payable to the Hydrocarbons Department of Mendoza Province which D&M deducted from the valuation of the Chañares Concession.

Under the scenarios of the "1P" case presented above, the minimum amount of the Bid of US$26.5 million (approximately HK$206.7 million) represents (i) a discount of approximately 18.5% to the minimum adjusted NPV of approximately US$32.5 million (approximately HK$253.5 million) and (ii) a discount of approximately 36.0% to the maximum adjusted NPV of approximately US$41.4 million (approximately HK$322.9 million).

As stated at page 7 (V-7) of the New Valuation Report in Appendix V of this Circular, under the "2P" case (i.e. to develop the "Proved" plus "Probable" reserves of the Chañares Concession with capital expenditure of approximately US$35.8 million (approximately HK$279.2 million)), the NPV of the Chañares Concession ranged from (i) approximately US$6.1 million (approximately HK$47.6 million) with the highest discount rate of 20% and 5% additional Royalty % (i.e. Royalty % of 17%), representing the minimum NPV; to (ii) approximately US$17.1 million (approximately HK$133.4 million) with the discount rate of 12% and 0% additional Royalty % (i.e. Royalty % of 12%), representing the maximum NPV.

Based on the NPVs and capital expenditure presented by D&M under the "2P" case, the Board further derives the adjusted NPVs before any capital outlay under different discount rates and additional Royalty % to determine the financial feasibility of the maximum amount of the Bid which are summarised as follows:

	"2P" Reserves NPV with capital expenditure of approximately US$35.8 million (approximately HK$277.7 million)			
	(discount rate of 12% and 0% additional Royalty %)		**(discount rate of 20% and 5% additional Royalty %)**	
	(US$ million) (approximately)	***(HK$ million) (approximately)***	***(US$ million) (approximately)***	***(HK$ million) (approximately)***
NPV (a)	17.1	133.4	6.1	47.6
Adjusted NPV after adding back the initial minimum Upfront Payment of US$5 million (approximately HK$39 million) (b) *(Note)*	22.1	172.4	11.1	86.6
Capital expenditure (c)	35.8	279.2	35.8	279.2
Adjusted NPV before any capital outlay (b) + (c) = (d)	57.9	451.6	46.9	365.8
Maximum Bid (e)	43.0	335.4	43.0	335.4
Maximum Bid represents a discount to Adjusted NPV [(d) – (e)]/(d)	25.7%	25.7%	8.3%	8.3%

Note: The minimum Upfront Payment of US$5 million (approximately HK$39 million) is a minimum payment payable to the Hydrocarbons Department of Mendoza Province which D&M deducted from the valuation of the Chañares Concession.

Under the scenarios of the "2P" case presented above, the maximum amount of the Bid of US$43 million (approximately HK$335.4 million) represents (i) a discount of approximately 8.3% to the minimum adjusted NPV of approximately US$46.9 million (approximately HK$365.8 million) and (ii) a discount of approximately 25.7% to the maximum adjusted NPV of approximately US$57.9 million (approximately HK$451.6 million).

In view of the above, the Directors consider that the maximum and minimum amounts of the Bid are fair and reasonable and in the interest of the Company and the Shareholders as a whole. Further announcement(s) will be published by the Company upon successful winning of the Bid which will set out the actual amount and actual Royalty % of the Bid.

The Company intends to settle the maximum Capital Investment Commitment of approximately US$35.8 million (equivalent to approximately HK$279.2 million) from the cashflow generated from the Chañares Concession as follows:

Year	Cashflow from operation *(Note)* (approximately)		Capital Investment Commitment (approximately)		Net cashflow before outlay of Upfront Payment (approximately)	
	US$'000	*HK$ million*	*US$'000*	*HK$ million*	*US$'000*	*HK$ million*
	A	B	C	D	E = A – C	F = B – D
2021	5,326	41.54	2,417	18.85	2,909	22.69
2022	5,976	46.61	1,295	10.10	4,681	36.51
2023	7,392	57.66	5,825	45.44	1,567	12.22
2024	7,882	61.48	5,941	46.34	1,941	15.14
2025	8,320	64.90	6,060	47.27	2,260	17.63
2026	8,639	67.38	7,268	56.69	1,371	10.69
2027	9,069	70.74	6,265	48.87	2,804	21.87
2028	7,645	59.63	340	2.65	7,305	56.98
2029	6,543	51.04	347	2.71	6,196	48.33
Accumulative total:	66,792	520.98	35,758	278.92	31,034	242.06

Note: Cashflow from operation represents net cashflow before outlay of Upfront Payment and Capital Investment Commitment as derived from table 7 (IV-42) of the New Competent Person's Report in Appendix IV of this Circular.

The Company intends to settle the payment for the Initial Deposit and Upfront Payment with its internal resources while the Capital Investment Commitment will be financed by the internal resources and/or the surplus funds to be generated from the oil production operation under the Chañares Concession assuming the Group wins the Bid and becomes the concessionaire of the Chañares Concession and operates on the concession according to the Development Plan.

Apart from the above, the Company also took into account, among other things, the following factors:

(a) results of the due diligence and financial analysis conducted by the Company and its professional advisers based on information provided by the Hydrocarbons Department of Mendoza Province;

(b) the reserves and quality of the Chañares Concession as compared with the relevant crude oil reserves of comparable estimated volume and quality in the market; and

(c) the Directors' belief that the Proposed Transaction represents a unique opportunity for the Company to acquire a valuable petroleum asset.

Major milestones in relation to the Bid

According to the latest circular under the Bidding Process issued by the Hydrocarbons Department of Mendoza Province, set out below is the timeline of the major milestones in relation to the Bid:

Date (Argentina time)	Event
28 October 2020	Submission of the Bid under the Bidding Process
29 November 2020 to 11 December 2020	Decision on winner of the Bid
11 December 2020 to 11 January 2021	Publication of decree of granting the concession
25 January 2021 to 1 February 2021	Delivery of concession to the new concessionaire

INFORMATION ON THE GROUP

The Group is principally engaged in the business of petroleum exploration and production, money lending and investment in securities. At the Latest Practicable Date, the Company's petroleum operations comprise 10 wells under the CHE Concession. These petroleum operations have been operating under joint venture agreements and operation agreements entered into with Chañares, the holder of the CHE Concession. Pursuant to the operation agreement, the Group is entitled to 51% interest on the production of five oil wells and 72% interest on the production of the other five oil wells. Currently, the Group's management team in Argentina is responsible for overseeing the petroleum operation under the CHE Concession which regularly reports the petroleum operation to the Group. During the years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020, the crude oil produced from the CHE Concession were 108,919, 92,792, 63,222 and 18,238 barrels of oil respectively and the average price per barrel of the crude oil sold were US$52.4 (approximately HK$408.7), US$60.8 (approximately HK$474.2), US$50.7 (approximately HK$395.5) and US$44.5 (approximately HK$347.1) respectively.

Set out below is a summary of the financial information of the petroleum exploration and production segment of the Group for the three years ended 31 December 2019 and for the six months ended 30 June 2020:

	For the year ended 31 December			For the six months ended
	2017	**2018**	**2019**	**30 June 2020**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
	(Audited)	**(Audited)**	**(Audited)**	**(Unaudited)**
Sales revenue of the Group's petroleum exploration and production segment	42,914	43,998	24,171	5,669
Segment profit (loss)	24,319	(462)	(46,610)	(2,252)

Set out below is a summary of the volume of crude oil produced by the Group and the average price of crude oil per barrel sold by the Group for the three years ended 31 December 2019 and for the six months ended 30 June 2020:

	For the year ended 31 December			For the six months ended
	2017	**2018**	**2019**	**30 June 2020**
Volume of crude oil produced by the Group (barrels)	108,919	92,792	63,222	18,238
Average price of crude oil per barrel sold by the Group	US$52.4 (approximately HK$408.7)	US$60.8 (approximately HK$474.2)	US$50.7 (approximately HK$395.5)	US$44.5 (approximately HK$347.1)

INFORMATION ON THE CHAÑARES CONCESSION

According to the information provided by the Hydrocarbons Department of Mendoza Province and information obtained from the Secretariat of Energy of Argentina, there are 83 wells located in the Chañares Herrados area under the Chañares Concession currently of which 39 oil wells are producing, 26 oil wells are non-producing or shut-in and 18 oil wells are abandoned. With reference to the bidding document of the Bidding Process, the oil production of the Chañares Concession for the three years ended 31 December 2019 and for the six months ended 30 June 2020 is presented as follows:

	For the year ended 31 December			For the six months ended
	2017	**2018**	**2019**	**30 June 2020**
Volume of crude oil produced from the Chañares Concession (cubic meter)	84,874	74,139	67,480	18,116
Volume of crude oil produced from the Chañares Concession (barrels)	533,840	466,319	424,436	113,946

Note: Assuming 1 cubic meter of oil = 6.2898 barrels of oil

Currently, there are three parties which have drilled wells and are entitled to the oil production from their wells in the Chañares Concession, they are:

(i) Chañares, the concessionaire and operator, an independent third party to the Company; and

(ii) two indirect wholly owned Argentina subsidiaries of the Company operated under joint venture agreements and operation agreements entered into with Chañares. The Group has entitlement to the oil production from the 10 wells drilled in the CHE Concession area.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Hydrocarbons Department of Mendoza Province, Chañares and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

Production status and reserves of the Chañares Concession

The Chañares Herrados area is located in Cuyana Basin, Mendoza Province of Argentina covering a total surface area of approximately 40.6 kilometer squares. Pursuant to the preliminary production estimation prepared by D&M based on the Development Plan, the Chañares Concession has net "Proved" plus "Probable" reserves of approximately 5.69 million barrels as of 1 January 2021 as set out at page 21 (IV-23) of the New Competent Person's Report in Appendix IV of this Circular.

The main source rocks for the Chañares Concession are organic-rich shales of the Triassic Cacheuta formation and the main reservoirs are sandstones with tuffaceous matrix of the Triassic Río Blanco formation and sandstones and conglomerates of the Jurassic Barrancas formation. The Río Blanco formation consists of three intervals named informally from top to base as "Victor Claro", "Victor Oscuro" and "Victor Gris". The Chañares Concession is part of a large structural nose, plunging to south west with faults trending east-west which portioned the structure into several blocks.

The Cuyana Basin generally contains highly undersaturated oil with moderate solution gas-oil. Productive reservoirs in the Chañares Concession of the Cuyana Basin can be separated into a shallow reservoir group and a deep reservoir group. The shallow reservoir group consists of the Jurassic age Barrancas Formation and the Late Triassic age Río Blanco Formation (Victor Claro, Victor Oscuro, and Victor Gris Members). The Barrancas Formation averages 100 meters gross thickness with interbedded pay intervals consisting of multiple 2-meter to 20-meter thick sections of oil-bearing sands and conglomerates. The depositional environment of the Barrancas Formation is likely fluvial. The Río Blanco Formation consists of three sub-members: the shallow Victor Claro (Blanco Superior), the Victor Oscuro (Blanco Medio), and the deeper Victor Gris (Blanco Inferior). The lithology of the Río Blanco Formation is similar to the Barrancas Formation but with an increasing volcanic and pyroclastic component at deeper depths. Produced oil gravity is approximately 31 to 33 degrees API.

According to the information obtained from the Secretariat of Energy of Argentina, during the three years ended 31 December 2019 and the six months ended 30 June 2020, the crude oil production attributable to the Chañares Concession was approximately 1,463 bbl/d, 1,278 bbl/d, 1,163 bbl/d and 626 bbl/d, respectively. Details of the reserves of the Chañares Concession according to the Development Plan is set out at page 21 (IV-23) of the New Competent Person's Report in Appendix IV of this Circular.

As set out in the Company's announcements dated 7 April 2020 and 28 August 2020, as a result of the situation brought by the outbreak of COVID-19 and the measures adopted by the national and provincial authorities in Argentina, there was a drastic reduction on the demand for fuels. Accordingly, YPF Sociedad Anonima ("**YPF S.A.**") (a state-owned oil company which operates in the oil and gas upstream and downstream activities in Argentina and is at present the sole customer of crude oil produced from the oil wells in which the Group has interests) had been forced to stop and/or reduce production at their refineries and to temporarily suspend the purchase of crude oil, which thereby led to the decision of Chañares to suspend the operations in the Chañares Herrados area since mid April 2020, including the oil wells which the Group has interests, and henceforth the decrease of oil production from the Chañares Herrudos area.

In early July 2020, the Hydrocarbons Department of Mendoza Province advised the Company that YPF S.A. would restart the purchase of crude oil during July 2020, and as advised by Chañares recently, YPF S.A. has resumed purchase of crude oil after mid July 2020 and the oil production in the Chañares Concession area has recommenced accordingly.

The Company has engaged legal counsels in Argentina to conduct due diligence on the Chañares Concession. The Argentina legal advisor of the Company has been asked to opine on certain matters relating to the Chañares Concession. Set out below are some of such key matters:

1. The term of the Chañares Concession is 25 years and is subject to successive extensions for terms not exceeding 10 years each at the request of the holder of the Chañares Concession subject to satisfaction of certain conditions including submission of an investment plan which is consistent with the development of the concession.

2. According to the legal framework applicable to the Bid, the new holder of the Chañares Concession will have the following rights:

   (a) Exclusive right to exploit hydrocarbons existing in the Chañares Concession area for the term of the concession.

   (b) Right to perform, within the boundaries of the concession, works for search and extraction of hydrocarbons in accordance with the most reasonable and effective techniques; build and operate treatment and refining plants, communication and transport systems, buildings, deposits, camps, docks and other facilities and operations required to carry out the activities of the concessionaire.

   (c) Ownership of hydrocarbons extracted from the Chañares Concession area.

   (d) Right to use any assets and infrastructure on the Chañares Concession area owned by the Mendoza Province and received by the new concessionaire together with the Chañares Concession.

   (e) Right to transport, commercialize, and industrialize hydrocarbons extracted from the Chañares Concession area and their derivatives.

   (f) Right to obtain a concession for the transport of hydrocarbons.

   (g) Right to request a concession for the non-conventional exploitation of hydrocarbons within the boundaries of its concession.

   (h) Right to obtain easements to install facilities required for the exploitation of the concession.

3. Under Decree 1101, Chañares has been in principle allowed to stay in Chañares Herrados area until a new concessionaire takes over and the Mendoza Province should take in advance any reasonable action aimed to deliver the area under the Chañares Concession

on time to the new concessionaire and the new concessionaire will have to ask for such actions to be taken by the Mendoza Province in due time and manner. Any right of the new concessionaire to receive compensation will depend on the factual and legal scenario and circumstances existing at the time if Chañares refuses to leave the concession area.

4. The effective date of grant of the concession to the new concessionaire will be the day following publication of the award decree in the Official Gazette of the Mendoza Province. According to circular #14, the decree awarding the concession to the new concessionaire will be passed between 11 December 2020 and 11 January 2021. According to the terms of Decree 1101, Chañares will continue operating under the Chañares Concession on the same terms agreed in the agreement approved by the extension decree, until the new concessionaire takes over the Chañares Concession.

5. Any assignment of the concession is subject to prior approval of competent authority of Mendoza Province and payment of all unpaid taxes.

