

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

EPI **EPI (Holdings) Limited**
長盈集團(控股)有限公司*
(Incorporated in Bermuda with limited liability)
(Stock Code: 689)

FINAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2018

The Board of Directors (the “Board”) of EPI (Holdings) Limited (the “Company”) hereby announces the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2018 together with comparative figures as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	<i>Notes</i>	2018 HK\$'000	2017 HK\$'000
Revenue	3	71,419	57,870
Sales of petroleum		43,998	42,914
Interest income		26,369	12,868
Others		1,052	2,088
Purchases, processing and related expenses		(29,017)	(31,752)
Other income and losses, net	5	(577)	(430)
Net (loss) gain on financial assets at fair value through profit or loss	6	(80,636)	45,101
Loss on disposal of debt instruments at fair value through other comprehensive income		(610)	—
Net fair value changes on derivative component of convertible notes and forward to issue convertible notes	20	(24,370)	(39,158)
Wages, salaries and other benefits		(13,768)	(10,617)
Share-based payments expense	10	—	(73,257)
Depreciation and depletion		(6,657)	(4,344)

* For identification purpose only

	<i>Notes</i>	2018 HK\$'000	2017 <i>HK\$'000</i>
Expected credit loss on financial assets of:			
Loan and interest receivables		(5,613)	–
Debt instruments at fair value through other comprehensive income		(395)	–
(Provision) reversal of impairment losses on non-financial assets, net	7	(3,383)	24,378
Other expenses		(16,488)	(11,260)
Finance costs	8	(4,992)	(4,955)
Loss before tax		(115,087)	(48,424)
Income tax expense	9	(140)	(6,431)
Loss for the year attributable to owners of the Company	10	(115,227)	(54,855)
Other comprehensive (expense) income:			
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Net fair value loss on:			
Available-for-sale investments		–	(519)
Debt instruments at fair value through other comprehensive income		(13,583)	–
Release on disposal of debt instruments at fair value through other comprehensive income		610	–
Exchange differences arising on translation of foreign operations		(4,631)	–
Other comprehensive expense for the year, net of income tax		(17,604)	(519)
Total comprehensive expense for the year attributable to owners of the Company		(132,831)	(55,374)
Loss per share attributable to owners of the Company			
– Basic	12	HK(2.26) cents	HK(1.17) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	<i>Notes</i>	2018 HK\$'000	2017 <i>HK\$'000</i>
Non-current assets			
Exploration and evaluation assets	13	–	–
Property, plant and equipment		47,951	56,451
Available-for-sale investments	14	–	121,533
Debt instruments at fair value through other comprehensive income	15	115,708	–
Other tax recoverables		315	4,076
Total non-current assets		163,974	182,060
Current assets			
Available-for-sale investments	14	–	25,873
Debt instruments at fair value through other comprehensive income	15	14,622	–
Loan and interest receivables	16	251,652	67,798
Trade and other receivables and prepayments	17	12,780	46,232
Other tax recoverables		1,230	1,759
Financial assets at fair value through profit or loss	18	71,816	95,849
Bank balances and cash		83,593	287,349
Total current assets		435,693	524,860
Current liabilities			
Trade and other payables	19	19,126	19,107
Income tax payable		5,204	1,744
Derivative financial liability	20	–	46,617
Convertible notes	20	–	76,145
Total current liabilities		24,330	143,613
Net current assets		411,363	381,247
Total assets less current liabilities		575,337	563,307
Non-current liability			
Deferred tax liabilities		284	4,191
Net assets		575,053	559,116
Capital and reserves			
Share capital	21	52,403	50,181
Reserves		522,650	508,935
Total equity		575,053	559,116

Notes:

1. Significant accounting policies

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) and by the Hong Kong Companies Ordinance (Cap. 622). The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values at the end of each reporting period.

The consolidated financial statements are presented in Hong Kong dollars (“HK\$”), which is also the functional currency of the Company and all values are rounded to the nearest thousand (HK\$’000) except otherwise indicated.

