EPI (Holdings) Limited
長盈集團(控股)有限公司

A Hong Kong Listed Company (Stock Code : 0689)

(Incorporated in Bermuda with limited liability)

ANNUAL REPORT 2015

CORPORATE PROFILE

EPI is focused on the exploration and production of oil and gas in the conventional upstream oil and gas sector, and we are consistently having a strong oil and gas exploration and production operation in Argentina. EPI is progressively seeking possible strategic acquisition opportunities that have upside potentials in order to expand its natural resources and energy portfolio.

EPI is committed to becoming one of the leading HK listed companies in the oil and gas industry, in order to create long-term, sustainable returns to maximize our shareholders value.

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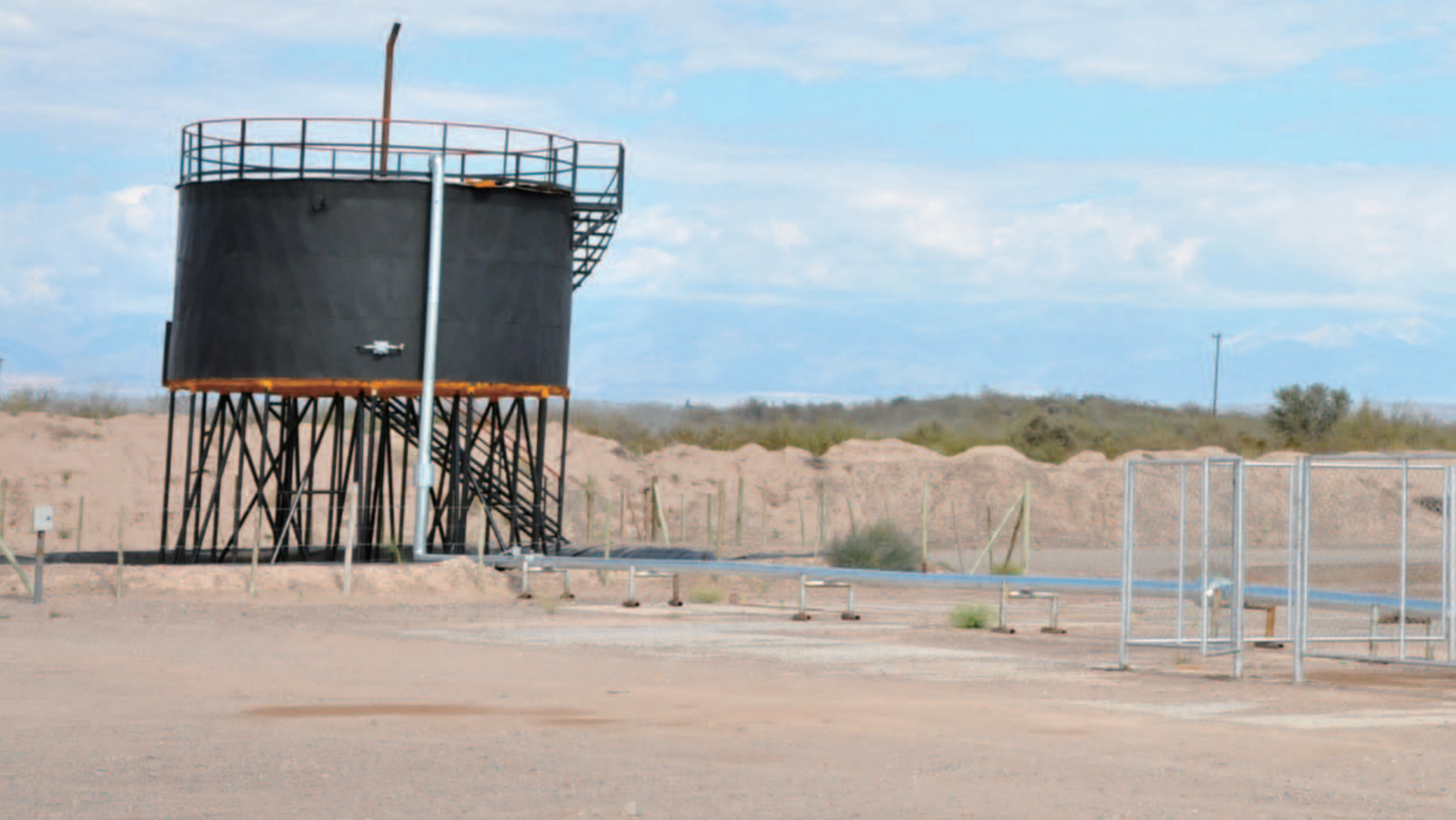
VISION AND MISSION