As advised by the Company's Argentina legal advisor, below is a list of the relevant licenses, permits and approvals which will be obtained or granted in relation to the concession over the area (the need of obtaining some of these permits will depend on the specific nature of the operations to be performed in the area)[1]:

FEDERAL LEVEL	
PERMIT/REGISTRY	**LEGAL FRAMEWORK**
Upstream Registry	Federal Hydrocarbons Law No. 17,319 as amended and supplemented. Resolution No. 407/07 issued by the (former) Federal Secretariat of Energy
Hydrocarbon production measuring and telesupervision	Resolution No. 318/10 issued by the (former) Federal Secretariat of Energy
Registry for the delivery of statistical information, primary data and technical documentation to the Authority	Resolution No. 319/93 issued by the (former) Federal Secretariat of Energy
Technical environmental and safety audits in storage areas, underground and non-underground storage tanks, transportation tanks for hydrocarbons and its related products	Resolution No. 404/94 issued by the (former) Federal Secretariat of Energy
National program for loss control in non-underground tanks	Resolution No. 785/05 issued by the (former) Federal Secretariat of Energy
Federal Registry of liquid fuel dispensing points, own consumption, storage, distribution and marketing of fuels and hydrocarbons in bulk and compressed natural gas (if applicable)	Resolution No. 1,102/04 issued by the (former) Federal Secretariat of Energy
Permit to operate with certain chemical substances (chemical precursors): (i) annual registration; and (ii) quarterly reports on traceability (if applicable)	Federal Law No. 23,737, 26,045 and Regulatory Decree No. 593/19 (among others)

[1] General registrations, permits and licences required to develop business in Argentina (registration of corporations, tax registration, etc.) are not included in this list.

FEDERAL LEVEL	
PERMIT/REGISTRY	**LEGAL FRAMEWORK**
Permit hire blasting service granted by the National Controlled Materials Agency "*Agencia Nacional de Materiales Controlados" (if applicable)*	Federal Law No. 20,429 (among others)
Hazardous Waste Generation Permit (if applicable)	Federal Law No. 24,051
Federal LPG Industry Registry (if applicable)	Resolution No. 800/04 of the (former) Secretariat of Energy

PROVINCIAL LEVEL — MENDOZA	
PERMIT	**LEGAL FRAMEWORK**
Exploitation concession	Federal Hydrocarbons Law No. 17,319 as amended and supplemented, and Provincial Law No. 7,526
Registration of concession in the Registry of areas	Law No. 9,137
Provincial Registry of companies holding rights for exploitation and/or exploration activities in connection with hydrocarbon areas located in the Mendoza Province	Provincial Law No. 7,526
Main Environmental Permit	Provincial Law No. 5,961 and complementary regulations
Oil and Hazardous waste generation permit	Provincial Law No. 5,917 and Regulatory Decree No. 2,625/99
Environmental Insurance (if applicable)	Federal Environmental Law No. 25,675
Water Use Permit (if applicable)	Provincial Law No. 1,451 and complementary regulations
Liquid Effluents Generation Permit (if applicable)	Provincial Law No. 1,451, Resolution No. 778/96 issued by the General Department of Irrigation

The Company's Argentina legal advisor has advised that to the best of their knowledge, there are no legal impediments for the Company to obtain or renew the above licenses, permits and approvals.

Set out below is a summary of the key findings of the due diligence report prepared by the Company's Argentina legal advisor.

1. ***Legal proceedings with the relevant government authorities in relation to the termination of exploitation right and bidding of Chañares Concession.***

Based on public searches, the Company has been informed by its Argentina legal advisor that Chañares commenced the following legal proceedings against the decisions of the Mendoza Province to terminate the Chañares Concession and to call off the Bid:

Description	Acting authority	Started	Status
"Amparo" action requesting declaration of unconstitutionality of Decree 1101, with a request of a precautionary measure to suspend the effects of Decree 1101 until a final decision is taken	National Supreme Court	13/6/2019	As far as the Company's Argentina legal advisor knows, no decision has been taken by the Court
Administrative appeal for the revocation of Decree 1101, with a request for the suspension of effects of Decree 1101 until a final decision is taken	Governor of Mendoza Province/ Provincial Supreme Court of Mendoza	26/6/2019	Through Decree 1847 dated 16/8/2019[1], the Mendoza Governor rejected the request for the suspension of the effects of Decree 1101 Through Decree 152 dated 7/2/2020[2], the Mendoza Governor issued a final decision rejecting the administrative challenge of Chañares against Decree 1101 According to publicly available information (which is incomplete and subject to confirmation, because the Company's Argentina legal advisor do not have access to the Court dossiers), the Company's Argentina legal advisor understands that Chañares judicially challenged this decision and requested the suspension of enforcement of Decree 1101. As far as the Company's Argentina legal advisor knows, a judicial decision is pending.

1 Published in the Official Gazette on 26/8/2019.

2 Published in the Official Gazette on 13/2/2020.

Description	Acting authority	Started	Status
Administrative procedure Court action requesting declaration of lack of validity of Decree 1101, with a request of suspension of the effects of Decree 1101 until a final decision is taken[3]	Provincial Supreme Court of Mendoza	29/6/2019	The Court requested that certain administrative dossiers related to the concession be submitted by the Mendoza Government to the court. No decision regarding Chañares' challenge to Decree 1101 has been taken by the Court Chañares stated in its Statement of Claim that this lawsuit was initiated without prejudice to the "Amparo" action and also without prejudice to the arbitration procedure set forth in Section 8 of the Agreement between Chañares and the Government of Mendoza Province dated 31/5/2011 (approved by Decree No. 1467/11) Section 8 of the Agreement between Chañares and the Province of Mendoza for the extension of the concession (approved by Decree No. 1467/11) sets forth the arbitration mechanism. The Company's Argentina legal advisor cannot confirm the existence, purpose or status of an arbitration proceeding due to the lack of publicly available information.
Opposition to the existence and progress of the Bid, requesting that it be terminated or suspended	Hydrocarbons Authority of Mendoza/ Provincial Supreme Court of Mendoza	30/10/2019	Rejected by the Mendoza Hydrocarbons Authority on 11/11/2019 (Administrative Decision No. 27/19) According to publicly available information (which is incomplete and subject to confirmation, because the Company's Argentina legal advisor does not have access to the Court dossiers), (i) Chañares challenged the Administrative Decision No. 27/19; (ii) such challenge was rejected by the Province through Decree 690/20; and (iii) Chañares judicially challenged the Decree calling for a bid to award the area to a new concessionaire, and requested that the bidding process be suspended. As far as the Company's Argentina legal advisor knows, a judicial decision is pending

[3] As explained by Chañares, this action has been started in subsidy of the other actions and to avoid losing the right to make further claims, including the right to initiate an arbitration claim against the Mendoza Province.

2. ***Any non-compliance to the relevant rules and regulations in relation to the existing operation of the Chañares Concession that will have impact on the Bidding Process and/or the new concessionaire, and the possible consequence to the Bid and new concessionaire.***

The most relevant aspect to be considered in the context of the Bidding Process by a new concessionaire regarding non-compliance by Chañares to relevant rules and regulations in relation to the existing operation are related to compliance by Chañares with environmental regulations and existence of environmental liabilities in the area.

The terms of the Bid imposes on the new concessionaire the obligation to remediate pre-existing environmental liabilities. In this regard, by means of Resolution 107 dated 19 November 2019, the Director of Environmental Protection established that the area is considered free of environmental liabilities due to fulfilment of the remediation process according to applicable regulations. This resolution was based in Technical Report No. 1048/2019 dated 29 October 2019 and issued by the Office of Environmental Protection of Mendoza. So it seems that from the environmental liability standpoint, the exposure of the new concessionaire for existing liabilities will be mainly related to operations of Chañares in the period between the date of the technical report and the date of delivery of the area to the new concessionaire.

However, according to Circular #12 (supplementary to the terms of the Bid), the Provincial Hydrocarbons Authority stated that there are still certain environmental liabilities in the area, which must be remediated. It referred to two reports issued by the Environmental Protection Agency in May 2020. In accordance with such reports, Chañares has complied with the remediation of certain environmental liabilities (those that were declared by Chañares in the context of the renegotiation of the Chañares Concession), but that there are other liabilities identified in a survey conducted in 2014 (pools related to wells not drilled with the dry-location system), which remediation is pending. With respect to such environmental liabilities, Chañares filed a remediation schedule for the period 2019–2026 (which was approved by the Environmental Protection Agency). By Circular #12, the Provincial Hydrocarbons Authority declared that the remediation of those environmental liabilities will not continue to be carried out by Chañares, and that the new concessionaire must comply with it.

According to a report prepared by a consultancy service company ("**Consultancy Company**") dated 25 August 2020, (i) Consultancy Company discussed about the aforementioned environmental liabilities with the Environmental Authority of Mendoza, and in the context of the discussions such Authority was clear in stating that the liabilities are not material, and that it will give the new concessionaire sufficient time to remediate them based on a remediation schedule that will have to be filed by the new concessionaire (to be executed during the term of the concession); (ii) the Environmental Authority of Mendoza's intention regarding the existing environmental liabilities is to minimize the impacts eventually generated by any remediation work, since they are old environmental liabilities which have not generated or became environmental risk of any kind so far; (iii) the Consultancy Company's conclusion is that it is clear that there are no situations of environmental risk related to the area reported by the Mendoza competent authorities in inspections and audits; and (iv) the new concessionaire will have the chance to submit a new schedule of works regarding the existing environmental liabilities to be performed during the term of the concession. The Consultancy Company attached to its report a document with methodologies of work that may be implemented to deal with the environmental liabilities with "*low costs and using resources existing in the area*".

Aside of environmental matters, the Company's Argentina legal advisor is not aware of any non-compliance by Chañares to the relevant rules and regulations in relation to the existing operation of the area that may have impact on the Bidding Process and/or the new concessionaire.

3. *The effect on Bidding Process and/or exploitation right granted to new concessionaire on the situation that the legal actions and/non-compliance are still pending unsettled at the time of granting of concession or after the new concessionaire take over the concession.*

The decision of the Mendoza Province to call for the Bid through the issuance of Decree 1101 is presumed to have legitimacy and it is enforceable, so unless there is a decision from any Court or from the Mendoza Province suspending or terminating the Bid or the Bidding Process, it should continue until the delivery of the area to the new concessionaire (provided, of course, that a new concessionaire is appointed). The mere existence and continuance of unsettled legal actions is not an impediment for the Bid to continue until the completion of the Bidding Process.

Although it is too soon to make a reasonable assessment of the different scenarios that may be triggered by the coexistence of the Bid and the Chañares litigation, the Company's Argentina legal advisor considers that:

a. If the Bid and the Bidding Process is suspended by a Court decision granting a precautionary measure, then the Mendoza Government will be unable to move forward with any steps towards continuing such process. The effects will depend on the progress of the Bidding Process at the time of suspension. If the new concessionaire has already taken over the area at that time, it is hard to think that it will be removed through a precautionary measure, unless until a final Court decision is taken.

b. If Chañares obtains a final ruling deciding the revocation of Decree 1101 and the Bid, then Chañares will be entitled to stay in the area with the Chañares Concession in force, and the Bid will be over. In such scenario, if a new concessionaire has been appointed and is still in the area, it will have to leave and will have the right to claim damages to the Mendoza Province. The scenario seems to be of a very low probability, not only because of the reasons invoked by the Mendoza Government in Decree 1101 to terminate the Chañares Concession, but also because even if

Decree 1101 is revoked, it is hard to think that a Judge will deprive the new concessionaire from its rights if it is already in the area. In such case, the ruling may give Chañares grounds to start a claim for damages to the Mendoza Province. In addition, in Circular #12 supplementary to the terms of the Bid, the Provincial Hydrocarbons Authority stated that "*the ruling to be eventually issued could reject the administrative procedural action, or accept it. The improbable annulment of the act that declared the termination of the concession, could not restore validity to a contract already ended due to termination. The exercise of the Granting Power belongs to the Executive Power, and the declaration of termination is a exclusive power of the Executive Power in accordance with the provisions of Article 83 Law 17,319. Nor could affect the rights of third parties outside the process*" (paragraph #23).

c. Once the new concessionaire takes over the area, it is likely that the rights of Chañares will be eventually limited to claim for damages against the Mendoza Province. Perhaps Chañares may include the winner of the Bid in such litigation, by building arguments of collusion and/or bad faith on the pre-existing contractual relationship.

In light of the action of the Mendoza Province to terminate the Chañares Concession held by Chañares based on ground of non-fulfilment of investment commitment, the Company will therefore be mindful of fulfilling its investment commitment to be stated in the Bid. The Company has calculated the maximum investment commitment in a diligent manner and has taken into account the Company's financial resources to ensure that it can fulfil the investment commitment that it has stated in the Bid. The Company will take all possible action to mitigate risks of termination of the Chañares Concession in the future including obtaining sufficient funding to fulfil its investment commitment.

4. *After winning the Bid, the grounds on which the Hydrocarbons Department of Mendoza Province or Government of Argentina may repossess the concession and the relevant legal procedures involved.*

The Mendoza Province is the original owner of hydrocarbons resources located in the Mendoza Province, and is legally entitled to decide the termination of exploitation concessions in cases of default on concessionaire's obligations, which as stated by Decree 1101, is the case of Chañares and the area under the Chañares Concession. Section 85 of the Federal Hydrocarbons Law of Argentina states that should a concession be terminated, the areas must revert to the Province together with all improvement works, facilities, etc.. According to the Bid schedule as set out in Circular #14 issued by the Hydrocarbons Department of Mendoza Province, the formal delivery of the area to the new concessionaire will occur between 25 January 2021 and 1 February 2021, i.e., one or two months after the award Decree is passed. It is foreseeable that such period of time will be used to coordinate the replacement of Chañares by the new concessionaire in the area. Refusal by Chañares to leave the area may trigger administrative (infringement), civil (damages) and criminal consequences, and the intervention of provincial law enforcement and other provincial authorities, including local courts, at the request of the Mendoza Government. Also, depending on the circumstances, the new concessionaire may have the right to claim against Chañares and the Mendoza Government.

In light of the above, the Company will closely monitor the status of repossession by the Hydrocarbons Department of Mendoza Province or Government of Argentina and seek legal advice as to the possible action that it may take to protect its position should there be any indication that delivery of the area to the new concessionaire may be delayed.

REASONS FOR AND BENEFITS OF THE PROPOSED TRANSACTION

The Group is principally engaged in the business of petroleum exploration and production, money lending and investment in securities.

As disclosed in the Previous Circular, the Executive of the Mendoza Province had issued a decree which had the effect of termination of the CHE Concession held by Chañares as it had not fulfilled its investment commitment plan in respect of the Chañares Herrados area. Subsequently, the Chañares Concession (of which the CHE Concession forms part) has been made available for other investors to bid under the Bidding Process and according to the latest circular issued by the Hydrocarbons Department of Mendoza Province, the date of the Bid submission is 28 October 2020 (Argentina time).

Before the successful bidder takes over the Chañares Concession, Chañares can continue to operate under the CHE Concession and pay the same fees, royalties and other payments to the government under the same contractual conditions previously granted and should be able to extract and sell oil and should continue to pay fees, royalties and other payments, which logically are only payable in a context where the concessionaire is allowed to extract and sell oil. Accordingly, Chañares has continued to send to the Group (except for period when Chañares suspended its operation as mentioned in the section above headed ''Production status and reserves of the Chañares Concession'') the daily production reports which contain daily production and sales quantity, and monthly reports which contain production and sales quantity, selling price, sales revenue and operating expenses for calculating the profit sharing between the Group and Chañares under the operation agreements.

After due evaluation of the updated data and information relating to the Chañares Concession, the Company intends, through the Company's indirect wholly owned subsidiary, to submit the Bid under the Bidding Process.