2. Application of new and amendments to HKFRSs

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

The Group has applied the following new and amendments to HKFRSs and an interpretation issued by the HKICPA for the first time in the current year:

HKFRS 9	Financial instruments
HKFRS 15	Revenue from contracts with customers and the related amendments
HK(IFRIC) - Int 22	Foreign currency transactions and advance consideration
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions
Amendments to HKFRS 4	Applying HKFRS 9 “Financial instruments” with HKFRS 4 “Insurance contracts”
Amendments to HKAS 28	As part of the annual improvements to HKFRSs 2014 – 2016 cycle
Amendments to HKAS 40	Transfers of investment property

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

2.1 HKFRS 15 “Revenue from contracts with customers”

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

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

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

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

Information about the Group's performance obligations resulting from application of HKFRS 15 are disclosed in Note 3.

Summary of effects arising from initial application of HKFRS 15

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

2.2 HKFRS 9 “Financial instruments”

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

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

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 “Financial instruments: recognition and measurement”.

Summary of effects arising from initial application of HKFRS 9

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

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

(a) *AFS investments*

Reclassification from AFS investments to debt instruments at FVTOCI

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

(b) *Impairment under ECL model*

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

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

3. Revenue

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

	2018 HK\$’000	2017 HK\$’000
Sales of petroleum	43,998	42,914
Interest income from money lending business*	16,814	7,797
Interest income from debt instruments at FVTOCI/AFS investments*	9,555	5,071
Dividend and interest income from financial assets at fair value through profit or loss (“FVTPL”)	1,052	2,088
	<u>71,419</u>	<u>57,870</u>

* Under effective interest method

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

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

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

4. Segment information

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

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

- (i) Petroleum exploration and production
- (ii) Money lending
- (iii) Investment in securities

Segment revenue and results

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

For the year ended 31 December 2018

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

For the year ended 31 December 2017

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

Segment results represent the profit earned/loss incurred by each segment without allocation of certain other losses, net, corporate expenses, net fair value changes on derivative component of convertible notes and forward to issue convertible notes, share-based payments expense, finance costs and income tax expense.

Geographical information

The Group's operations are located in Argentina, Hong Kong and the People's Republic of China ("PRC").

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

	Revenue from external customers/sources		Non-current assets (<i>Note</i>)	
	Year ended 31 December		As at 31 December	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Argentina	43,998	42,914	46,168	56,122
Hong Kong	21,863	14,391	258	329
The PRC	5,558	565	1,525	–
	71,419	57,870	47,951	56,451

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

Information about major customers

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

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

5. Other income and losses, net

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

6. Net (loss) gain on financial assets at fair value through profit or loss

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

Notes:

- (i) Amount represents the changes in the costs of the securities acquired during the year and/or the carrying amount of the securities brought forward from the prior financial year after accounting for additional acquisition and/or disposal of the securities (if any) during the year as compared to the fair values of the financial assets at FVTPL held by the Group as of 31 December 2018 and 2017.
- (ii) Amount represents the changes in the costs of the securities acquired during the year and/or the carrying amount of the securities brought forward from the prior financial year after accounting for additional acquisition and/or disposal of the securities (if any) during the year as compared to the fair values of the financial assets at FVTPL disposed of upon disposal.

7. (Provision) reversal of impairment losses on non-financial assets, net

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
(Provision) reversal of impairment loss of property, plant and equipment	(3,383)	22,588
Reversal of impairment loss of other tax recoverables	—	1,790
	<u>(3,383)</u>	<u>24,378</u>

8. Finance costs

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Interest on convertible notes (<i>Note 20</i>)	<u>4,992</u>	<u>4,955</u>

9. Income tax expense

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

Hong Kong Profits Tax was calculated at 16.5% of the estimated assessable profit for 2017.