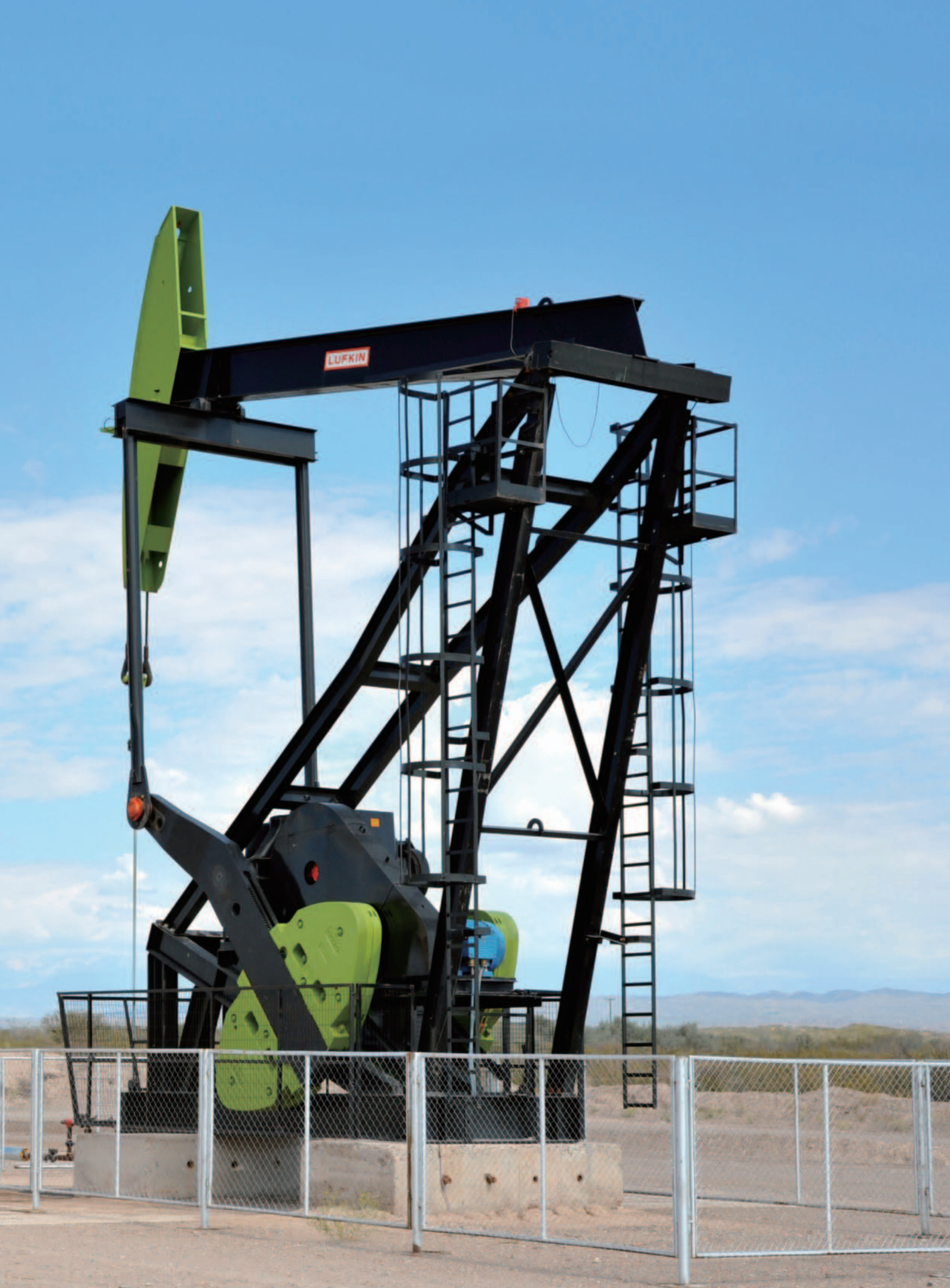
CORPORATE VISION

To transform EPI from a regional oil and gas industry player into a leading, international oil and gas company that competes and operates successfully in the global natural resources and energy industry.

CORPORATE MISSION

At EPI, we strive to grow our business by capturing best opportunities in the oil and gas as well as energy-related industry that are well aligned with our business objectives, create new value for the Group, and generate substantial capital growth for our stakeholders.

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CEO STATEMENT

On behalf of the board (the "**Board**") of directors (the "**Directors**") of EPI (Holdings) Limited (the "**Company**") and its subsidiaries (collectively, the "**Group**"), I hereby present the annual results and the audited financial statements of the Group for the year ended 31 December, 2015. The Group recorded a loss for the year of HK$276.5 million, against a loss for the year of HK$381.1 million in year 2014.

During year 2015, the Group had performed three workover jobs to its producing oil wells. The Group had continued investing to improve our own well fluid collection tank and pipeline. As at 31 December 2015, the Group had finished drilling 10 oil wells in the Chañares Herrados Concession Area, Mendoza oilfield project. All the 10 wells were in production, of which 5 oil wells were drilled by Have Result Investments Limited ("**Have Result**") where the Group is entitled to 51% interest on production, and 5 oil wells were drilled by EP Energy where the Group is entitled to 72% interest on production. The Group will continue to invest in workover on the existing 10 producing oil wells and in improving own well fluid collection system during year 2016.

The Argentina local oil selling price of the Group's subsidiaries for December 2015 and January 2016 was dropped by 15% and 10% respectively as compared with that of November 2015.

CEO STATEMENT

In order to diversify the risks encountered by the Group's petroleum exploration and production business in Argentina, the Company has been actively conducting review of the market situation and potential investments made available to it in order to identify investment opportunities in energy or other sectors that may create shareholders value.