Upon successful winning of the Bid, the Company intends to deploy additional manpower to the management team in Argentina to manage the daily operation of the petroleum exploration and production business in the Chañares Concession area as well as to assess the drilling and exploration works of the oil reserves in the Chañares Concession area.

Upon taking over the operation of the Chañares Concession, the Group will have immediate entitlement to the oil production and cashflow generated from the 39 existing producing wells. Under the capital investment plan to be submitted with the Bid submission, the Company intends to invest in (i) workover jobs on existing wells to increase oil production; (ii) maintenance jobs on non-producing wells to restart oil production; (iii) new wells drilling; and (iv) infrastructure and facilities to optimise the field operation and to reduce operational cost.

The Directors (including the independent non-executive Directors) consider that (i) the Proposed Transaction presents a valuable investment opportunity to acquire a valuable petroleum asset which facilitates the development of the Group's petroleum exploration and production business; and (ii) the terms of the Bidding Process are on normal commercial terms and are fair and reasonable and that the Proposed Transaction is in the interest of the Company and Shareholders as a whole.

FINANCIAL EFFECTS OF THE PROPOSED TRANSACTION

Earnings

As no revenue and expenses of the Chañares Concession are available, no unaudited pro forma financial information of the Enlarged Group has been prepared.

Assets and Liabilities

Based on the unaudited pro forma financial information of the Enlarged Group as set out in Appendix III to this Circular, assuming Completion had taken place on 30 June 2020, (i) based on the minimum amount of the Bid of US$26.5 million (approximately HK$206.7 million), the total assets of the Group would be increased from approximately HK$467.1 million to approximately HK$634.8 million and the total liabilities of the Group would be increased from approximately HK$24.0 million to approximately HK$191.7 million; and (ii) based on the maximum amount of the Bid of US$43 million (approximately HK$335.4 million), the total assets of the Group would be increased from approximately HK$467.1 million to approximately HK$746.4 million and the total liabilities of the Group would be increased from approximately HK$24.0 million to approximately HK$303.3 million. The details of the financial effect of the Proposed Transaction on the financial position of the Group together with the bases and assumptions taken into account in preparing the unaudited pro forma financial information of the Enlarged Group are set out, for illustration purpose only, in Appendix III of this Circular. The Company expects that the net assets of the Company will be unchanged upon Completion.

IMPLICATIONS UNDER THE LISTING RULES

As the highest applicable percentage ratio (as defined in Rule 14.07 of the Listing Rules) in respect of the Proposed Transaction exceeds 100%, the Proposed Transaction constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules. Therefore, the Proposed Transaction is subject to the reporting, announcement and Shareholders' approval requirements under the Listing Rules.

WAIVER FROM STRICT COMPLIANCE WITH THE REQUIREMENTS UNDER THE LISTING RULES

Waiver from strict compliance with Rules 14.58(7) and 14.69(4)(b) of the Listing Rules

Pursuant to Rule 14.58(7) of the Listing Rules, the Company is required to include in the announcement the net profits (both before and after taxation) attributable to the assets which are the subject of the transaction for the two financial years immediately preceding the transaction.

Pursuant to Rule 14.69(4)(b) of the Listing Rules, the Company is required to include in this Circular (i) a profit and loss statement and valuation of the Chañares Concession for the three preceding financial years on the identifiable net income stream and valuation in relation to such assets which must be reviewed by the auditors or reporting accountants to ensure that such information has been properly compiled and derived from the underlying books and records. The financial information on which the profit and loss statement is based must relate to a financial period ended six months or less before the listing document or circular is issued. The financial information on the assets being acquired as contained in the listing document or circular must be prepared using accounting policies which should be materially consistent with those of the listed issuer; and (ii) a pro forma profit and loss statement and net assets statement on the Enlarged Group on the same accounting basis. The pro forma financial information must comply with Chapter 4 of the Listing Rules.

Reasons and grounds for waiver sought

The Company has applied to the Stock Exchange for waiver from strict compliance with Rules 14.58(7) and 14.69(4)(b) of the Listing Rules on the following grounds:

1. The subject matter of the Proposed Transaction is an exploitation right. Although the Company is in possession of historical level of oil production of the wells under the Chañares Concession, the actual sales level and sales price of the oil are not contained in the information pack provided by the Hydrocarbons Department of Mendoza Province (the "**Information Pack**").

2. The Company has paid visits to the Hydrocarbons Department of Mendoza Province several times to discuss the availability of different parameters, including the quantity of oil sold, oil sales price, cost model and the respective operating expenditure of the existing Chañares Concession but the Hydrocarbons Department of Mendoza Province explained that such historical data, except for the production volume, will not be made available to the Company and will not be a good indicator for future revenue and profitability as the cost structure itself is highly dependent on the maintenance and drilling plan of the bidders.

3. The Company understands that the Hydrocarbons Department of Mendoza Province does not intend to provide any additional information to the bidders other than those contained in the Information Pack. The Company also does not expect that other operators of the

Chañares Concession will be willing to provide such information to the Company as the sales data are commercially sensitive and may jeopardise their bids should they wish to submit one.

4. The historical net profits generated by the wells under the Chañares Concession in the last two years are not a true or accurate reflection of their future profits after the Company assumes operations of these wells. The reason is that the production level of each well is highly dependent on the capital expenditure that the well operator is prepared to invest. A well operator may not wish to achieve the same production level as another well operator of the same well due to various reasons including outlook of the market and demand for oil. As such, some well operators may intentionally curb production level if they consider that the demand is not sufficient.

5. Without information relating to actual sales level and sales price, the income stream associated with the Chañares Concession cannot be identified. Although there is some level of revenue generated as a result of holding the Chañares Concession, such income stream cannot be accurately or correctly determined.

6. As the revenue sales data are not available, the Company will not be able to properly compile and derive such sum as the underlying books and records of such information for the preceding three years are not available.

7. In light of the above, the historical two year net profit (before and after taxation) for the two preceding financial years (as required under Rule 14.58(7)) and the profit and loss statement for the three preceding financial years (as required under Rule 14.69(4)(b)(i) of the Listing Rules) on the exploitation right and the valuation of the Chañares Concession will not be available in both the announcement of the Company dated 7 October 2020 and this Circular. In addition, the pro forma profit and loss statement on the Enlarged Group required under Rule 14.69(4)(b)(ii) of the Listing Rules will also not be available.

8. Having said the above, the pro forma net assets statement of the Enlarged Group at 30 June 2020 taking into account the minimum amount and maximum amount of the Bid (as required under part of Rule 14.69(4)(b)(ii)) is in Appendix III of this Circular.

9. The Company does not consider that there will be undue risks to Shareholders even if the historical net profits for the two preceding financial years of the wells under the Chañares Concession are not provided for the following reasons:

   (i) the Company did not base its assessment of the amount of the Bid in such historical net profits; and

   (ii) the amount of the Bid is made by reference to the valuation amount as estimated by an independent valuer.

The Company therefore confirms that the lack of the two year historical net profits is not an omission of material facts of an unfavourable nature or a failure to accord them with appropriate significance (in accordance with Rule 2.13 of the Listing Rules) and will not impose undue risk on Shareholders for assessing the Proposed Transaction.

Alternative disclosure

As an alternative, the Company has disclosed in the announcement of the Company dated 7 October 2020 and this Circular the following relevant information regarding the Chañares Concession:

(a) Description and location covered by the Chañares Concession;

(b) Total number of wells under the Chañares Concession and a breakdown of producing, non-producing and abandoned wells;

(c) Oil production volume of the Chañares Concession for the three years ended 31 December 2019 and for the six months ended 30 June 2020;

(d) Number of barrels of oil produced under the Chañares Concession for the three years ended 31 December 2019 and for the six months ended 30 June 2020;

(e) Average crude oil price sold by the Group for the three years ended 31 December 2019 and for the six months ended 30 June 2020;

(f) The net "Proved" and "Probable" reserves of the wells under the Chañares Concession as estimated by the Competent Person; and

(g) The valuation of the Chañares Concession as estimated by an independent valuer.

Please refer to the Letter from the Board, Appendix II, Appendix IV and Appendix V of this Circular for the above information.

The Directors are of the view that all sufficient relevant information for the Shareholders to make an informed decision of the Proposed Transaction have been included in this Circular, this Circular is not materially incomplete, misleading or deceptive and would not deprive the Shareholders of the necessary information to assess the transactions contemplated under the Proposed Transaction and its impact on the Company.

The Stock Exchange has granted a waiver to the Company to waive compliance with the strict requirements under Rules 14.58(7) and 14.69(4)(b) of the Listing Rules in the announcement of the Company dated 7 October 2020 and this Circular.

THE NEW SGM

A notice convening the New SGM to be held at Plaza 3, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Tuesday, 27 October 2020 at 10:00 a.m. or any adjournment thereof is set out on pages SGM-1 to SGM-3 of this Circular.

In order to be eligible to attend and vote at the New SGM, all unregistered holders of the Shares shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 20 October 2020.

A proxy form is enclosed herewith for use at the New SGM. Whether or not you propose to attend the New SGM, you are requested to complete the accompanying proxy form in accordance with the instructions printed thereon and return it to the Hong Kong branch share registrar and transfer office of the Company, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the New SGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from subsequently attending and voting at the New SGM or any adjourned meeting should you so wish and in such event, the instrument appointing a proxy shall be deemed to be revoked.

VOTING BY WAY OF POLL

Pursuant to Rule 13.39(4) of the Listing Rules, all votes at the New SGM will be taken by way of poll except where the chairman of the New SGM, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands. Accordingly, the chairman of the New SGM will put the resolution(s) set out in the notice of the New SGM to be voted by way of poll pursuant to the Bye-laws. An announcement on the poll results will be published by the Company after the New SGM in the manner prescribed under Rule 13.39(5) of the Listing Rules.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder has any material interest in the Proposed Transaction and no Shareholder is required to abstain from voting at the New SGM in respect of the resolution(s) relating to the Proposed Transaction.

RECOMMENDATION

On the basis of the information set out in this Circular, the Board considers the Proposed Transaction to be fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends the Shareholders to vote in favour of the resolution(s) proposed at the New SGM.

FURTHER INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this Circular, which contain further information about the Petroleum Assets, the Group and other information that need to be disclosed in accordance with the Listing Rules.

WARNING

The Proposed Transaction and the transactions contemplated thereunder are conditional upon the successful winning of the Bid under the Bidding Process. Accordingly, the Proposed Transaction and the transactions contemplated thereunder may or may not proceed. Shareholders and potential investors should exercise caution when dealing in the securities of the Company.

Yours faithfully,
For and on behalf of the Board
EPI (Holdings) Limited
Sue Ka Lok
Executive Director

1. FINANCIAL INFORMATION OF THE GROUP

The audited consolidated financial information of the Group for each of the three years ended 31 December 2017, 2018 and 2019 and the unaudited condensed consolidated financial information of the Group for the six months ended 30 June 2020 are disclosed in the following documents which have been published on the websites of the Stock Exchange (*http://www.hkexnews.hk*) and the Company (*http://www.epiholdings.com*) respectively:

- The audited consolidated financial statements of the Group for the year ended 31 December 2017 has been set out on pages 56 to 125 of the annual report 2017 of the Company published on 27 April 2018 on the Stock Exchange's website. Please see below link to the Company's annual report 2017:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2018/0427/ltn201804271506.pdf

- The audited consolidated financial statements of the Group for the year ended 31 December 2018 has been set out on pages 60 to 143 of the annual report 2018 of the Company published on 29 April 2019 on the Stock Exchange's website. Please see below link to the Company's annual report 2018:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0429/ltn20190429689.pdf

- The audited consolidated financial information of the Group for the year ended 31 December 2019 has been set out on pages 62 to 151 of the annual report 2019 of the Company published on 14 May 2020 on the Stock Exchange's website. Please see below link to the Company's annual report 2020:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0514/2020051400543.pdf

- The unaudited condensed consolidated financial information of the Group for the six months ended 30 June 2020 has been set out on pages 16 to 38 of the interim report 2020 of the Company published on 29 September 2020 on the Stock Exchange's website. Please see below link to the Company's interim report 2020:

  https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0929/2020092900578.pdf

2. INDEBTEDNESS STATEMENT

At 31 August 2020, being the most recent practicable date for this indebtedness statement prior to the printing of this Circular, the Group had lease liabilities of approximately HK$4,307,000.

Save as disclosed herein and apart from intra-group liabilities and normal accounts payable in the ordinary course of business, at the close of business on 31 August 2020, being the most recent practicable date for this indebtedness statement prior to the printing of this Circular, the Group does not have any other material debt securities, issued or outstanding, or authorised or otherwise created but unissued, term loan, other borrowing or indebtedness in the nature of borrowing of the Group including bank overdrafts, liabilities under acceptances (other than normal trade bills), acceptance credits or hire purchase commitments, mortgages, charges, covenants, other contingent liabilities or guarantees.

3. WORKING CAPITAL SUFFICIENCY

The Directors are of the opinion that, in the absence of unforeseeable circumstances, after taking into account the internal financial resources, the Group will have sufficient working capital for its present requirements for at least 12 months from the date of this Circular.

4. MATERIAL ADVERSE CHANGE

At the Latest Practicable Date, the Directors were not aware of any material change in the financial or trading position of the Group since 31 December 2019, being the date to which the latest published audited financial statements of the Company were made up.

5. MANAGEMENT DISCUSSION AND ANALYSIS OF HISTORICAL RESULTS OF OPERATIONS OF THE GROUP

Reproduced below is the management discussion and analysis of the Group's operations for the financial years ended 31 December 2017, 2018 and 2019 and the six months ended 30 June 2020 respectively. The information reproduced below is principally extracted from the section of "Prospects" under "Chairman's Statement" and the sections of "Business Review", "Financial Review" and "Human Resources and Remuneration Policy" under "Management Discussion and Analysis" of the annual report of the Company for each of the three financial years ended 31 December 2019 and the sections of "Business Review", "Financial Review", "Human Resources and Remuneration Policy" and "Prospects" under "Management Discussion and Analysis" of the interim report of the Company for the six months ended 30 June 2020 to provide further information relating to the financial condition and results of operations of the Group during the respective periods stated. Capitalised terms used in this section shall have the same meaning as those defined in the respective annual report or interim report. These extracted materials below were prepared prior to the date of this Circular and speak as of the date they were originally published, representing the opinion and beliefs made by the then Directors at such time when the related annual report or interim report was issued.

For the year ended 31 December 2017

Business Review

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

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

Petroleum Exploration and Production

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

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

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

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

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

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

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

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

Money Lending

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

At 31 December 2017, the loans portfolio held by the Group amounted to HK$67,235,000. There was no default in repayments from borrowers and no impairment loss was recognised against the loan receivables during the year ended 31 December 2017.

Investment in Securities

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

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

Financial assets at FVTPL

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

AFS investments

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

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

At 31 December 2017, a net fair value loss on the AFS investment portfolio amounting to HK$519,000 (2016: nil) was recognised as other comprehensive expense.

Overall Results

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

Financial Review

Liquidity, Financial Resources and Capital Structure

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

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

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

On 8 November 2017, two indirectly wholly owned subsidiaries of the Company, Mega Link Hengtian (Xiamen) Equity Investment Co., Ltd. and Xiamen Mega Link Hengtian Zhichuang Investment Management Partners Corporation (Limited Partnership), entered into a limited partnership agreement (the ''Limited Partnership Agreement'') with two independent parties in respect of, among other matters, the establishment of a limited partnership (the ''Limited Partnership'') and the subscription of interest therein. Pursuant to the Limited Partnership Agreement, the total capital commitment to the Limited Partnership is RMB120,000,000 in which the Group has committed to contribute a total of RMB61,510,000 to subscribe for an aggregate approximately 51.26% interest in the Limited Partnership. The purpose of the Limited Partnership is to invest in a series of projects in the smart city big data industry in the PRC. It is expected that the Limited Partnership will invest in smart city and big data application projects in the next few years and will construct cloud computing data centers.