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

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

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

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

10. Loss for the year

Loss for the year has been arrived at after charging the following items:

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

11. Dividends

No dividend was paid or proposed for the years ended 31 December 2018 and 2017, nor has any dividend been proposed since the end of the reporting periods.

12. Loss per share

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

	2018 HK\$'000	2017 HK\$'000
Loss:		
Loss for the year attributable to the owners of the Company for the purpose of calculating basic and diluted loss per share	<u>(115,227)</u>	<u>(54,855)</u>
	2018 '000	2017 '000

Number of shares:

Weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share	<u>5,103,586</u>	<u>4,689,946</u>
--	------------------	------------------

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

The computation of diluted loss per share for the year ended 31 December 2017 did not assume the conversion of the Company's outstanding convertible notes since their assumed exercise would result in a decrease in loss per share. In addition, the computation also did not assume the exercise of the Company's share options because the exercise price of the share options was higher than the average market price of the Company's shares.

13. Exploration and evaluation assets

	2018 HK\$'000	2017 HK\$'000
Cost		
At 1 January and 31 December	<u>3,778,574</u>	<u>3,778,574</u>
Impairment		
At 1 January and 31 December	<u>3,778,574</u>	<u>3,778,574</u>
Carrying values		
At 1 January	<u>—</u>	<u>—</u>
At 31 December	<u>—</u>	<u>—</u>

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

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

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

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

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

At 31 December 2018 and 31 December 2017, the Group reconsidered the future development of the investment plan on the concession in respect of the CHE Area and concluded that no further well drilling programme would be launched.

14. Available-for-sale investments

2017
HK\$'000

Listed investments, at fair value:

- Debt securities listed in Hong Kong or overseas with fixed interests ranging from 4.70% to 8.75% per annum and maturity dates ranging from 12 June 2018 to 28 June 2025

147,406

Analysed as:

Current portion

25,873

Non-current portion

121,533

147,406

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

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

15. Debt instruments at fair value through other comprehensive income

2018
HK\$'000

Listed investments, at fair value:

- Debt securities listed in Hong Kong or overseas with fixed interests ranging from 4.70% to 8.75% per annum and maturity dates ranging from 13 February 2019 to 28 June 2025

130,330

Analysed as:

Current portion

14,622

Non-current portion

115,708

130,330

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

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

At the date of initial application of HKFRS 9, the Group provided expected credit loss of HK\$2,191,000. Expected credit loss of HK\$395,000 was provided for the current year.

16. Loan and interest receivables

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

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

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

	Impairment allowance on loan and interest receivables HK\$'000
As at 31 December 2017	–
Impairment allowance recognised	1,439
As at 1 January 2018 (restated)	1,439
Impairment allowance recognised	5,613
As at 31 December 2018	7,052

17. Trade and other receivables and prepayments

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

Notes:

- (i) The oil selling price for the Argentina operation is quoted in United States dollars (“US\$”) and converted into Argentina Peso for invoicing. The Group allows an average credit period of 30 to 60 days. The trade receivables of HK\$1,060,000 (2017: HK\$2,253,000) were neither past due nor impaired and aged within 30 days based on the invoice date.

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

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

18. Financial assets at fair value through profit or loss

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

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

19. Trade and other payables

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

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
0 - 30 days	338	552

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

20. Convertible notes

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

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

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

The holder of the convertible notes should, subject to certain conditions, have the right on any business days prior to the earlier of the date on which the Company gives notice to exercise the redemption rights or five business days prior to the Maturity Date to convert the whole or part of the outstanding principal amount of the convertible notes at an initial conversion price of HK\$0.36 per share into ordinary shares of the Company. On 4 April 2018, 8 October 2018 and 18 October 2018, convertible notes with aggregate principal amount of HK\$80,000,000 were converted into ordinary shares at the conversion price of HK\$0.36 per share and 222,222,222 ordinary shares of HK\$0.01 each were issued to the holder of convertible notes. All convertible notes were converted into shares of the Company before the Maturity Date.