The Board promises that the Group will be accountable to shareholders through which their interests will be protected, by enhancing the communications with the capital market and strengthening our corporate governance, in order to deliver a considerable capital growth and maximum profit returns to our shareholders.

Sammy Tse
CEO & Executive Director

30 March 2016

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's core business is the petroleum exploration and production in the Puesto Pozo Cercado Concession and Chañares Herrados Concession (together, the "**Concessions**") in the Cuyana Basin, Mendoza Province of Argentina. Pursuant to the operation agreement signed on 5 June 2012, Chañares agreed to release EP Energy S.A. ("**EP Energy**") from the commitment under a joint venture agreement (the "**JV Agreement**") signed on 12 January 2011. During year 2015, the Group continued to focus on investment to improve production of the existing 10 producing wells. The Group has performed three workover jobs to its producing oil wells during year 2015. The Group has continued investing to improve our own well fluid collection tank and pipeline. As at 31 December 2015, the Group has finished drilling 10 oil wells in the Chañares Herrados Concession Area, Mendoza oilfield project. All the 10 wells are in production, of which 5 oil wells were drilled by Have Result Investments Limited ("**Have Result**") where the Group is entitled to 51% interest on production, and 5 oil wells were drilled by EP Energy where the Group is entitled to 72% interest on production. The contingent oil resources in certain shallow reservoirs in the Mendoza Oilfield as at 31 December 2015 are as follows,

Contingent Oil Resource *(unit: million barrels)****	**31 December 2015**	31 December 2014
Category Gross (100%)		
Low Estimate (1C)	**80.3**	81.3
Best Estimate (2C)	**138.6**	139.6
High Estimate (3C)	**237.2**	238.2

* According to the Technical Review Report issued by Roma Oil and Mining Associates Limited on 24 March 2016 on The Chañares Herrados and Puesto Pozo Cercado Oil Project in Mendoza Province, Argentina.

The carrying amount of the exploration and evaluation assets ("**E&E assets**") is reviewed for impairment indicators annually and adjusted for impairment loss in accordance with HKAS 36 "Impairment of assets" ("**HKAS 36**") and whenever there are any "trigger" events or changes in circumstances indicating that the carrying amount may not be recoverable. During the years ended 31 December 2009, 31 December 2010, 31 December 2011 and the six months ended 30 June 2012, there were no events or changes in circumstances indicating that the carrying amount of E&E assets might not be recoverable. Accordingly, no impairment needed to be provided for the E&E assets.

The Company has performed an impairment review on its E&E assets during the year 2012, year 2013 and year 2014. An impairment loss of HK$3,130,106,000, HK$442,197,000 and HK$91,049,000 were recognised as the carrying amount of the E&E assets exceeding its recoverable amount as at 31 December 2012, 2013 and 2014 respectively. They were non-cash item adjustments and did not affect the existing operations of oil field.

West Texas Intermediate ("**WTI**") spot price continued dropping in year 2015. The average WTI spot price for January 2015 and January 2016 reduced by US$12.1 per barrel (more than 20%) and US$27.6 per barrel (more than 46%) as compared with that of December 2014 (sourced from U.S. Energy Information Administration ("**EIA**") website).

With reference to the reduction by 49% and 42%, respectively, in 2016 and 2017 WTI spot oil price forecast in Short Term Energy Outlook ("**STEO**") issued by U.S. Energy Information Administration (part of U.S. Department of Energy) on 8 March 2016 as compared with the WTI price forecast in Year 2015 Annual Energy Outlook ("**2015 AEO**"), the Directors considered that there would be a high probability of deterioration in the growth of future oil price as compared with that in year 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's Argentina subsidiaries were selling oil at US$55.1 per barrel in December 2015 and US$58.5 per barrel in January 2016, which are higher than the WTI price for the same period. The Argentina local oil selling price of the Group's subsidiaries for December 2015 and January 2016 dropped by 15% and 10% respectively as compared with that of November 2015. The Argentina Peso ("**ARS**")/ US Dollar ("**US$**") exchange rate has increased by more than 35% on 18 December 2015. The ARS continued depreciating during January and March 2016, and recorded the ARS/US$ exchange rate at 15.3 on 7 March 2016.

With reference to the substantial reduction in future WTI price forecast, decrease in oil selling price in Argentina and recent depreciation in ARS, the Group has performed an impairment test on its E&E asset and oil & gas properties as at 31 December 2015. The board of Directors considered that it would not be beneficial to the Group to drill new well on the Argentina oil project. The Company has engaged Roma Oil and Mining Associates Limited ("**Roma**") to perform a valuation of the E&E assets. Details of impairment review are set out in the Group Financial Review section below.

MANAGEMENT DISCUSSION AND ANALYSIS

GROUP FINANCIAL REVIEW

For the year ended 31 December 2015, the Group's turnover was HK$66.6 million, a decrease of HK$19.1 million as compared with HK$85.7 million recorded in last year. The Group recorded a loss for the year of HK$276.5 million, against a loss for the year of HK$381.1 million in year 2014. During year 2015, an impairment loss of HK$115,222,000 (year 2014: HK$91,049,000) was recognised in respect of the E&E assets and impairment loss of HK$91,093,000 (year 2014: HK$0) was recorded in respect of property, plant and equipment relating to the Chañares oil project.