At 31 December 2017, capital had not yet been injected into the Limited Partnership. Details of the Limited Partnership were set out in the announcement of the Company dated 8 November 2017.

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

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

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

Foreign Currency Management

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

Contingent Liability

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

Pledge of Assets

At 31 December 2016, the following assets were pledged to secure the Group's bank borrowings which had been fully repaid during the year ended 31 December 2016 but the release of the security pledged was in process: (i) the entire issued share capital of EP Energy; (ii) the entire issued share capital of Have Result; and (iii) the entire issued share capital of two wholly owned subsidiaries of the Company which together hold the entire stock capital of EP Energy.

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

Capital Commitment

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

Human Resources and Remuneration Policy

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

Prospects

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

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

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

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

For the year ended 31 December 2018

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.

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.

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), of which 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.

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 31 December 2018, 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 year ended 31 December 2018 which caused the market value of debt instruments held by the Group to drop.

The yield to maturity on acquisition of debt securities that were held by the Group at 31 December 2018 ranged from 4.93% to 12.50% per annum.

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.

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 31 December 2018, 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 for the year ended 31 December 2018 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 31 December 2018 (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.

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.

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.

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.

For the year ended 31 December 2019

Business Review

For the year ended 31 December 2019, the Group continued to principally engage in the business of petroleum exploration and production, money lending and investment in securities.

Against the backdrop of the ongoing trade disputes between the United States and China, the series of social events taking place in Hong Kong and the volatile sentiments of the global and local investment markets, 2019 was a challenging year for the Group. For the year under review, the Group reported a decline in revenue by 15% to HK$60,560,000 (2018: HK$71,419,000), mainly due to the drop in revenue of the petroleum business, and recorded a loss attributable to owners of the Company of HK$138,099,000 (2018: HK$115,227,000), largely due to the impairment loss of the Group's oil and gas properties in Argentina of HK$42,333,000 (2018: HK$3,383,000) and the expected credit loss on loan and interest receivables of HK$61,703,000 (2018: HK$5,613,000).

Petroleum Exploration and Production

During the year ended 31 December 2019, the Group continued to engage in petroleum exploration and production business in the Chañares Herrados area (the "CHE Concession"), located in the Cuyana Basin, Mendoza Province of Argentina and Chañares Energía S.A. (formerly known as Chañares Herrados Empresa de Trabajos Petroleros S.A.) ("Chañares") is the concessionaire of the CHE Concession.

On 2 December 2010, Southstart Limited ("Southstart"), a wholly owned subsidiary of the Company, and Chañares entered into a joint venture agreement (the "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 CHE 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 CHE 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 CHE Concession during the life of the CHE Concession. The Operation Agreement confirmed that Have Result is entitled to 51% interest in the production of five oil wells and EP Energy is entitled to 72% interest in the production of the other five oil wells.

For the year under review, the Group's petroleum exploration and production business generated a revenue of HK$24,171,000 (2018: HK$43,998,000) and recorded an operating loss before provision of impairment loss of HK$4,233,000 (2018: operating profit of HK$2,921,000). The decrease in the operation's revenue was the combined effect of the drop in the average crude oil selling price offered by YPF S.A. from an average of US$60.8 per barrel in 2018 to US$50.7 per barrel in 2019, and the drop in production of crude oil by about 32%. The fall in oil prices offered by YPF S.A. during the year, which largely followed the downward trend of international oil price after reaching its peak in October 2018, were mainly resulted from, among other factors, (i) the continuous trade disputes between the United States and China and (ii) the higher than expected oil production in the United States; whilst the drop in the operation's crude oil production during the year was the combined results of (i) the extended maintenance works performed on two oil wells which took more than double the normal time required to complete the tasks; (ii) the natural decline of output of the Group's ten oil wells, which have been in production for over eight years; and (iii) the temporary production suspension of two oil wells pending for cost-revenue analysis, as after years of production the reserves of these oil wells have fallen to a level that it may not be economical to continue production.

As disclosed in the Previous Circular and the announcements dated 27 March 2020 and 30 June 2020, the Executive of the Province of Mendoza had issued a decree in respect of the termination of the CHE Concession as Chañares had not fulfilled its investment commitment and the Chañares Concession (which the CHE Concession forms part) has been made available for other investors to bid under the Bidding Process. The original bid submission under the Bidding Process was scheduled on 1 April 2020, the Group was subsequently informed by the Hydrocarbons Department of Mendoza Province that the bid submission date was postponed until further notice owing to the impact of COVID-19. The Group understands that before the successful bidder takes over the Chañares Concession, Chañares can continue to operate in the CHE Concession and pay the same fees, royalties and other payments to the government under the same contractual conditions previously granted and should be able to extract and sell oil and should continue to pay fees, royalties and other payments, which logically are only payable in a context where the concessionaire is allowed to extract and sell oil. Accordingly, Chañares has continued to send to the Group the daily production reports which contain daily production and sales quantity, and monthly reports which contain production and sales quantity, selling price, sales revenue and operating expenses for calculating the profit sharing between the Group and Chañares under the Operation Agreement.

It is expected that the Group will continue to be entitled to its share of production under the Operation Agreement up until the Chañares Concession is delivered to the successful bidder under the Bidding Process, which was originally scheduled to be in June 2020 (the "Expected Delivery Date") (the Expected Delivery Date may be delayed as the Bidding Process will be postponed as referred to above). In view of the CHE Concession will be shortened from its extended expiry date in November 2027 to the Expected Delivery Date, the Group had performed an impairment review on the exploration and evaluation assets and the oil and gas properties of the CHE Concession at 31 December 2019 and determined that there was no reversal of impairment loss on the exploration and evaluation assets (which were fully impaired), whilst a provision of impairment loss of the Group's oil and gas properties of HK$42,333,000 (2018: HK$3,383,000) was recognised. Overall speaking, the operation recorded an overall loss of HK$46,610,000 (2018: HK$462,000) comprising operating loss of HK$4,233,000 (2018: operating profit of HK$2,921,000) and provision of impairment loss of HK$42,377,000 (2018: HK$3,383,000) (comprised provision of impairment loss on oil and gas properties and provision of impairment loss on other property, plant and equipment of HK$42,333,000 (2018: HK$3,383,000) and HK$44,000 (2018: nil)) respectively.

Money Lending

During the year ended 31 December 2019, the Group's money lending business reported an increase in revenue and operating profit (before expected credit loss allowance) by 54% to HK$25,971,000 (2018: HK$16,814,000) and 58% to HK$25,963,000 (2018: HK$16,406,000) respectively. Such increases were mainly due to the higher average amount of loans advanced to borrowers during the year. Before granting loans to potential customers, the management uses internal credit assessment process to assess the borrower's credit quality and defines the credit limits granted to the borrowers. The credit limits granted to the borrowers are reviewed by the management regularly. During the year under review, an expected credit loss of HK$61,703,000 (2018: HK$5,613,000), which reflects the credit risk involved in collectability of a default loan and certain non-default loans determined under the Group's loan impairment policy, was recognised against the loan and interest receivables. The Group is considering various actions for recovery of the default loan.

At 31 December 2019, the loans portfolio held by the Group amounted to HK$185,688,000 (after expected credit loss allowance of HK$68,755,000) (2018: HK$251,652,000 (after expected credit loss allowance of HK$7,052,000)), of which 85.42% of the loan portfolio is secured by various collaterals and the remaining 14.58% 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 the 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 the form of trading gains.

At 31 December 2019, the Group's securities investments comprised a FVTPL portfolio valued at HK$37,059,000 (2018: HK$71,816,000), comprising mainly equity securities listed in Hong Kong, and debt instrument at FVTOCI portfolio (constituted by non-current and current portions) valued at HK$141,826,000 (2018: HK$130,330,000), comprising debt securities listed in Hong Kong or overseas. As a whole, the Group's securities investments recorded a revenue of HK$10,418,000 (2018: HK$10,607,000) and a loss of HK$21,460,000 (2018: HK$71,562,000).

Financial assets at FVTPL

At 31 December 2019, the Group held a financial asset at FVTPL portfolio amounting to HK$37,059,000 (2018: HK$71,816,000) measured at market/fair value. During the year under review, the portfolio generated revenue of HK$1,102,000 representing dividends from equity securities of HK$935,000 and interest income from debt securities of HK$167,000 (2018: HK$1,052,000, representing dividends from equity securities). The Group recognised a net loss on financial assets at FVTPL of HK$32,736,000, which comprised net unrealised loss and net realised loss of HK$27,876,000 and HK$4,860,000 respectively (2018: net loss 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).

The realised loss recorded during the year represented the loss on disposal of equity securities in open market and the unrealised loss mainly represented the decrease in market value of those equity securities held by the Group at the year end. The losses incurred were largely a result of the volatile conditions of the Hong Kong stock market subsisting during the year, which in turn related to the continuous trade disputes between the United States and China and the series of social events taking place in Hong Kong, and the declining financial performance of some of the investee companies. The Group has adopted a prudent and disciplined approach in managing its financial asset at FVTPL portfolio in view of the significant market fluctuations during the year.

Debt instruments at FVTOCI

At 31 December 2019, the Group's debt instrument at FVTOCI portfolio (constituted by non-current and current portions) of HK$141,826,000 (2018: HK$130,330,000) 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$9,316,000 (2018: HK$9,555,000) representing interest income from debt securities. According to the maturity of the debt instruments, part of the debt instruments at FVTOCI of HK$18,804,000 was classified as current assets.

During the year under review, the Group invested HK$13,840,000 for acquiring debt securities issued by a property company listed on the Stock Exchange.

At 31 December 2019, a net fair value gain on debt instruments at FVTOCI amounting to HK$9,284,000 was recognised as other comprehensive income (2018: net fair value loss of HK$13,583,000 recognised as other comprehensive expense). Such fair value gain on debt instruments held by the Group was mainly a result of the general reduction in market interest rates during the year ended 31 December 2019, which caused the market value of debt instruments held by the Group to rise.

The yield to maturity on acquisition of debt securities which were held by the Group at 31 December 2019 ranging from 4.93% to 12.50% per annum.

Overall Results

For the year ended 31 December 2019, the Group reported a loss attributable to owners of the Company of HK$138,099,000 (2018: HK$115,227,000) that was mainly resulted from the expected credit loss on loan and interest receivables of HK$61,703,000, provision of impairment loss of property, plant and equipment of the Argentina petroleum operation of HK$42,377,000 and the net loss on financial assets at FVTPL of HK$32,736,000.

Financial Review

Liquidity, Financial Resources and Capital Structure

During the year ended 31 December 2019, the Group financed its operation mainly by cash generated from its operations and shareholders' funds. At 31 December 2019, the Group had current assets of HK$312,217,000 (2018: HK$435,693,000) and liquid assets comprising bank balances and cash as well as financial assets at FVTPL totaling HK$129,459,000 (2018: HK$155,409,000). The Group's current ratio, calculated based on current assets over current liabilities of HK$25,321,000 (2018: HK$24,330,000), was at very liquid level of about 12.3 (2018: 17.9).

At 31 December 2019, the Group's net assets decreased by 23% to HK$443,896,000 (2018: HK$575,053,000) was mainly a result of the loss incurred for the year. The Group's gearing ratio, calculated on the basis of total liabilities of HK$25,368,000 (2018: HK$24,614,000) divided by total assets of HK$469,264,000 (2018: HK$599,667,000), was at a very low level of about 5% (2018: 4%). Finance costs represented interest on lease liabilities of HK$239,000 for the year ended 31 December 2019 whilst finance cost last year represented the effective interest on convertible notes issued in April 2017 (2018: HK$4,992,000).

At 31 December 2019, the equity attributable to owners of the Company amounted to HK$443,896,000 (2018: HK$575,053,000) and was equivalent to an amount of approximately HK8.47 cents (2018: HK10.97 cents) per share of the Company. The decrease in equity attributable to owners of the Company of HK$131,157,000 was mainly a result of the loss incurred by the Group during the year.

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

Foreign Currency Management

The monetary assets and liabilities as well as business transactions of the Group are mainly denominated in HK$, US$, RMB and ARS. During the year under review, the Group had not experienced any significant exchange rate exposure to US$ as HK$ and US$ exchange rate is pegged. Besides, the Group continuously monitors foreign exchange exposure of RMB and will consider a formal foreign currency hedging policy for RMB should the needs arise. As for the Group's petroleum 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 will be 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 2019, the Group had no significant contingent liability (2018: nil).

Pledge of Assets

At 31 December 2019, the Group had no pledged assets (2018: nil).

Capital Commitment

On 8 November 2017, two indirect wholly owned subsidiaries of the Company 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 was RMB120,000,000 in which the Group had committed to contribute a total of RMB61,510,000 to subscribe for an aggregate approximately 51.26% interest in the Limited Partnership. The intended purpose of the establishment of the Limited Partnership was to invest in smart city and big data application projects in the PRC. Accordingly, on 31 December 2018, pursuant to the Limited Partnership Agreement, the Group was committed to contribute a total of RMB61,510,000 to subscribe for the interest in the Limited Partnership.

During the year, primarily owing to the continuous trade disputes between the United States and China which adversely affected general business sentiments in China, coupled with the overall slowdown of the China economy, the negotiations on various projects had not finally materialised as their expected returns were not as favourable as originally projected and the Limited Partnership Agreement had lapsed. Accordingly, on 31 December 2019, the Group had no significant capital commitment.

Human Resources and Remuneration Policy

At 31 December 2019, the Group had a total 49 (2018: 44) employees including directors of the Company with 42 (2018: 38) employees in Hong Kong and the PRC and 7 (2018: 6) employees in Argentina. Staff costs, including directors' emoluments, amounted to HK$16,573,000 for the year (2018: HK$13,768,000). The rise in staff costs of HK$2,805,000 was mainly due to the increase of the Group's headcounts. 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.

Prospects

As stated in the Previous Circular, after due evaluation of the data and information relating to the Chañares Concession (which the CHE Concession area forms part), the Company intends, through its indirect wholly owned subsidiary in Argentina, to submit a bid offer for the Chañares Concession under the Bidding Process. The Directors considered that the submission of the bid offer presents a valuable investment opportunity to acquire a valuable petroleum asset which facilitates the development of the Group's petroleum exploration and production business. The Bidding Process was originally scheduled to be commenced on 1 April 2020, but owing to the impact of COVID-19, on 26 March 2020, the local government authority in Argentina informed the Group that the Bidding Process will be delayed until further notice. On 25 March 2020, the competent person who prepared the Previous Competent Person's Report contained in the Previous Circular also informed the Group that the valuation opinion is no longer valid to be used as there has been a significant drop in the international oil price since 9 March 2020. As a result, the special general meeting originally scheduled to be held on 30 March 2020 to approve the proposed transaction contemplated under the bid offer is also delayed. The Company will provide shareholders updates on this matter as and when appropriate.

Although the easing of tension of the trade disputes between the United States and China since the signing of the first phase trade deal in January 2020 is expected to give a positive boost to international oil prices, the global outbreak of the COVID-19 pandemic has posed great threats to many nations and their economies, and has created significant uncertainties in global and local investment markets and volatilities of international oil prices. To prevent the spread of the virus, many countries including China, United States, United Kingdom, France, Italy and Spain have imposed measures to restrict social activities and shut down their borders by different extent which adversely affected their economies. Investors are worried that there will be slowdown of growth in major economies including United States and China or even a global recession with the result that market sentiments, including international oil prices, are very volatile.