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

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

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

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

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

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

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

The weighted average share price at the dates of conversion during the year was HK\$0.68.

	Liability component <i>HK\$’000</i>	Conversion component <i>HK\$’000</i>	Total <i>HK\$’000</i>
Fair value of convertible notes at issue date	72,502	26,387	98,889
Transaction costs	(109)	(39)	(148)
Change in fair value on derivative component			
recognised in profit or loss	–	20,269	20,269
Effective interest (<i>Note 8</i>)	4,955	–	4,955
Interest paid/payable	(1,203)	–	(1,203)
At 31 December 2017 and 1 January 2018	76,145	46,617	122,762
Change in fair value on derivative component			
recognised in profit or loss	–	24,370	24,370
Effective interest (<i>Note 8</i>)	4,992	–	4,992
Interest paid	(1,917)	–	(1,917)
Conversion of convertible notes	(79,220)	(70,987)	(150,207)
At 31 December 2018	–	–	–

21. Share capital

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

Notes:

- (i) On 4 July 2017 the Company completed a share placement and issued 651,000,000 ordinary shares at the placing price of HK\$0.308 each. The net proceeds from the share placement, after deducting directly attributable expenses of HK\$5,117,000 from gross proceeds of HK\$200,508,000, were HK\$195,391,000. Details of these were set out in the announcements of the Company dated 16 June 2017 and 4 July 2017.
- (ii) During the year ended 31 December 2018, convertible notes with aggregate principal amount of HK\$80,000,000 were converted into ordinary shares at the conversion price of HK\$0.36 per share and 222,222,222 ordinary shares of HK\$0.01 each were issued.

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

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: nil).

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 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 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 sole 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 prices 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 ("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) with details as follows:

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

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

Investment in Securities

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

At 31 December 2018, the Group's investment in securities operation held a financial asset at FVTPL portfolio valued at HK\$71,816,000 (2017: HK\$95,849,000), comprising equity securities listed in Hong Kong, and debt instrument at FVTOCI portfolio (constituted by non-current and current portions) valued at HK\$130,330,000 (2017: HK\$147,406,000, previously classified as AFS investments), comprising debt securities listed in Hong Kong or overseas. As a whole, the operation recorded a revenue of HK\$10,607,000 (2017: HK\$7,159,000) and a loss of HK\$71,562,000 (2017: profit of HK\$51,587,000).

Financial assets at FVTPL

At 31 December 2018, the Group held a financial asset at FVTPL portfolio amounting to HK\$71,816,000 (2017: HK\$95,849,000) measured at market/fair value. During the year under review, the portfolio generated revenue of HK\$1,052,000 representing dividends from equity securities (2017: HK\$2,088,000, representing dividends from equity securities of HK\$1,832,000 and interest income from debt securities of HK\$256,000). The Group recognised a net loss on financial assets at FVTPL of HK\$80,636,000, which comprised net unrealised loss and net realised loss of HK\$55,237,000 and HK\$25,399,000 respectively (2017: net gain on financial assets at FVTPL of HK\$45,101,000, which comprised net unrealised gain and net realised gain of HK\$25,921,000 and HK\$19,180,000 respectively). The realised loss recorded during the year represented loss on disposal of equity securities in open market and the unrealised loss represented fall in market value of those equity securities held by the Group at the year end.

At 31 December 2018, the Group invested in different categories of companies and their weightings to the market/fair value of the Group's financial asset at FVTPL portfolio of HK\$71,816,000 are as below:

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

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

Investee company's name	Approximate weighting to the market/fair value of the Group's financial asset at FVTPL portfolio %	% of shareholding interest %	Acquisition costs HK\$'000	*Acquisition costs during the year/ carrying amount as at 1 January 2018 HK\$'000	Market/ fair value as at 31 December 2018 HK\$'000	Accumulated unrealised gain (loss) recognised up to 31 December 2018 HK\$'000	Unrealised gain (loss) recognised during the year ended 31 December 2018 HK\$'000
			A	B	C	D = C - A	E = C - B
FingerTango Inc. (stock code: 6860)	25.49	0.52	25,284	25,284	18,307	(6,977)	(6,977)
Emperor International Holdings Limited (stock code: 163)	19.27	0.20	18,278	19,598	13,838	(4,440)	(5,760)
China E-Information Technology Group Limited (stock code: 8055)	15.29	1.17	9,304	9,304	10,982	1,678	1,678
Life Healthcare Group Limited (stock code: 928)	14.20	1.60	21,084	21,084	10,196	(10,888)	(10,888)
CNQC International Holdings Limited (stock code: 1240)	6.69	0.19	4,769	4,769	4,805	36	36
Others	19.06	N/A	47,706	47,014	13,688	(34,018)	(33,326)
	<u>100.00</u>		<u>126,425</u>	<u>127,053</u>	<u>71,816</u>	<u>(54,609)</u>	<u>(55,237)</u>

* The amount represented the costs of the securities acquired during the year ended 31 December 2018 and/or the carrying amount of the securities brought forward from the prior financial year after accounting for additional acquisition and/or disposal of the securities (if any) during the current financial year.

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 in the aggregate principal amount of US\$4,462,000 issued by two property companies listed on the Stock Exchange.

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

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

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

* The amount represented the costs of the securities acquired during the year ended 31 December 2018 and/or the carrying amount of the securities brought forward from the prior financial year after accounting for additional acquisition and/or disposal of the securities (if any) during the current financial year.

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

Overall Results

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

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

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

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 about US\$52.4 per barrel), though the price rise effect was partly offset by the drop in the operation's production volume due to extended maintenance works on several oil wells and the natural decline in output of the Group's oil wells. The international oil price has become rather volatile in the past few months, the fluctuations of international oil price owing to many factors including world demand and supply will to a considerable extent affect the operation's results in 2019.

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

The investment and stock market in Hong Kong have been rather volatile in 2018 owing to factors including the pace of interest rate rise in the United States and in particular the trade disputes and settlement negotiations between China and the United States. The Group had recorded losses for its securities investments for the year under review, the management will be more cautious and take a prudent and disciplined approach in managing the Group's securities investments portfolio in 2019, which comprises of equity securities listed in Hong Kong and corporate bonds listed in Hong Kong or overseas.

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

CORPORATE GOVERNANCE

The Company has complied with all the applicable provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Listing Rules for the year ended 31 December 2018, except for the following deviations with reasons as explained:

Chairman and chief executive

Code Provision A.2.1

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

Deviation

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

Effective communications

Code Provision E.1.2

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

Deviation

The former Chairman of the Board, Mr. Suen Cho Hung, Paul, was unable to attend the annual general meeting of the Company held on 27 June 2018 as he had other important business engagement. However, Mr. Sue Ka Lok, an Executive Director of the Company, had chaired the meeting in accordance with bye-law 70 of the Company’s Bye-laws.

AUDIT COMMITTEE

The audited consolidated financial statements of the Company for the year ended 31 December 2018 have been reviewed by the Audit Committee and have been duly approved by the Board under the recommendation of the Audit Committee.

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

During the year ended 31 December 2018, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

By Order of the Board
EPI (Holdings) Limited
Liu Zhiyi
Chairman and Chief Executive Officer

Hong Kong, 29 March 2019

As at the date of this announcement, the Board comprises four Executive Directors, namely Mr. Liu Zhiyi (Chairman and Chief Executive Officer), Mr. Sue Ka Lok, Mr. Yiu Chun Kong and Mr. Chan Shui Yuen; one Non-executive Director, namely Mr. Suen Cho Hung, Paul; and four Independent Non-executive Directors, namely Mr. To Yan Ming, Edmond, Mr. Pun Chi Ping, Ms. Leung Pik Har, Christine and Mr. Kwong Tin Lap.