On 3 November 2009, the Group acquired the entire issued share capital of Have Result for a consideration of HK$3,835,273,000. The principal assets held by Have Result are E&E assets, including oil exploration rights. For the fair value of the oil exploration rights acquired, as the exploration on the acquired areas was at an initial stage and the prospective resources have been estimated using a consideration of deterministic and probabilistic methods, the range of reasonable fair value estimates is so significant that the Directors are of the opinion that their fair values cannot be measured reliably. As a result, the fair value of the consideration paid, including the shares and convertible notes issued, was used to account for the cost of the oil exploration rights, which was HK$3,810,136,000, being capitalised as an E&E assets. At the time of acquiring the entire issued share capital of Have Result, except for the 51% working interest in the Concessions in the Cuyana Basin, Mendoza Province of Argentina, Have Result has no other operating assets and therefore the market value of Have Result is mainly dominated by the value of the oilfield. Three generally accepted valuation methodologies have been considered in valuing Have Result by BMI Appraisals Limited ("**BMI**"), the professional valuer, namely the market approach, the cost approach and income approach. The market approach provides indications of value by comparing the subject to similar businesses, business ownership interests, and securities that have been sold in the market. The cost approach provides indications of value by studying the amounts required to recreate the business for which a value conclusion is desired. This approach seeks to measure the economic benefits of ownership by quantifying the amount of fund that would be required to replace the future service capability of the business. The income approach is the conversion of expected periodic benefits of ownership into an indication of value. It is based on the principle that an informed buyer would pay no more for the project than an amount equal to the present worth of anticipated future benefits from the same or a substantially similar business with a similar risk profile. BMI have considered that the income approach is not appropriate to value Have Result, as there are insufficient historical and forecasted financial and operational data of the oilfield. Moreover, the income approach may involve adoption of much more assumptions than the other two approaches, not all of which can be easily quantified or ascertained. In the event that any such assumptions are found to be incorrect or unfounded, the valuation result would be significantly affected. The cost approach is also regarded inadequate in this valuation, as this approach does not take future growth potential of Have Result into consideration. Thus, they have determined that the market approach is the most appropriate valuation approach for this valuation.

MANAGEMENT DISCUSSION AND ANALYSIS

BMI used the market approach by referring to recent sales and purchase transactions of oilfields. They referred to 84 recent sales and purchase transactions related to oilfields over the world (referred to as the "**Comparable Transactions**") till June 2009, of which they further analysed the natures, the presentation methods of the reserves and other parameters that may affect the comparability to the oilfield. In the valuation, BMI used the weighted-average adjusted consideration price to proved and probable reserve (the "**Adjusted P/Reserve**") multiple of the Comparable Transactions to determine the market value of the oilfield and the market value of Have Result accordingly. Based on the investigation and analysis done by BMI, it was determined that the market value of a 100% equity interest in Have Result as at 30 June 2009 was US$612,000,000 (or HK$4,773,600,000). The carrying value of the E&E assets of HK$3,810,136,000 as at 3 November 2009, date of acquisition, was approximately 79.82% of the valuation of a 100% equity interest in Have Result as at 30 June 2009. When determining the fair value of the E&E assets acquired, as the exploration on the acquired areas was at an initial stage and the prospective resources have been estimated using a consideration of deterministic and probabilistic methods, the range of reasonable fair value estimates is so significant that the Directors are of the opinion that their fair values cannot be measured reliably. As a result, the fair value of the consideration paid, including shares and convertible notes issued, was used to account for the cost of the E&E assets. The carrying amount of the E&E assets is reviewed for impairment indicators annually and adjusted for impairment loss in accordance with HKAS 36 and whenever there are any "trigger" events or changes in circumstances indicating that the carrying amount may not be recoverable. During the years ended 31 December 2009, 31 December 2010, 31 December 2011 and the period ended 30 June 2012, there were no events or changes in circumstances indicating that the carrying amount of E&E assets might not be recoverable. According to the requirements under HKAS 36, no impairment needed to be provided for the E&E assets.

In November 2012, the Group noted that the crude oil selling price to YPF through Chañares decreased by US$1.5 per barrel to US$67.2 per barrel, and dropped to US$66.5 per barrel in December 2012, which maintained through April 2013. This is the first time oil prices decreased since the Company commenced its investment in Argentina. The Company has performed an impairment test on its E&E assets during the year 2012 and has applied a more prudent estimation on factors and assumptions in assessing the recoverable amounts on the E&E assets by adopting discounted cashflow method. An impairment loss of HK$3,130,106,000 was recognised as the carrying amount of the E&E assets exceeding its recoverable amount in the year ended 31 December 2012.