The business outlook of the Group for 2020 is challenging as uncertainties of the macro environment, particularly due to the COVID-19 pandemic, have dampened business and investor confidence. It is difficult to predict the evolution and duration of the pandemic, but hopefully it should come to an end one day. Looking forward, the management will adopt a prudent approach in managing the Group's businesses and will diligently consider to, subject to the prevailing market conditions when the Bidding Process commences and other applicable conditions, participate in the Bidding Process.

For the six months ended 30 June 2020

Business Review

For the six months ended 30 June 2020, the Group continued to principally engage in the business of petroleum exploration and production, money lending and investment in securities.

The health crises brought by the global outbreak of COVID-19 have posed great threats to many nations and their economies, and have caused significant uncertainties in the global and local investment markets and volatilities of international oil prices. During the period under review, the fluctuations of international oil prices were further escalated owing to the non-consensus between major oil producing countries on their production cut, and different counter measures adopted by major oil buying countries on their inventory level. Against this macroeconomic backdrop, coupled with the continuous disputes between China and the United States that extend from the trade to technology sector, and the social events that took place in Hong Kong, the Group has been operating under some unprecedented market conditions.

During the interim period, the Group has adopted a prudent approach in managing its businesses and managed to report a profit attributable to owners of the Company of HK$2,217,000 (30 June 2019: loss of HK$39,258,000), mainly due to the reversal of expected credit loss on loan and interest receivables of HK$15,136,000 (30 June 2019: provision of expected credit loss of HK$5,130,000), the decrease in net loss on financial assets at fair value through profit or loss to HK$11,901,000 (30 June 2019: HK$19,588,000), and the absence of impairment loss of the Group's oil and gas properties in Argentina (30 June 2019: impairment loss of HK$14,126,000). Basic earnings per share were HK0.04 cent, in contrast to the loss per share of HK0.75 cent in the previous interim period. For the period under review, the Group's revenue declined by 37% to HK$19,861,000 (30 June 2019: HK$31,293,000) mainly due to the drop in revenue of the petroleum and money lending businesses.

Petroleum Exploration and Production

During the six months ended 30 June 2020, the Group continued to engage in petroleum exploration and production in the Chañares Herrados area (the ''CHE Concession'') located in the Cuyana Basin, Mendoza Province of Argentina. Chañares Energía S.A. (''Chañares'') is the concessionaire of the CHE Concession.

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 CHE Concession and was entitled to share 72% of the hydrocarbon production from the wells drilled by EP Energy in the current and future years until the end of the CHE 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 CHE Concession during the life of the CHE 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 period under review, the Group's petroleum exploration and production business generated a revenue of HK$5,669,000 (30 June 2019: HK$12,581,000) and recorded an operating loss before provision of impairment loss of HK$2,252,000 (30 June 2019: operating loss of HK$3,865,000). The decrease in the operation's revenue was the combined effect of (i) the reduction in oil production by about 43% which mainly due to the temporary suspension in operations by Chañares in the Chañares Concession since mid April 2020 led by the suspension in the purchase of crude oil by YPF S.A. as a result of the situation brought by the outbreak of COVID-19; and (ii) the drop in average crude oil selling price offered by YPF S.A., the major buyer of the operation's output, from an average of US$52.1 per barrel for the six months ended 30 June 2019 to US$44.5 per barrel for the six months ended 30 June 2020, which largely followed the downward trend of international oil prices since March 2020.

Money Lending

During the six months ended 30 June 2020, the Group's money lending business reported a decrease in revenue and operating profit (before reversal or provision of expected credit loss) by 37% to HK$8,845,000 (30 June 2019: HK$13,942,000) and 36% to HK$8,874,000 (30 June 2019: HK$13,967,000) respectively. Such decreases were mainly due to the lower average amount of loans advanced to borrowers during the six months ended 30 June 2020. Before granting loans to potential borrowers, the management performs internal credit assessment process to assess the borrowers' credit quality individually and defines the credit limits granted to the borrowers. The credit limits granted to the borrowers are reviewed by the management regularly. The management has adopted a prudent approach in managing the money lending business during the six months ended 30 June 2020. For the period under review, a reversal of expected credit loss of HK$15,136,000 (30 June 2019: provision of expected credit loss of HK$5,130,000) was recognised which represented mainly the recovery from certain credit-impaired loans during the interim period. At 30 June 2020, the balance of impairment allowance was HK$53,619,000 (31 December 2019: HK$68,755,000), which primarily represented the credit risk involved in collectability of certain credit-impaired loans determined under the Group's loan impairment policy, and have considered factors including the credit history of the borrowers, the realisation value of collaterals pledged to the Group, and the prevailing economic conditions. The Group has taken various actions for recovery of certain credit-impaired loans.

At 30 June 2020, the loans portfolio held by the Group amounted to HK$157,532,000 (after expected credit loss allowance of HK$53,619,000) (31 December 2019: HK$185,688,000 (after expected credit loss allowance of HK$68,755,000)), of which 97.46% of the loan portfolio was collateral loans with the remaining 2.54% being 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 30 June 2020, the Group's securities investments comprised a FVTPL portfolio valued at HK$25,634,000 (31 December 2019: HK$37,059,000), comprising equity securities listed in Hong Kong, and debt instrument at FVTOCI portfolio (constituted by non-current and current portions) valued at HK$148,284,000 (31 December 2019: HK$141,826,000), comprising debt securities listed in Hong Kong or overseas. As a whole, the Group's securities investments recorded a revenue of HK$5,347,000 (30 June 2019: HK$4,770,000) and a loss of HK$7,342,000 (30 June 2019: HK$14,834,000).

Financial assets at FVTPL

At 30 June 2020, the Group held a financial asset at FVTPL portfolio amounting to HK$25,634,000 (31 December 2019: HK$37,059,000) measured at market/fair value. For the six months ended 30 June 2020, no revenue was generated from the portfolio (30 June 2019: HK$306,000, representing dividends from equity securities of HK$138,000 and interest income from debt securities of HK$168,000). The Group recognised a net loss on financial assets at FVTPL of HK$11,901,000 for the period, which comprised net unrealised loss and net realised loss of HK$7,353,000 and HK$4,548,000 respectively (30 June 2019: HK$19,588,000, which comprised net unrealised loss and net realised loss of HK$19,232,000 and HK$356,000 respectively).

The realised loss recorded during the six months ended 30 June 2020 represented loss on disposal of equity securities in open market and the unrealised loss represented the decrease in market value of those equity securities held by the Group at 30 June 2020. The losses incurred were largely resulting from the volatile conditions of the Hong Kong stock market subsisting during the interim period, which in turn related to the outbreak of COVID-19, the continuous trade disputes between China and the United States, the social events took place in Hong Kong, and the declining financial performance of some of the investee companies. The Group has adopted a prudent and disciplined approach in managing its financial asset at FVTPL portfolio in view of the significant market volatilities during the six months ended 30 June 2020.

Debt instruments at FVTOCI

At 30 June 2020, the Group's debt instrument at FVTOCI portfolio (constituted by non-current and current portions) of HK$148,284,000 (31 December 2019: HK$141,826,000) was measured at market/fair value. During the six months ended 30 June 2020, the Group's debt instrument at FVTOCI portfolio generated total revenue amounting to HK$5,347,000 (30 June 2019: HK$4,464,000) representing interest income from debt securities. According to the maturity of the debt instruments, part of the debt instruments at FVTOCI of HK$19,351,000 was classified as current assets.

During the six months ended 30 June 2020, the Group invested HK$7,903,000 for acquiring debt securities issued by a property company.

At 30 June 2020, a net fair value loss on debt instruments at FVTOCI amounting to HK$1,260,000 was recognised as other comprehensive expense (30 June 2019: net fair value gain of HK$7,802,000 recognised as other comprehensive income). Such fair value loss was to a certain extent caused by the negative investment sentiments resulting from the outbreak of COVID-19, whilst there were no material fundamental changes in the financial parameters of the debt instruments.

The yield to maturity on acquisition of debt securities which were held by the Group at 30 June 2020 ranged from 4.93% to 12.50% per annum.

Overall Results

For the six months ended 30 June 2020, the Group reported a profit attributable to owners of the Company of HK$2,217,000 (30 June 2019: loss of HK$39,258,000) that was mainly due to the reversal of expected credit loss on loan and interest receivables of HK$15,136,000, though partly offset by the net loss on financial assets at fair value through profit or loss of HK$11,901,000, and the increase in other expenses that mainly related to the professional fees incurred for the evaluation and preparation of documentations for the Bidding Process of the Chañares Concession. The Group recorded a comprehensive expense attributable to owners of the Company of HK$705,000 (30 June 2019: HK$32,121,000) that mainly due to the fair value loss recognised on debt instruments at FVTOCI and the exchange loss on translation of foreign operations.

Financial Review

Liquidity, Financial Resources and Capital Structure

During the six months ended 30 June 2020, the Group financed its operation mainly by cash generated from its operations and shareholders' funds. At 30 June 2020, the Group had current assets of HK$333,925,000 (31 December 2019: HK$312,217,000) and liquid assets comprising bank balances and cash as well as financial assets at FVTPL totaling HK$139,184,000 (31 December 2019: HK$129,459,000). The Group's current ratio, calculated based on current assets over current liabilities of HK$21,868,000 (31 December 2019: HK$25,321,000), was at a liquid level of about 15.3 (31 December 2019: 12.3). The Group is preserving its cash resources for the possible investment in the Chañares Concession under the Bidding Process.

At 30 June 2020, the Group's net assets slightly decreased to HK$443,109,000 (31 December 2019: HK$443,896,000). The Group's gearing ratio, calculated on the basis of total liabilities of HK$24,014,000 (31 December 2019: HK$25,368,000) divided by total assets of HK$467,123,000 (31 December 2019: HK$469,264,000), was at a low level of about 5% (31 December 2019: 5%). Finance costs represented the imputed interest on lease liabilities of HK$106,000 for the current period (30 June 2019: HK$145,000).

At 30 June 2020, the equity attributable to owners of the Company amounted to HK$443,191,000 (31 December 2019: HK$443,896,000) and was equivalent to an amount of approximately HK8.46 cents (31 December 2019: HK8.47 cents) per share of the Company. The decrease in equity attributable to owners of the Company of HK$705,000 was mainly a result of the comprehensive expenses incurred by the Group during the six months ended 30 June 2020.

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

Foreign Currency Management

The monetary assets and liabilities as well as business transactions of the Group are mainly denominated in HK$, US$, RMB and ARS. During the year under review, the Group had not experienced any significant exchange rate exposure to US$ as HK$ and US$ exchange rate is pegged. Besides, the Group continuously monitors foreign exchange exposure of RMB and will consider a formal foreign currency hedging policy for RMB should the needs arise. As for the Group's petroleum 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 will be 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 six months ended 30 June 2020 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 30 June 2020, the Group had no significant contingent liability (31 December 2019: nil).

Pledge of Assets

At 30 June 2020, the Group had no pledged assets (31 December 2019: nil).

Capital Commitment

At 30 June 2020, the Group has no significant capital commitment (31 December 2019: nil).

Human Resources and Remuneration Policy

At 30 June 2020, the Group had a total 62 (30 June 2019: 44) employees including directors of the Company, with 55 (30 June 2019: 38) employees in Hong Kong and the PRC and 7 (30 June 2019: 6) employees in Argentina. Staff costs, including directors' emoluments, amounted to HK$7,859,000 for the six months ended 30 June 2020 (30 June 2019: HK$7,336,000). 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.

Prospects

As disclosed in the Previous Circular, after due evaluation of the data and information relating to the Chañares Concession (of which the CHE Concession forms part), the Company intends, through its indirect wholly owned subsidiary, to submit a bid offer for the Chañares Concession under the Bidding Process. Further, as referred to in the Company's announcements dated 27 March 2020 and 30 June 2020, for various reasons, the shareholders' meeting to approve the submission of the bid offer and the timeline of the Bidding Process have been delayed. The Directors considered that the submission of the bid offer presents a valuable investment opportunity to acquire a valuable petroleum asset which facilitates the development of the Group's petroleum exploration and production business. Further announcements on the shareholders' meeting and the Bidding Process will be made by the Company as and when appropriate.

Although the easing of tension of the trade disputes between China and the United States since the signing of the first phase trade deal in January 2020 was expected to give a positive boost to international oil prices, the global outbreak of COVID-19 has posed great threats to many nations and their economies, and has created significant uncertainties in the global and local investment markets and volatilities of international oil prices. The fluctuations of international oil prices were further escalated during six months ended 30 June 2020 owing to the non-consensus between major oil producing countries on their production cut, and different counter measures adopted by major oil buying countries on their inventory level. Against this macroeconomic backdrop, coupled with the continuous disputes between China and the United States that extend from the trade to technology sector, and the social events that took place in Hong Kong, the Group has been operating under some unprecedented market conditions.

Nevertheless, there are signs that gradual revival of economic activities of some major economies including Mainland China have taking place and international oil prices have stabilised, and that many measures have been adopted by the Hong Kong government in controlling the pandemic conditions locally. With all the efforts of many governments across the globe in fighting against the COVID-19 pandemic, the Group believes that the effect of the pandemic will finally ease off and is prudently optimistic about the prospect of the global and local economy.

Looking forward, the management will continue to adopt a prudent approach in managing the Group's businesses and will diligently consider to, subject to the prevailing market conditions when the Bidding Process commences and other applicable conditions, participate in the Bidding Process.

6. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

For the financial and trading prospects of the Group, please refer to (i) the subsection headed "Business Review" and "Prospects" under the section headed "For the six months ended 30 June 2020" in "Management Discussion and Analysis of Historical Results of Operations of the Group" in this Appendix, which are principally extracted from the interim report of the Company for the six months ended 30 June 2020 and (ii) the subsection headed "Reasons for and benefits of the Proposed Transaction" in "Letter from the Board" of this Circular.

1. PETROLEUM ASSETS TO BE OPERATED BY THE COMPANY

(1) Further information on the Chañares Concession

The Chañares Concession to be obtained by the Company upon successful winning of the Bid is the exploitation concession rights in the Chañares Herrados area and the entitlement to all of the right, title and interest in and to the properties and interests of the Chañares Herrados area described in the relevant Hydrocarbon Laws of Argentina and the bidding documents under the Bidding Process effective as of the Effective Date which mainly include the Petroleum Assets, all the existing wells in operation and the new wells to be drilled in the Chañares Herrados area and the right to use any assets and infrastructure in the Chañares Herrados area owned by the Mendoza Province to be transferred to the new concessionaire together with the Petroleum Assets.

The Chañares Concession has a term of 25 years counted as from the Effective Date with the possibility of successive extensions for terms not exceeding 10 years each from the date of expiry of the original term and of each extension, subject to the approval by the Executive of the Mendoza Province.