In year 2013, taking into account of the decrease in short term WTI spot oil price forecast in Year 2014 Energy Outlook issued by EIA by 20% or more as compared with the Year 2013 Energy Outlook and the potential acquisition opportunity, the Directors decided to further delay the Group's overall drilling plan to later years, and conducted a review of the impairment on the E&E assets as at 31 December 2013. The Company has engaged Roma to perform a valuation of the E&E assets, based on market approach and income approach. Roma used the market approach by referring to certain comparable sales and purchase transactions of oilfields in year 2012 and 2013, of which they further analysed the natures, the presentation methods of the reserves and other parameters that may affect the comparability to the oilfield. In the valuation, Roma used the Adjusted P/Reserve multiple of the Comparable Transactions to determine the market value of the oilfield and the market value of the E&E assets held by the Company accordingly. Roma adopted discounted cash flow method in the income approach valuation. During the adoption of the discounted cash flow method, a more prudent estimation on those factors and assumptions for future recoverable amounts on the E&E assets were used. With reference to the E&E Assets Valuation issued by Roma dated 24 March 2014, the E&E assets are valued at US$24,575,000 and US$26,445,000 by market approach and income approach respectively. According to HKAS 36, the recoverable amount of an asset is defined as "the higher of its fair value less costs of disposal and its value in use". The Directors considered the valuation in market approach and income approach represents the fair value less cost of disposal and the value in use of its E&E assets. The Company adopted the income approach valuation as the recoverable amount of the E&E assets following the requirement in HKAS 36. As a result, an impairment loss of HK$442,197,000 (year 2012: HK$3,130,106,000) was recognised as the carrying amount of the E&E assets exceeding its recoverable amount. It is a non-cash item adjustment and does not affect the current operations of oil field.

MANAGEMENT DISCUSSION AND ANALYSIS

From December 2014, the average WTI spot price has decreased by US$16.5 per barrel to US$59.3 per barrel. EIA has released a Short Term Energy Outlook ("**2014 STEO**") on 10 March 2015 where the forecast WTI sport for Year 2015 and Year 2016 are US$52 per barrel and US$70 per barrel respectively. Compared with the above WTI spot price forecast against the price forecast in Year 2014 Annual Energy Outlook, the price forecast in 2014 STEO has dropped by 42% and 25% for Year 2015 and Year 2016 respectively, the Directors considered that there would be a high probability of deterioration in the growth of short term to mid-term future oil price. With reference to the drops in actual WTI spot price and the reduction in future price forecast as stated above, the Directors decided to change and delay the Group's overall development plan in its Argentina oil field operation, and conducted a review of the impairment on the E&E assets as at 31 December 2014. The Company has engaged Roma to perform a valuation of the E&E assets as of 31 December 2014. As the sample size of the recent comparable transactions in or closest to Argentina was small, Roma considered the market approach could not give a conclusive result. Roma adopted discounted cash flow method in the income approach valuation in arriving both value in use and fair value less costs of disposal of the E&E assets. With reference to the E&E Assets Valuation issued by Roma dated 25 March 2015, the value in use and the fair value less costs of disposal of the E&E assets under the income approach as at 31 December 2014 were estimated at US$14,772,000 and US$11,970,000 respectively. According to HKAS 36, the recoverable amount of an asset is defined as "the higher of its fair value less costs of disposal and its value in use". The Company adopted the value in use valuation under income approach as the recoverable amount of the E&E assets following the requirement in HKAS 36. As a result, an impairment loss of HK$91,049,000 (year 2013: HK$442,197,000) was recognised as the carrying amount of the E&E assets over its recoverable amount. It is a non-cash item adjustment and does not affect the current operations of oil field.

WTI spot price continued dropped in Year 2015. The average WTI spot price for January 2015 and January 2016 reduced by US$12.1 per barrel (more than 20%) and US$27.6 per barrel (more than 46%) as compared with that of December 2014 (sourced from EIA website).

According to the STEO released by EIA on 8 March 2016, the forecast WTI spot price for Year 2016 and Year 2017 are US$34 per barrel and US$40 per barrel respectively. An extract from STEO: "Brent crude oil prices are forecast to average $34/b in 2016 and $40/b in 2017, $3/b and $10/b lower than forecast in last month's STEO, respectively. The lower forecast prices reflect oil production that has been more resilient than expected in a low-price environment and lower expectations for forecast oil demand growth. Forecast WTI crude oil prices are expected to average the same as Brent in 2016 and 2017. However, the current values of futures and options contracts suggest high uncertainty in the price outlook."

Compared with the above WTI spot price forecast against the price forecast in 2015 AEO, the STEO price forecast has dropped by 49% and 42% for Year 2016 and Year 2017 respectively, the Directors considered that there would be a high probability of deterioration in the growth of short term to mid-term future oil price.

The Group's Argentina subsidiaries were selling oil at US$55.1 per barrel in December 2015 and US$58.5 per barrel in January 2016, which are higher than the WTI price for the same period. The Argentina local oil selling price of the Group's subsidiaries for December 2015 and January 2016 dropped by 15% and 10% respectively as compared with that of November 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

A President election has been conducted in Argentina during the fourth quarter of Year 2015, Mr. Mauricio Macri was elected as the new President. ARS/US$ exchange rate has increased by more than 35% on 18 December 2015. The ARS continued depreciating during January and March 2016, and recorded the ARS/US$ exchange rate at 15.3 on 7 March 2016.

With reference to the drops in actual WTI spot price and the reduction in future price forecast as stated below, the Board of Directors considered that it would not be beneficial to the Group to drill new well on the Argentina oil project. Other than the existing 10 producing oil wells, there will be no future cashflow to be generated from new wells:

- WTI spot price continued dropping and maintained at a low price level in Year 2015 and January 2016. The average WTI spot price was at US$47.2 per barrel for January 2015, at US$37.2 per barrel for December 2015 and at US$31.7 per barrel for January 2016, a reduction by 20% in January 2015, 37% in December 2015 and 46% in January 2016 as compared with that of December 2014 (average WTI spot price sourced from EIA website).

- According to the STEO issued by EIA on 8 March 2016, the forecast WTI spot price for Year 2016 and Year 2017 are US$34 per barrel and US$40 per barrel respectively. These short term WTI spot prices reduced by 40% or more as compared with the 2015 AEO, where forecast oil price per barrel for Year 2016 at US$34 (Year 2015 Outlook: US$67.3), Year 2017 at US$40 (Year 2015 Outlook: US$70.1). The Directors took a more prudent approach in estimating future oil selling prices to YPF.

- The discount rate used for the impairment assessment for the existing 10 producing oil wells in 2015 has considered a higher country risk of Argentina in view of the depreciation of Argentina Peso against US Dollar in December 2015 and economic situation in Argentina. The discount rate used in year 2015 was 19.57% (year 2014: 16.20%).

The Company has engaged Roma to perform a valuation of the E&E assets as of 31 December 2015. With reference to the E&E Assets Valuation issued by Roma dated 24 March 2016, Roma has concluded that the value of the E&E assets was zero which was based on the followings:

- As the sample size of the recent comparable transactions in or closest to Argentina was small, Roma considered the market approach could not give a conclusive result.

- In view of the significant drop in oil price over the past year and oil price forecast, based on breakeven analysis and investment return analysis, it would not be economically justifiable for the Group to maintain the development plan adopted in year 2014 and not be economically feasible for the Group to drill any new wells. Future cash flows of the E&E assets could not be reasonably estimated and the value under Income Approach would be zero as at the Date of Valuation.

- Roma have obtained and reviewed the historical activities undertaken on the E&E assets, including exploration, geological and environmental study, technical reporting, infrastructure and production preparation, and based on the nature of operation of Group's oil business in Argentina. No related investment costs have been injected solely for the potential new wells. Roma concluded that the value of the E&E assets under Asset-based approach was zero as at the date of valuation.

MANAGEMENT DISCUSSION AND ANALYSIS

According to HKAS 36, the recoverable amount of an asset is defined as "the higher of its fair value less costs of disposal and its value in use". The Company adopted the valuation by Roma as the recoverable amount of the E&E assets following the requirement in HKAS 36. As a result, an impairment loss of HK$115,222,000 (year 2014: HK$91,049,000) was recognised as the carrying amount of the E&E assets over its recoverable amount. It is a non-cash item adjustment and does not affect the current operations of oil field.

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to HK$ and ARS. The Group considers there is no significant exposure to foreign exchange fluctuations so long as the Hong Kong-United States dollar exchange rate remains pegged.

The oil selling price for our Argentina operations is based on US Dollar, and converted into ARS in official exchange rate on a monthly basis. Majority of our investment cost on drilling cost, completion cost, workover job, infrastructure and equipment are based on US Dollar, and converted into ARS in official exchange rate at time of payment. The Group currently does not have a formal foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

REVIEW OF GROUP OPERATIONS

Exploration and sales of petroleum

The Group's core business is the petroleum exploration and production in the Concessions in the Cuyana Basin, Mendoza Province of Argentina. There were no acquisitions and disposals of subsidiaries, associated companies and joint ventures during year 2015.

During year 2015, the Group had performed three workover jobs to its producing oil wells. The Group had continued investing to improve its own well fluid collection tank and pipeline. As at 31 December 2015, the Group had finished drilling 10 oil wells in the Chañares Herrados Concession Area, Mendoza oilfield project. All the 10 wells were in production, of which 5 oil wells were drilled by Have Result where the Group is entitled to 51% interest on production, and 5 oil wells were drilled by EP Energy where the Group is entitled to 72% interest on production.

During year 2015, the Group had 10 producing wells generating oil sales revenue. All our oil production was sold to YPF Sociedad Anónima, through Chañares, the Concessions owner.

Revenue generated from the sales of petroleum segment for the year 2015 amounted to HK$66.6 million. As of 31 December 2015, the Company had invested HK$597.7 million in the drilling and completion of its oil wells, as well as related infrastructure, in the Mendoza project. This amount included: (1) HK$420.3 million in oil well drilling and completion which was classified as oil & gas properties and for which depreciation started from the commencement of production; (2) HK$177.4 million of oil well drilling exploration cost for exploration purpose to collect data in the Potrerillos Formation that was located at a depth of over 4,200 meters, which was charged to profit or loss in year 2010. During the year 2015, the depreciation and depletion of the oil & gas properties was HK$16.8 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Future operation plan

Short-term development plan

Pursuant to the Operation Agreement signed on 5 June 2012, Chañares agreed to release EP Energy from its commitments under the JV Agreement signed on 12 January 2011. The Group is focused on workover and infrastructure investments to improve production on the existing oil wells from 2012 to 2015. The Group will continue to invest in workover on the existing 10 producing oil wells and in improving own well fluid collection system during year 2016.