The Chañares Herrados area is located in the Mendoza Province in west-central Argentina which lies within the Cuyana Basin covering a total surface area of approximately 40.6 kilometer squares. The Cuyana Basin is a back-arc extensional basin filled with deposits from alluvial and fluvial-lacustrine environments from late Triassic through Paleogene times which generally contains highly undersaturated oil with moderate solution gas-oil. Productive reservoirs in the Chañares Concession of the Cuyana Basin can be separated into a shallow reservoir group and a deep reservoir group. The shallow reservoir group consists of the Jurassic age Barrancas Formation and the Late Triassic age Río Blanco Formation (Victor Claro, Victor Oscuro, and Victor Gris Members). The Barrancas Formation averages 100 meters gross thickness with interbedded pay intervals consisting of multiple 2-meter to 20-meter thick sections of oil-bearing sands and conglomerates. The depositional environment of the Barrancas Formation is likely fluvial. The Río Blanco Formation consists of three sub-members: the shallow Victor Claro (Blanco Superior), the Victor Oscuro (Blanco Medio), and the deeper Victor Gris (Blanco Inferior). The lithology of the Río Blanco Formation is similar to the Barrancas Formation but with an increasing volcanic and pyroclastic component at deeper depths. Produced oil gravity is approximately 31 to 33 degrees API.

The main source rocks for the Chañares Concession are organic-rich shales of the Triassic Cacheuta formation and the main reservoirs are sandstones with tuffaceous matrix of the Triassic Río Blanco formation and sandstones and conglomerates of the Jurassic Barrancas formation. The Río Blanco formation consists of three intervals named informally from top to base as "Victor Claro", "Victor Oscuro" and "Victor Gris". The Chañares Concession is part of a large structural nose, plunging to south west with faults trending east-west which portioned the structure into several blocks.

Pursuant to page 7 (V-7) of the New Valuation Report in Appendix V of this Circular, the post-tax NPV at discount rate of 15% of the Chañares Concession (being the base case scenario for the purpose of NPV analysis), which was estimated for the equivalent "Proved" and the "Proved" plus "Probable" reserves cases, amounts to approximately US$12.7 million (approximately HK$99.1 million) and US$14.1 million (approximately HK$110.0 million), respectively.

Upon successful winning of the Bid, the Company intends to deploy additional manpower to develop a comprehensive management team to manage the field operation through the recruitment of key managerial staff including field operation manager, production superintendent, rig engineering and supervision, production supervisor, maintenance supervisor, development geologist/reservoir engineer and production engineer. On the other hand, to reduce the fixed operating cost, the Company plans to engage local service companies for the provision of daily routine services covering general field maintenance, operation and production operation, rig service and operation, trucking of oil, etc.

The Company will build up long term relationship with YPF S.A., the stated-owned oil company, for the sale of its oil production. In addition, the Company will search for other potential customers in the market for the sale of its oil production to widen its customer base.

(2) Reserves and resources relating to the Chañares Concession

The Chañares Herrados area under the Chañares Concession was discovered in 1961 and consists of 83 wells drilled, of which 39 were producing, 26 were non-producing and 18 were abandoned as of the end of July 2020 according to the information provided by the Hydrocarbons Department of Mendoza Province. Pursuant to the preliminary production estimation prepared by D&M based on the Development Plan, the Chañares Concession has net "Proved" plus "Probable" reserves of approximately 5.69 million barrels as of 1 January 2021.

The table below is the breakdown of estimated reserves information relating to the Chañares Concession as at 1 January 2021 as set out in or derived from page 21 (IV-23) of the New Competent Person's Report in Appendix IV and page 7 (V-7) of the New Valuation Report in Appendix V of this Circular:

	Net oil reserves *(thousand barrels)*	**Post-Tax NPV at 15% discount rate (approximately)** *(US$ million) (approximately)*	*(HK$ million) (approximately)*
Proved			
— Developed	3,095		
— Undeveloped	1,213		
Total Proved	4,308	12.7	99.1
Probable	1,384		
Proved plus Probable	5,692	14.1	110.0

Notes:

1. Gross reserves are defined as the total estimated petroleum remaining to be produced from the Chañares Concession after December 31, 2020. Net reserves are defined as that portion of the gross reserves attributable to the interests evaluated herein after deducting interests held by others.

2. As royalty obligation would be paid in cash, net reserves have not been reduced by royalty obligation, as a percentage of production, to reflect this obligation.

3. The NPVs are calculated from discounted cash flows incorporating the fiscal terms that could govern the Petroleum Assets without the discount for (i) additional Royalty % and (ii) the additional Upfront Payment which may be offered by the Company under the Bid. The minimum initial payment of US$5 million is included as Upfront Payment and is deducted against the post-tax NPV.

(3) Information relating to the Chañares Concession

With reference to the bidding documents of the Bidding Process, the oil production of the Chañares Concession is presented as follows:

	For the year ended 31 December			For the six months ended
	2017	**2018**	**2019**	**30 June 2020**
Volume of crude oil produced from the Chañares Concession (cubic meter)	84,874	74,139	67,480	18,116
Volume of crude oil produced from the Chañares Concession (barrels)	533,840	466,319	424,436	113,946

Note: Assuming 1 cubic meter of oil = 6.2898 barrels of oil.

According to the information obtained from the Secretariat of Energy of Argentina, during the three years ended 31 December 2019 and the six months ended 30 June 2020, the crude oil production attributable to the Chañares Concession was approximately 1,463 bbl/d, 1,278 bbl/d, 1,163 bbl/d and 626 bbl/d, respectively.

(4) Development Plan on the Chañares Concession

With the ample "Proved" and "Probable" reserves carrying great amounts of value and the Capital Investment Commitment as required under the Bid, the Company intends to continue the operation of the 39 producing wells and has identified 6 wells which are currently out of production and require repair of the rod pumps for initial pulling jobs in order to resume production for the "Proved Developed" oil reserves. Further, the Company intends to improve the production of 10 wells, 6 of which are currently producing by reperforating productive zones and are considered "Proved" oil reserves, and 4 of which by adding new zones and are considered "Probable" oil reserves. Meanwhile, 3 new wells will be drilled, one each year from 2023 to 2025, which are categorized as "Proved" oil reserves. Such wells are planned to be drilled to 11,800 feet in depth to reach the Victor Gris sandstones, the deepest known reservoir in the Chañares Concession. For "Probable" oil reserves, the Company intends to drill one new well in 2026 and 2027 respectively.

In addition, the Development Plan also contemplates the investment for replacement or modifications of field surface pipelines and the revamping of the treatment plants and conversion of non-producing well to injector well.

Set out below is a summary of the Development Plan and the related capital expenditure:

Job descriptions under the Development Plan	**Development capital expenditure for Proved reserves (approximately)**		**Development capital expenditure for Proved plus Probable reserves (approximately)**	
	US$'000	***HK$ million***	***US$'000***	***HK$ million***
New Wells (3 for Proved and 2 for Probable)	16,771	130.8	28,519	222.4
10 workover jobs (6 for Proved and 4 for Probable)	2,057	16.0	3,403	26.5
6 initial pulling jobs	612	4.8	612	4.8
Facilities and pipeline investments	2,098	16.4	2,098	16.4
Conversion to injector well	—	—	1,126	8.8
	21,538	**168.0**	**35,758**	**278.9**

At the Latest Practicable Date, except for the Capital Investment Commitment under the Bid, there is no contract or other arrangement entered into by the Company pursuant to which the Company is obligated to make any future capital investment or commitment amount over the Petroleum Assets. The Capital Investment Commitment will be financed by the internal resources of the Group and the surplus funds to be generated from the oil production operation in the Chañares Concession area assuming the Group won the Bid and becomes the concessionaire of the Chañares Concession and operates on the concession according to the Development Plan.

The Company considers the above Development Plan to be appropriate and will allow the operation of the Petroleum Assets to be commercially viable and more competitive. Any further material updates or changes to the Development Plan on the Petroleum Assets will be disclosed to the Shareholders in accordance with the Listing Rules.

Set out below is the expected capital expenditure on the Chañares Concession in the coming years on the "Proved" and "Probable" reserves respectively:

Year	Development capital expenditure for "Proved" reserves (approximately)		Development capital expenditure for "Probable" reserves (approximately)		Development capital expenditure for "Proved" plus "Probable" reserves (approximately)	
	US$'000	*HK$ million*	*US$'000*	*HK$ million*	*US$'000*	*HK$ million*
	A	**B**	**C**	**D**	**E = A + C**	**F = B + D**
2021	2,417	18.85	—	—	2,417	18.85
2022	1,295	10.10	—	—	1,295	10.10
2023	5,825	45.44	—	—	5,825	45.44
2024	5,941	46.34	—	—	5,941	46.34
2025	6,060	47.27	—	—	6,060	47.27
2026	—	—	7,268	56.69	7,268	56.69
2027	—	—	6,265	48.87	6,265	48.87
2028	—	—	340	2.65	340	2.65
2029	—	—	347	2.71	347	2.71
	21,538	168.00	14,220	110.92	35,758	278.92

It is expected that the Capital Investment Commitment will be financed from the cashflow generated from the Chañares Concession and/or the internal resources of the Group.

2. NO MATERIAL ADVERSE CHANGE

No material adverse changes have occurred from the date of the New Competent Person's Report being 30 September 2020 up to the Latest Practicable Date.

3. NO LEGAL CLAIMS OR PROCEEDINGS

As disclosed in the announcements of the Company dated 24 May 2019 and 18 June 2019, the Company was notified by Chañares that the Executive of the Mendoza Province has issued a decree (the "**Decree**") in respect of the termination of the CHE Concession as Chañares had not fulfilled its investment commitment, without stating an effective date of termination. The Company has clarified with its legal adviser in Argentina (the "**Local Legal Adviser**") as to the contents of the Decree and has been advised that it is stated in the Decree that the CHE Concession should now be made available for other investors to invest and operate under the Bidding Process, and that before the successful bidder takes over the concession, Chañares can continue to operate under the CHE Concession and pay the same fees, royalties and other payments to the government under the same contractual conditions previously granted. The interpretation of the Local Legal Adviser for these statements in the Decree is that Chañares is allowed to continue operating the oilfield until a new concessionaire takes over, and that during such period, Chañares should be able to extract and sell oil and should continue to pay fees, royalties and other payments, which logically are only payable in a context where Chañares is allowed to extract and sell oil. Based on the understanding of the Company, Chañares continues to operate in the CHE Concession area and has continued to send to the Group the daily production reports which contains daily production and sales quantity, and monthly report which contains production and sales quantity, selling price, sales revenue and operating expenses for calculating the profit sharing between the Group and Chañares under the operation agreement entered into between the relevant parties on 5 June 2012. The Group was notified by Chañares that it has taken several legal actions in order to protect its rights in the CHE Concession, including action to reverse the decision under the Decree in respect of the termination of the CHE Concession. At the Latest Practicable Date, the Company has not been informed by Chañares whether a judgement has been handed down.

4. OTHER MATTERS CONCERNING THE PETROLEUM ASSETS

(1) Brief industry overview

The Argentine hydrocarbon industry began in 1907 with the discovery of oil in the Golfo San Jorge Basin. Since then, a total of four additional oil and gas producing basins have been discovered: the Austral, Cuyana, Neuquina, and Noroeste Basins. During the 20th century, the industry experienced substantial growth, which resulted in the country's oil self-sufficiency in 1980. During the presidency of Carlos Menem (1989-1999), the industry experienced profound changes, including the privatization of the national oil company YPF Sociedad Anónima ("**YPF S.A.**"). As a result, production increased significantly and Argentina became an oil exporting country in 1992. During 2012, YPF S.A. was nationalized by the Government of Argentina under former president Cristina Fernández de Kirchner (2007-2015). Currently, the Argentine State owns 51 percent of the shares and the remaining 49 percent of the shares are listed on the Buenos Aires and New York Stock Exchanges. Since then, a strong emphasis has been placed on the development of unconventional resources, particularly the Vaca Muerta Shale Formation (oil and gas).

The country's current oil and gas production includes more than 500 thousand barrels of oil per day and more than 4,300 million cubic feet of gas per day. The country currently imports between 350 and 700 million cubic feet of gas per day from Bolivia, and additional liquified natural gas (LNG) as required by seasonal demand. Since 2018, Argentina has not imported oil. Most of the country's oil production is destined for the local market that consumes, before the COVID-19 pandemic, an average of 500 thousand barrels of oil per day. The regular oil exports represent the Escalante heavy oil that is extracted from fields in the Golfo San Jorge Basin that the refineries are unable to process.

YPF S.A. is the main company in the oil and gas industry in Argentina, operating fields that represent approximately 45 percent of the country's oil production and 30 percent of the country's gas production. The upstream industry includes more than 50 other companies that include small-to medium-sized companies, and major oil companies such as Exxon, Chevron, and Total, among others.

During 2020, the oil and gas industry began facing both national and international challenges. The sector was affected by the global COVID-19 pandemic, with a strong impact on local and international energy demand. Since 2019, there has been a state intervention in the currency exchange market in the country, as well as an intervention in the hydrocarbon market through the application of export taxes. Furthermore, the new government authorities under president Alberto Fernández are in the process of renegotiating the country's debt contracted with the International Monetary Fund (IMF) that will create conditions for a new economic program focused on reducing current currency inflation rates and a reversal of the economic recession currently experienced by the country.

(2) Environmental and social issues

As set out in the Competent Person's Report at page 11 (IV-13) of the New Competent Person's Report in Appendix IV of this Circular, the Competent Person is unaware of any extraordinary social or environmental elements associated with conditions of the Chañares Concession.

(3) Non-compliance incidents with Argentina laws, regulations and permits which may have a material adverse impact

So far as the Directors are aware, there were no non-compliance incidents with the Argentina laws, regulations and permits which may have a material adverse impact on the operations and exploration activities in relation to the Petroleum Assets at the Latest Practicable Date.

(4) Key risks identified in relation to the Chañares Concession and/or the Proposed Transaction

The Directors consider the following risks and other factors to be material for the Shareholders and potential investors of the Company in relation to the Chañares Concession and/or the Proposed Transaction. However, the risks listed below do not purport to comprise all those risks associated with the Chañares Concession or the Proposed Transaction and are not set out in any particular order of priority. Additional risks and uncertainties not currently known to the Directors or that the Directors currently deem to be immaterial may also have an adverse effect on the Petroleum Assets or the Proposed Transaction.

1. *Risks relating to the oil industry in Argentina*

Fluctuations in crude oil prices

The operating results of the Chañares Concession are sensitive to the volatility in crude oil prices, which is affected by a wider range of factors, including but not limited to the global and domestic political, economic and military circumstances, the price and availability of other energy sources, the costs of exploring for, developing, producing and transporting crude oil, etc., which are beyond control of the Company.

Extended periods of low crude oil prices may have a material adverse impact on the financial performance of the Chañares Concession and the Group. There is no assurance that demand for oil and related products will grow, or that the demand for oil and related products will not experience excess supply.

Operational risks, hazards and unexpected disruptions

The continuous operations of the Chañares Concession are subject to a number of operational risks and hazards, such as fires, natural disasters, industrial accidents, unexpected maintenance or technical problems, periodic interruptions due to inclement or hazardous weather conditions, power or fuel supply interruptions, malfunction and breakdowns of information management systems, depreciation and breakdowns of critical facilities and equipment, usual or unexpected variations in exploration, geological or production conditions, loss of well control, volatility in transportation costs, etc. These risks and hazards may result in personal injury, environmental damage, damage in business reputation and corporate image, destruction of properties or production facilities, interruption of business, delay in product delivery and may subject the Company and its Directors and/or officers to extensive legal liability. In the event that any of the above issues happens, the Company's results of operations and financial condition could be seriously affected.

Fluctuations in foreign currency exchange rate

The Enlarged Group will generate revenue from the operation of the Chañares Concession through the sales of the hydrocarbons from the Petroleum Assets, and the majority of capital and operating costs in relation to the Chañares Concession are both based on US$ and converted into ARS for receipt and payments. Any surplus funds in ARS are converted into US$ and will be remitted back to Hong Kong. The effect of currency exchange fluctuations is impossible to predict with any degree of certainty. As a result, the Enlarged Group's financial position and results may be affected by the exchange rate fluctuations among the currencies.