Long-term development plan

In view of the drop in international oil price in year 2015, the substantial reduction in future oil price forecast as compared with year 2014, and economic uncertainty subsequent to the appointment of new President of Argentina, the Directors conducted a review on the development plan adopted in year 2014. The board of Directors considered that it would not be beneficial to the Group to drill new well on the Argentina oil project. In reviewing the future business plan, the Directors have taken a more prudent approach and only considered the production estimation up to the expiry of Concessions after a 10-year extension to year 2027. The decision not to drill new wells is a more prudent way to value the project.

Other business opportunities

The Group is principally engaged in petroleum exploration and production in the oil concession in Mendoza Province of Argentina. The Group continues making effort in searching for opportunities in oil & gas exploration and production business with stable production base, with proven reserves and certain development opportunities, in those industrial-advanced countries, such as the United States of America ("**U.S.**"). In order to diversify the risks encountered by the Group's petroleum exploration and production business in Argentina, the Company has been actively conducting review of the market situation and potential investments made available to it in order to identify investment opportunities in other energy related sectors that may create shareholders value.

On 8 January 2015, the Company has made an announcement relating to the possible acquisition of interests in certain oil and gas properties in the U.S. to the effect that whilst the Company has continued since its last updated announcement to work with the possible vendors in relation to the possible acquisition, recent significant decreases in oil price and the lack of visibility on near to medium term prospects of a sustained rebound in such prices are presenting challenges in pursuing the possible acquisition based on the basic purchase price range set out in the memorandum of understanding entered into between the parties in November 2012. The Company and the possible vendors will decide whether or not it is desirable to resume negotiations for a possible revised terms after oil prices stabilise.

MANAGEMENT DISCUSSION AND ANALYSIS

On 2 September 2015, Xin Wei Limited ("**Xin Wei**"), a wholly-owned subsidiary of the Company, entered into a memorandum of understanding ("**the MOU**") with Zhongli Talesun Solar Technology Company Limited ("**Zhongli**") (a subsidiary of one of the top twenty PV power plant investment companies in the PRC) with respect to a proposed acquisition of a target company which will hold the entire interests in certain solar power plants (the "**Proposed Acquisition**"). The MOU does not create any legally binding commitment between the parties thereto to proceed with the Proposed Acquisition. Such solar power plants are expected to have aggregate production capacity of 60MW and are located in Changshu and Liyang of Jiangsu Province and Mingchuan of Anhui Province in the PRC. The electricity generated by the solar power plants is expected to be supplied to the local state grid companies. Under the MOU, the Group has the right to conduct due diligence for a period of 3 months (the "**Due Diligence Period**") from the signing of the MOU (i.e. from 1 September 2015 to 30 November 2015) and is given exclusivity in negotiations on the Proposed Acquisition for a period of 6 months from the signing of the MOU (i.e. from 1 September 2015 to 29 February 2016), whereas the parties to the MOU will use their best endeavours to negotiate and enter into definitive agreements for the Proposed Acquisition within the said 6-month period (the "**Negotiation Period**"). Subject to the results of the due diligence review on the solar power plants and the negotiation between the Group and Zhongli, the Group is not obliged to acquire all solar power plants but may only acquire any part thereof, by requesting Zhongli to transfer only some of the prospective solar power plants to the said target company.

On 30 November 2015, Xin Wei and Zhongli entered into a written confirmation to extend the Due Diligence Period and the Negotiation Period to 2 March 2016 and 2 June 2016 respectively.

On 2 March 2016, Xin Wei and Zhongli mutually agreed to terminate the MOU in relation to the Proposed Acquisition. Upon termination of the MOU, neither Xin Wei nor Zhongli shall have any liabilities towards each other.

The Company will continue to seek for other suitable solar power plants to acquire from Zhongli, failing which the Company will source other suitable solar power plants from other solar power plant investment companies engaged in construction of power plants in the PRC. In the meantime, the Company will also consider suitable investment opportunities in other energy related sectors and other sectors.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL POSITION

As at 31 December 2015, the net liabilities value of the Group were HK$124.9 million (2014 net asset value: HK$30.7 million) and the net liabilities value per share were HK$0.17 (2014 net asset value per share: HK$0.006).

The Company has entered into a bank loan agreement with China Development Bank, of which the outstanding balance was approximately HK$163,800,000 as at 31 December 2015. Pursuant to the terms of the bank loan agreement, if, among others, Mr. Wu Shaozhang ("**Mr. Wu**"), the substantial shareholder of the Company, maintains less than 10% of the beneficial shareholding interest in the issued share capital of the Company, the loan together with accrued interest may become immediately due and payable. As at 31 December 2015 and up to the date hereof, Mr. Wu directly and/or indirectly holds 10.01% of the Company's shares and remains a substantial shareholder of the Company. Nevertheless, Mr. Wu has signed a deed of undertaking with the Company that he undertakes to maintain his position as a substantial shareholder of the Company.

As of 31 December 2015, other loan represents a short-term loan from an independent third party. It is interest bearing at fixed interest rate of 20% per annum, repayable within three months from the drawdown date and secured by personal guarantee of Mr. Wu.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The Group does not have a target gearing ratio, but has a policy of maintaining a flexible financing structure so as to be able to take advantage of new investment opportunities that may arise. The negative gearing ratio of the Group as at 31 December 2015 was 0.87, which is calculated by dividing the Group's non-current borrowings by total equity.