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.

2. *Risks relating to the operation of the Chañares Concession*

Uncertainties of reserves estimations and production projections

As stated in the New Competent Person's Report, the future reserves assessment and valuation of the Chañares Concession have inherent associated risks due to indirect measurement of the quantities and qualities of the reserves, such as risks relating to geological uncertainty, operator capability, social and environment liabilities, etc. Estimates of the reserves may change significantly when new information becomes available or new uncertainties arise.

There is also a risk that the existing wells in operation and the new wells to be drilled in the Chañares Herrados area may not yield oil in quantities sufficient to meet the target rate of return as projected in the New Competent Person's Report. The Group's business, prospects, financial condition and results of operations may not be as optimum as stated in the New Competent Person's Report.

Additional capital investment

Operating the Chañares Concession requires substantial and continuous capital investment. Even though the Petroleum Assets are expected to generate sufficient cash flows to satisfy all of its operational requirements, it may be required to finance part of its cash needs through alternate means. In addition, although the Directors believe that the Company will be able to meet the Capital Investment Commitment under the Bidding Process and will take into account financing requirements in considering and approving new capital investments, there is no assurance that funding for the Company's future capital investment requirements will necessarily be available on time or on favourable terms. Therefore, the actual capital investment for operation and development of the Chañares Concession may exceed the Group's original budgets because of factors beyond control. Possible future fund raising activities (when required) to fund such capital investments may cause a dilution effect on the shareholding interest of the Shareholders, incur finance cost and/or limit the Company's ability to pay dividends.

Changes or delay to develop as drilling plans scheduled

The future profitability of the Chañares Concession is dependent on its ability to successfully implement its Development Plan as scheduled, which in turn depends on a number of factors including, among others, the objective circumstances of the production sites and the government regulations including regulations relating to prices, taxes, royalties, land use, importing and exporting of crude oil and environmental protection. Although the Development Plan is prudently made and is believed to be feasible, the construction works and equipment upgrades conducted in reality may not be completed as originally planned or scheduled, and may not achieve the economic results or commercial viability as intended. Any adverse changes in economic, political and social conditions as well as governmental policies may result in changes or delay of the development of the Chañares Concession and may adversely affect the overall position of the Company.

Failure to maintain various permits or satisfy administrative requirements

There are certain permits to be obtained by the Group in relation to the exploration and exploitation activities of the Chañares Concession pursuant to the schedules to the development plan. Theses permits are subject to renewal, modification and revocation from time to time after the Proposed Transaction. If the Company failed to obtain or renew or to procure to obtain or renew such permits on a timely basis, the Company may be subject to fines or be prohibited from continuing operations of the relevant oil field, which could in turn exert an adverse impact on the Company's results of operations.

Risks relating to ongoing disputes regarding the Chañares Concession and the Bidding Process

As disclosed in the announcements of the Company dated 24 May 2019 and 18 June 2019, the Company was notified by Chañares that the Executive of the Mendoza Province has issued the Decree in respect of the termination of the Chañares Concession as Chañares had not fulfilled its investment commitment, without stating an effective date of termination. The Company understands that Chañares continues to operate in the Chañares Concession area and has taken several legal actions in order to protect its rights under the Chañares Concession, including action to reverse the decision under the Decree in respect of the Chañares Concession, at both the national and provincial levels. At the Latest Practicable Date, the Company has not been informed by Chañares whether a judgement has been handed down.

The Company has taken legal advice from the Local Legal Advisor who opined on, among others, the following matters:

(a) If the Bidding Process is turned down as a consequence of a court decision before the award is decided under the Bidding Process and officially published, none of the bidders will be entitled to any kind of claims against the Mendoza Government.

(b) If Chañares obtains a final ruling only in bringing down the termination of the Chañares Concession, the Bid may stay valid but in such scenario it is possible that the Mendoza Province will bring down the Bid if a new concessionaire is not yet in the area, as a damage control measure. If a new concessionaire is already in the area at that time, there is a low chance that it will be removed from the area because in principle it will probably start legal action against the Province to keep its right and will be entitled to damages.

(c) The Mendoza Province is the original owner of hydrocarbons resources located in the Province and is legally entitled to decide the termination of exploitation concessions in case of default on concessionaire's obligations.

In light of the above, there is a likelihood that the Bidding Process may be terminated or if it is allowed to proceed and the Company wins the Bid, the Company's entitlement to the Chañares Concession may be challenged or affected. In such cases, the Group's petroleum business operations may be materially and adversely affected.

Risks relating to termination of the Chañares Concession by the Mendoza Province

During the term of the Chañares Concession held by Chañares, the Mendoza Province has, by way of the Decree, terminated the Chañares Concession without an effective termination date and while Chañares are still operating in the area. The Company's Local Legal Advisor has opined that the Mendoza Province is the original owner of hydrocarbons resources located in the Province, and is legally entitled to decide the termination of exploitation concessions in cases of default on concessionaire's obligations, which as stated by the Decree 1101, is the case for Chañares. The Mendoza Province issued the Decree terminating the Chañares Concession on the ground that Chañares had not fulfilled its investment commitment. There is therefore no assurance that the Mendoza Province will not terminate the Chañares Concession in the future if the Company wins the Bid, in particular if the Company does not fulfil its investment commitment to be submitted with the Bid. In such cases, the Company's petroleum operations may be materially and adversely affected.

Risks relating to failure by the Hydrocarbons Department of Mendoza Province or Government of Mendoza Province to repossess the concession

According to the Bid schedule as set out in the latest circular issued by the Hydrocarbons Department of Mendoza Province, the formal delivery of the area to the new concessionaire will occur between 25 January 2021 and 1 February 2021, i.e., one or two months after the award Decree is passed. The Company understands that such period of time will be used to coordinate the replacement of Chañares by the new concessionaire in the area. In light of the legal actions taken by Chañares, it may be possible that Chañares may refuse to leave the area. If the Hydrocarbons Department of Mendoza Province or Government of Mendoza Province fails to repossess the concession and deliver the area to the Company on schedule or at all, the Company will need to take a legal action to protect its position. In such circumstances, the Company's petroleum operations may be materially and adversely affected.

(5) Tax payment in relation to the Petroleum Assets

According to National Law 17,319 of Argentina, royalty payable to the Government of Mendoza Province is at 12% on the revenue of crude oil production, while the provincial tax payable to the Government of Mendoza Province is at 3% on the revenue of crude oil production. The corporate income tax payable to the National Government of Argentina according to National Law 27,541 of Argentina is at 25% on taxable income for years starting after 1 January 2021. In addition, a value-added tax is payable to the National Government of Argentina at 21%.

For illustrative purpose only, set out below is the unaudited pro forma financial information of the Enlarged Group as at 30 June 2020, being the latest financial reporting date of the Company, to show the effect of the Proposed Transaction.

BASIS OF PREPARATION OF THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is an illustrative unaudited pro forma statement of assets and liabilities of EPI (Holdings) Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") as at 30 June 2020 (the "**Unaudited Pro Forma Financial Information**") in connection with the proposed acquisition of the hydrocarbons exploitation concession rights in the Chañares Herrados area (the "**Chañares Concession**") upon the successful winning of the bid offer to be submitted by the Group under the formal bidding process held by the Hydrocarbons Department of Mendoza Province (the "**Proposed Transaction**") (hereinafter collectively referred to as the "**Enlarged Group**").

The Unaudited Pro Forma Financial Information has been prepared by the Directors based on a number of assumptions, estimates and uncertainties for illustrative purposes only and because of its nature, it may not give a true picture of the effects of the Proposed Transaction on the consolidated statement of assets and liabilities of the Group as if the Proposed Transaction have taken place on 30 June 2020 or at any future date.

For the preparation of the Unaudited Pro Forma Financial Information, the consideration under the bidding process cannot be determined reliably, two scenarios are estimated by the Directors of the Company and presented as follows:

Scenario I:

Assuming that the minimum amount of the Proposed Transaction is US$26,500,000 (equivalent to approximately HK$206,700,000) (the "**Minimum Amount**"), which comprises (i) initial upfront payment of US$5,000,000 (equivalent to approximately HK$39,000,000) (the "**Minimum Upfront Payment**") and (ii) capital investment commitment of US$21,500,000 (equivalent to approximately HK$167,700,000) (the "**Minimum Capital Investment Commitment**"); and

Scenario II:

Assuming that the maximum amount of the Proposed Transaction is US$43,000,000 (equivalent to approximately HK$335,400,000) (the "**Maximum Amount**"), which comprises (i) initial upfront payment of US$7,200,000 (equivalent to approximately HK$56,160,000) (the "**Maximum Upfront Payment**") and (ii) capital investment commitment of US$35,800,000 (equivalent to approximately HK$279,240,000) (the "**Maximum Capital Investment Commitment**").

For the purpose of the Unaudited Pro Forma Financial Information, the Directors have made reference to factors including an internal assessment on the valuation of the Chañares Concession after considering various scenario analyses of the valuation prepared by DeGolyer and MacNaughton ("**D&M**"), the Competent Person and Competent Evaluator, set out in New Competent Person's Report and New Valuation Report in Appendix IV and Appendix V of the Circular respectively, to calculate the Minimum Capital Investment Commitment and the Maximum Capital Investment Commitment of the Proposed Transaction.

The Unaudited Pro Forma Financial Information has been prepared by the Directors in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") for the purpose of illustrating the effect of the Proposed Transaction pursuant to the terms of the bid offer for the Chañares Concession to be submitted by the Group under the formal bidding process held by the Hydrocarbons Department of Mendoza Province in relation to the exploitation concession rights of the Chañares Concession (the "**Bid**"). Details of the Bid are set out in the Letter from the Board contained in this Circular.

The Unaudited Pro Forma Financial Information of the Enlarged Group is prepared based on the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2020, which has been extracted from the Group's interim report for the six months ended 30 June 2020 (the "**Interim Report**") and adjusted on a pro forma basis to reflect the effect of the Proposed Transaction. A narrative description on these pro forma adjustments that are (i) directly attributable to the Proposed Transaction and not relating to future events and decisions; and (ii) factually supportable based on the terms of the Bid as stated herein this Appendix.

The Unaudited Pro Forma Financial Information has been prepared using accounting policies consistent with that of the Group. The Unaudited Pro Forma Financial Information is based on a number of assumptions, estimates, uncertainties and currently available information. Accordingly, the Unaudited Pro Forma Financial Information does not purport to describe the actual assets and liabilities of the Enlarged Group that would have been attained had the Proposed Transaction been completed on 30 June 2020 nor purport to predict the future assets and liabilities of the Enlarged Group.

The Unaudited Pro Forma Financial Information should be read in conjunction with (i) the unaudited condensed consolidated results of the Group for the six months ended 30 June 2020 as stated in the Interim Report and (ii) other financial information included elsewhere in this Circular.

For the purpose of presenting the Unaudited Pro Forma Financial Information, the unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group as at 30 June 2020 is translated at the exchange rate of US$1 = HK$7.8.

For Scenario I

Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group Scenario I — The minimum amount of the Proposed Transaction

	The Group at 30 June 2020	Pro forma adjustments	Notes	The Enlarged Group at 30 June 2020
	HK$'000	*HK$'000*		*HK$'000*
	(Note 1)			
Non-current assets				
Exploration and evaluation assets	—	39,000	*(2)*	39,000
Property, plant and equipment	510	167,700	*(3)*	168,210
Right-of-use assets	3,335	—		3,335
Intangible asset	420	—		420
Debt instruments at fair value through other comprehensive income	128,933	—		128,933
Deposits paid for petroleum exploration and production operation	—	16,770	*(4)*	16,770
Loan and interest receivables	—	—		—
	133,198	223,470		356,668
Current assets				
Debt instruments at fair value through other comprehensive income	19,351	—		19,351
Inventories	236	—		236
Loan and interest receivables	157,532	—		157,532
Trade and other receivables and prepayments	14,763	—		14,763
Other tax recoverables	1,032	—		1,032
Income tax recoverable	1,827	—		1,827
Financial assets at fair value through profit or loss	25,634	—		25,634
Bank balances and cash	113,550	(55,770)	*(5)*	57,780
	333,925	(55,770)		278,155

	The Group at 30 June 2020 *HK$'000* *(Note 1)*	Pro forma adjustments *HK$'000*	*Notes*	The Enlarged Group at 30 June 2020 *HK$'000*
Current liabilities				
Trade and other payables	15,288	167,700	*(6)*	182,988
Income tax payable	3,524	—		3,524
Lease liabilities	3,056	—		3,056
	21,868	167,700		189,568
Net current assets	312,057	(223,470)		88,587
Total assets less current liabilities	445,255	—		445,255
Non-current liabilities				
Deferred tax liabilities	8	—		8
Lease liabilities	2,138	—		2,138
	2,146	—		2,146
Net assets	443,109	—		443,109

Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group

1. The figures are extracted from the unaudited condensed consolidated statement of financial position of the Group at 30 June 2020 as set out in the Interim Report of the Group for the six months ended 30 June 2020.

2. The exploration and evaluation assets to be acquired pursuant to the Proposed Transaction are measured at the fair value of Minimum Upfront Payment of US$5,000,000 (equivalent to approximately HK$39,000,000).

3. The property, plant and equipment to be acquired pursuant to the Proposed Transaction are measured at the fair value of Minimum Capital Investment Commitment as detailed in the basis of preparation of this unaudited pro forma financial information. The fair value of the Minimum Capital Investment Commitment is determined as set out in note 6 below.

4. The deposit paid of US$2,150,000 (equivalent to approximately HK$16,770,000) for petroleum exploration and production operation representing 10% of the Minimum Capital Investment Commitment, which will be returned to the Company in accordance with the terms of the Bid.

5. The adjustment to bank balances and cash represents the cash outflow of US$7,150,000 (equivalent to approximately HK$55,770,000), which represents the Minimum Upfront Payment of US$5,000,000 (equivalent to approximately HK$39,000,000) and the deposit paid for petroleum exploration and production operation representing 10% of the Minimum Capital Investment Commitment of US$2,150,000 (equivalent to approximately HK$16,770,000).

6. The adjustment to trade and other payables represents the Minimum Capital Investment Commitment on initial recognition amounted to US$21,500,000 (equivalent to approximately HK$167,700,000).

7. The fair value of the Minimum Amount of the Proposed Transaction is subject to change at the date of completion. In such circumstances, the actual assets and liabilities of the Enlarged Group resulting from the Proposed Transaction may be different from the assets and liabilities shown in this Appendix.

8. No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 30 June 2020.

For Scenario II

Unaudited pro forma consolidated statement of assets and liabilities of the Enlarged Group Scenario II — The maximum amount of the Proposed Transaction

	The Group at 30 June 2020	**Pro forma adjustments**	*Notes*	**The Enlarged Group at 30 June 2020**
	HK$'000	*HK$'000*		*HK$'000*
	(Note 1)			
Non-current assets				
Exploration and evaluation assets	—	56,160	*(2)*	56,160
Property, plant and equipment	510	279,240	*(3)*	279,750
Right-of-use assets	3,335	—		3,335
Intangible asset	420	—		420
Debt instruments at fair value through other comprehensive income	128,933	—		128,933
Deposits paid for petroleum exploration and production operation	—	27,924	*(4)*	27,924
Loan and interest receivables	—	—		—
	133,198	363,324		496,522
Current assets				
Debt instruments at fair value through other comprehensive income	19,351	—		19,351
Inventories	236	—		236
Loan and interest receivables	157,532	—		157,532
Trade and other receivables and prepayments	14,763	—		14,763
Other tax recoverables	1,032	—		1,032
Income tax recoverable	1,827	—		1,827
Financial assets at fair value through profit or loss	25,634	—		25,634
Bank balances and cash	113,550	(84,084)	*(5)*	29,466
	333,925	(84,084)		249,841

	The Group at 30 June 2020 *HK$'000* *(Note 1)*	Pro forma adjustments *HK$'000*	*Notes*	The Enlarged Group at 30 June 2020 *HK$'000*
Current liabilities				
Trade and other payables	15,288	279,240	*(6)*	294,528
Income tax payable	3,524	—		3,524
Lease liabilities	3,056	—		3,056
	21,868	279,240		301,108
Net current assets (liabilities)	312,057	(363,324)		(51,267)
Total assets less current liabilities	445,255	—		445,255
Non-current liabilities				
Deferred tax liabilities	8	—		8
Lease liabilities	2,138	—		2,138
	2,146	—		2,146
Net assets	443,109	—		443,109

Notes to the Unaudited Pro Forma Financial Information of the Enlarged Group

1. For the purpose of preparation of the unaudited pro forma consolidated statement of assets and liabilities, the balances are extracted from the unaudited condensed consolidated statement of financial position of the Group as at 30 June 2020 as set out in the Interim Report of the Group for the six months ended 30 June 2020.

2. The exploration and evaluation assets to be acquired pursuant to the Proposed Transaction are measured at the fair value of Maximum Upfront Payment of US$7,200,000 (equivalent to approximately HK$56,160,000).

3. The property, plant and equipment to be acquired pursuant to the Proposed Transaction are measured at the fair value of Maximum Capital Investment Commitment as detailed in the basis of preparation of this unaudited pro forma financial information. The fair value of the Maximum Capital Investment Commitment is determined as set out in note 6 below.

4. The deposit paid of US$3,580,000 (equivalent to approximately HK$27,924,000) for petroleum exploration and production operation represents 10% of the Maximum Capital Investment Commitment, which will be returned to the Company in accordance with the terms of the Bid.

5. The adjustment to bank balances and cash represents the cash outflow of US$10,780,000 (equivalent to approximately HK$84,084,000), which represents the Maximum Upfront Payment of US$7,200,000 (equivalent to approximately HK$56,160,000) and the deposit paid for petroleum exploration and production operation representing 10% of the Maximum Capital Investment Commitment of US$3,580,000 (equivalent to approximately HK$27,924,000) above.

6. The adjustment to trade and other payables represents the Maximum Capital Investment Commitment on initial recognition amounted to US$35,800,000 (equivalent to approximately HK$279,240,000).

7. The fair value of the Maximum Amount of the Proposed Transaction is subject to change at the date of completion. In such circumstances, the actual assets and liabilities of the Enlarged Group resulting from the Proposed Transaction may be different from the assets and liabilities shown in this Appendix.

8. No adjustment has been made to reflect any trading result or other transactions of the Group entered into subsequent to 30 June 2020.

The following is the text of the independent reporting accountants' assurance report received from Moore Stephens CPA Limited, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this circular.

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大華馬施雲會計師事務所有限公司

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

To the Directors of EPI (Holdings) Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of EPI (Holdings) Limited (the "**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") by the directors of the Company (the "**Directors**") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of assets and liabilities as at 30 June 2020 and related notes as set out on pages III-1 to III-8 of Appendix III to the circular issued by the Company dated 8 October 2020 (the "**Circular**") in connection with the proposed acquisition of the hydrocarbons exploitation concession rights in the Chañares Herrados area upon the successful winning of the bid offer to be submitted by the Group under the formal bidding process held by the Hydrocarbons Department of Mendoza Province (the "**Proposed Transaction**"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages III-1 to III-8 of Appendix III to the Circular.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the Proposed Transaction on the Group's assets and liabilities as at 30 June 2020 as if the Proposed Transaction had taken place at 30 June 2020. As part of this process, information about the Group's assets and liabilities as at 30 June 2020, has been extracted by the Directors from the Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2020 as stated in the interim report, on which no auditor's report or review report has been published.

Directors' Responsibilities for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "*Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars*" ("**AG 7**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the "*Code of Ethics for Professional Accountants*" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "*Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements*" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "*Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus*" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 30 June 2020 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Moore Stephens CPA Limited
Certified Public Accountants
Hong Kong, 8 October 2020

1. RESPONSIBILITY STATEMENT

This Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this Circular misleading.

2. INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

At the Latest Practicable Date, none of the Directors nor the chief executive of the Company nor their respective associates had or was deemed to have any interests or short positions in any Shares, underlying Shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which were required (i) to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules, to be notified to the Company and the Stock Exchange.

3. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

At the Latest Practicable Date, so far as being known to the Directors or the chief executive of the Company, the following persons (other than a Director or chief executive of the Company) had or were deemed or taken interests or short positions in the Shares and underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Long positions in the Shares:

Name of Shareholders	Capacity and nature of interest	Number of Shares held	Approximate percentage of the Company's issued share capital *(Note (i))*
Mr. Suen Cho Hung, Paul ("**Mr. Suen**")	Interests of controlled corporation	862,085,620 *(Notes (ii) & (iii))*	16.45%
Premier United Group Limited ("**Premier United**")	Interests of controlled corporation	862,085,620 *(Notes (ii) & (iii))*	16.45%
Billion Expo International Limited ("**Billion Expo**")	Beneficial owner	862,085,620 *(Notes (ii) & (iii))*	16.45%
China Shipbuilding Capital Limited	Beneficial owner	700,170,000	13.36%

Notes:

(i) The approximate percentage of the Company's issued share capital was calculated on the basis of 5,240,344,044 Shares in issue at the Latest Practicable Date.

(ii) These interests were held by Billion Expo, which was a wholly owned subsidiary of Premier United which in turn was wholly owned by Mr. Suen. Mr. Suen was the sole director of Billion Expo and Premier United. Accordingly, Mr. Suen was deemed to be interested in 862,085,620 Shares under the SFO.

(iii) The interests of Mr. Suen, Premier United and Billion Expo in 862,085,620 Shares referred to in Note (ii) above related to the same parcel of Shares.

Save as disclosed above, at the Latest Practicable Date, the Directors and the chief executive of the Company were not aware of any person (other than the Directors and the chief executive of the Company) who had or were deemed or taken interests or short positions in the Shares or underlying Shares which fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company.

4. DIRECTORS' SERVICES CONTRACTS

At the Latest Practicable Date, none of the Directors had entered, or proposed to enter into any existing or proposed service contract or service agreement with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

5. COMPETING INTERESTS

At the Latest Practicable Date, none of the Directors or their respective close associates was interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with the business of the Group.

6. DIRECTORS' INTEREST IN ASSETS/CONTRACTS AND OTHER INTERESTS

(a) At the Latest Practicable Date, none of the Directors had any interest, directly or indirectly, in any assets which, since 31 December 2019 (being the date to which the latest published audited financial statements of the Company were made up) had been acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

(b) There was no contract or arrangement subsisting at the Latest Practicable Date in which any Director was materially interested in and which was significant in relation to the business of the Group.

7. LITIGATION

At the Latest Practicable Date, none of the Company and its subsidiaries were engaged in any material litigation or arbitration and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Group.

8. EXPERTS AND CONSENTS

The qualification of the experts who have given opinions and advice in this Circular is as follows:

Name	Qualification
Moore Stephens CPA Limited	Certified Public Accountants
DeGolyer and MacNaughton	Competent Person and Competent Evaluator

The above experts have given and have not withdrawn their written consent to the issue of this Circular with the inclusion herein of their letters, reports, advice and/or references to their names, in the form and context in which they appear.

At the Latest Practicable Date, the above experts did not have any direct or indirect interest, in any member of the Group, or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

At the Latest Practicable Date, the above experts did not have any direct or indirect interest in any assets which had been since 31 December 2019 (being the date to which the latest published audited financial statements of the Company were made up) acquired or disposed of by or leased to the Group, or were proposed to be acquired or disposed of by or leased to the Group.

9. MATERIAL CONTRACTS

Save as disclosed below, there are no material contracts (not being contracts entered into in the ordinary course of business) which have been entered into by any member of the Group within the two years immediately preceding the date of this Circular:

(a) the placing agreement dated 26 November 2019 entered into between the Company and Royston Securities Limited as the placing agent, pursuant to which the Company conditionally agreed to place, through Royston Securities Limited, on a best effort basis, the bonds with an aggregate principal amount of up to HK$250,000,000.00.

10. GENERAL

(a) The company secretary of the Company is Mr. Chan Shui Yuen, 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;

(b) The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda;

(c) The principal place of business of the Company is situated at Room 3203, 32nd Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong;

(d) The branch share registrar and transfer office of the Company in Hong Kong is Tricor Tengis Limited, located at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong; and

(e) In the event of inconsistency, the English text of this Circular shall prevail over the Chinese text.

11. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection from 9:00 a.m. to 6:00 p.m., Monday to Friday, except the public holiday, at the office of the Company at Room 3203, 32nd Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong from the date of this Circular up to and including the date of the New SGM:

(a) the Bye-laws of the Company;

(b) the letter from the Board, the text of which is set out in the "Letter from the Board" in this Circular;

(c) the annual reports of the Company for each of the three years ended 31 December 2019 and the interim report of the Company for the six months ended 30 June 2020;

(d) the report from Moore Stephens CPA Limited relating to the unaudited pro forma financial information of the Enlarged Group, the text of which is set out in Appendix III to this Circular;

(e) the New Competent Person's Report, the text of which is set out in Appendix IV to this Circular;

(f) the New Valuation Report, the text of which is set out in Appendix V to this Circular;

(g) the Risk Assessment Report, the text of which is set out in Appendix VI to this Circular;

(h) the material contract referred to in the sub-section headed "Material Contracts" in Appendix VII to this Circular;

(i) the written consents referred to in the sub-section headed "Experts and Consents" in Appendix VII to this Circular; and

(j) this Circular.

EPI (Holdings) Limited
長盈集團(控股)有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 689)

NOTICE IS HEREBY GIVEN that a new special general meeting (the "**Meeting**") of EPI (Holdings) Limited (the "**Company**") will be held at Plaza 3, Lower Lobby, Novotel Century Hong Kong, 238 Jaffe Road, Wanchai, Hong Kong on Tuesday, 27 October 2020 at 10:00 a.m. for the purpose of considering and, if thought fit, passing with or without amendments, the following resolution as an ordinary resolution:

ORDINARY RESOLUTION

"THAT:

(a) the submission by the Company or its subsidiaries of a bid offer (the "**Bid**") in the formal bidding process to be held by the Hydrocarbons Department of Mendoza Province on 28 October 2020 (Argentina time) (or such later date as may be determined) in relation to the proposed acquisition of the hydrocarbons exploitation concession rights in the Chañares Herrados area located in Cuyana Basin, Mendoza Province of Argentina (the "**Chañares Herrados area**") and the entitlement to all of the right, title and interest in and to the properties and interests of the Chañares Herrados area (the "**Proposed Transaction**") and upon success of the Bid, the Proposed Transaction, be and are hereby approved, provided that the amount of the Bid must be in the region of minimum amount of US$26,500,000 and maximum amount of US$43,000,000;

(b) the directors of the Company be and are hereby authorised to do all such acts and things including, without limitation, to execute all such documents and to approve any amendments, alterations or modifications to any documents as he/she or they may consider desirable, necessary or expedient in connection with the submission of the Bid and, if the Bid is successful, implementation and completion of the Proposed Transaction; and

(c) any action taken by the directors of the Company prior to the Meeting in relation to the Bid and any other transactions contemplated thereunder be and are hereby approved, confirmed and ratified."

By Order of the Board
EPI (Holdings) Limited
Sue Ka Lok
Executive Director

Hong Kong, 8 October 2020

* *For identification purpose only*

Principal Place of Business in Hong Kong:
Room 3203, 32nd Floor
China Resources Building
26 Harbour Road
Wanchai
Hong Kong

Registered Office:
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Notes:

1. Any member of the Company entitled to attend and vote at the Meeting is entitled to appoint another person as his/her/its proxy to attend and vote instead of him/her/it. A member of the Company who is the holder of two or more shares of the Company may appoint more than one proxy to represent him/her/it to attend and vote on his/her/its behalf at the Meeting. A proxy need not be a member of the Company. In addition, a proxy or proxies representing either a member of the Company who is an individual or a member of the Company which is a corporation is entitled to exercise the same powers on behalf of the member of the Company which he/she/it or they represent(s) as such member of the Company could exercise.

2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his/her/its attorney duly authorised in writing or, if the appointor is a corporation, either under its common seal or under the hand of an officer or attorney duly authorised to sign the same. In the case of an instrument of proxy purporting to be signed on behalf of a corporation by an officer thereof, it shall be assumed, unless the contrary appears, that such officer was duly authorised to sign such instrument of proxy on behalf of the corporation without further evidence of the fact.

3. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, together with such evidence as the Board of Directors of the Company may require under the Bye-laws of the Company, shall be delivered to the Hong Kong branch share registrar and transfer office of the Company, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the Meeting or any adjournment thereof (as the case may be) at which the person named in the instrument proposes to vote, and in default the instrument of proxy shall not be treated as valid.

4. Delivery of an instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the Meeting or any adjournment thereof or upon the poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

5. Where there are joint registered holders of any share(s) of the Company, any one of such persons may vote, either personally or by proxy, in respect of such share(s) of the Company as if he/she/it were solely entitled thereto, but if more than one of such joint holders be present at the Meeting personally or by proxy, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share(s) of the Company shall alone be entitled to vote in respect thereof.

6. In order to be eligible to attend and vote at the Meeting, all unregistered holders of the shares of the Company shall ensure that all transfer documents accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Tricor Tengis Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 20 October 2020.

7. The Chinese version of this notice is for reference only. If there is any inconsistency between the English and the Chinese versions, the English version shall prevail.

8. To prevent the spread of COVID-19 pandemic and to safeguard the health and safety of the shareholders of the Company (the "**Shareholders**") and other attendees who will attend the Meeting, the Company will implement the following precautionary measures at the Meeting:

   (i) compulsory body temperature checks will be conducted on Shareholders, proxies and other attendees at the entrance of the Meeting venue. Any person with a body temperature over 37.5 degrees Celsius shall not be permitted to enter the Meeting venue;

   (ii) Shareholders, proxies and other attendees are required to wear surgical face masks inside the Meeting venue at all times, and maintain a safe distance between seats;

   (iii) no corporate gift or souvenir will be distributed and no refreshment will be served; and

   (iv) any person who does not comply with the precautionary measures to be taken at the Meeting venue may be denied entry into the Meeting venue.

   The Company reminds all Shareholders that any person who is subject to any quarantine order prescribed by the Hong Kong Government will be denied entry into the Meeting venue, in order to ensure the health and safety of all attendees at the Meeting. Additionally, the Company reminds all Shareholders that physical attendance in person at the Meeting is not necessary for the purpose of exercising voting rights and would like to encourage Shareholders to appoint the Chairman of the Meeting as his/her/its proxy to vote on the resolution at the Meeting, instead of attending the Meeting in person.

9. At the date of this notice, the Board of Directors of the Company comprises three Executive Directors, namely Mr. Sue Ka Lok, Mr. Yiu Chun Kong and Mr. Chan Shui Yuen; and three Independent Non-executive Directors, namely Mr. Pun Chi Ping, Ms. Leung Pik Har, Christine and Mr. Kwong Tin Lap.