As of 31 December 2015, the carrying amounts of borrowings which are denominated in US$ and HK$ amounted to HK$163,800,000 and HK$20,000,000 respectively. The carrying amount of cash and cash equivalents which are denominated in ARS, US$, HK$ and others amounted to HK$1,808,000, HK$8,688,000, HK$2,649,000 and HK$23,000 respectively.

As of 31 December 2015, none of the foreign currency investment are hedged by currency borrowings and other hedging instruments.

Details of the above are set out in Notes 23 & 25 to the Consolidated Financial Statements.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

On 16 June 2015, the Company raised gross proceeds of approximately HK$121.3 million via the open offer of 242,617,879 ordinary shares at HK$0.50 per share (the "**Open Offer**"). The estimated net proceeds of the Open Offer was approximately HK$119 million.

The Board considers that the Open Offer will enable the Group to strengthen the capital base of the Company and to enhance its financial position, and enable the Group to expand its investment portfolio when investment opportunities arise. The Open Offer provided the shareholders the opportunity to maintain their respective pro-rata shareholding interests in the Company and to continue to participate in the future development of the Group. Accordingly, the Board considers that fund raising through the Open Offer was in the interests of the Company and the shareholders of the Company as a whole.

Save as disclosed in the table below, the Company has not undertaken any other fund raising activity in the past twelve months before 31 December 2015:

Date of completion	Fund raising activity	Gross proceeds raised	Proposed use of the proceeds as stated in the Company's Circular dated 26 May 2015	Actual use of the proceeds up to 31 December 2015
17 June 2015	Open Offer	Approximately HK$121.3 million	(i) approximately HK$97 million for the repayment of the Company's debts; and	(i) approximately HK$97 million was used towards the repayment of the Company's debts; and
			(ii) approximately HK$22 million for the general working capital of the Group and/or future investment activities when such investment opportunities arise.	(ii) approximately HK$22 million was used for the general working capital of the Company.

On 12 November 2015, the Company announced that it proposed to raise approximately HK$509.5 million (before expenses) by way of a rights issue on the basis of five rights shares for every one existing share of the Company at a subscription price of HK$0.14 per rights share (the "**Rights Issue**"). A prospectus in respect of the Rights Issue was published by the Company on 31 December 2015. The Rights Issue completed on 27 January 2016 and 3,639,268,185 ordinary shares were issued and allotted. The net proceeds of the Rights Issue was approximately HK$502.1 million and the Company intended to apply such net proceeds as to (i) approximately HK$317.0 million for the Proposed Acquisition; (ii) approximately HK$134.4 million for the repayment of the principal amount of the Company's debts due within the next 24 months (together with interests accrued thereon) by June 2016; and (iii) approximately HK$50.7 million for the general working capital of the Group. If the Group decides not to proceed with the Proposed Acquisition and the Group is not able to identify other suitable solar power plants to acquire from Zhongli, the net proceeds mentioned in (i) above was intended to be re-allocated to the acquisition of suitable solar power plants from other PV power plant investors in the market. Should the Company fail to complete the Proposed Acquisition or other potential acquisition of solar power plants within the 12 months after completion of the Rights Issue, the net proceeds mentioned in (i) above was intended to be re-allocated as to (a) approximately HK$55.8 million to repay the Company's debt due in November 2018; and (b) subject to the then market conditions, approximately HK$261.2 million for the drilling of new oil wells and/or investment in workover on existing oil wells to improve the production of oil in the Concessions.

MANAGEMENT DISCUSSION AND ANALYSIS

PLEDGE OF ASSETS

At 31 December 2015, the following assets were pledged to secure the Group's bank borrowings and banking facilities:

(a) The entire issued share capital of EP Energy.

(b) The entire issued share capital of Have Result.

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

DIRECTORS AND SENIOR MANAGEMENT PROFILE

NON-EXECUTIVE CHAIRMAN

Mr. HO King Fung, Eric, Non-executive Chairman, aged 39

Mr. Ho is the Company's Non-executive Chairman. Mr. Ho joined the Company as Non-executive Director on 4 April 2013 and was re-designated as the Non-executive Chairman on 30 July 2013.

Mr. Ho has extensive experience in investment banking origination, capital markets and legal practice. Prior to joining EPI, he was an analyst at JP Morgan in 2000 and then was a solicitor at Linklaters between 2003 and 2006. Between 2007 and 2010, Mr. Ho worked at Deutsche Bank AG, Hong Kong Branch and his last position held was vice president and the head of Hong Kong and Macau Origination.

Mr. Ho is a committee member of the Chinese People's Political Consultative Conference of Beijing, a role which he has been in since 2008. He is also the president of the Macau Money Exchangers' Association. Mr. Ho was awarded the Chinese Economics Elite Award in 2009. From April 2011 and April 2012, Mr. Ho was the non-executive director of United Energy Group Limited (HKSE Stock Code: 467). He has been appointed as an independent non-executive director of Nature Home Holding Company Limited (HKSE Stock Code: 2083) since May 2011. And, Mr. Ho has also been appointed as a non-executive director of AGTech Holdings Limited (HKSE Stock Code: 8279) since 23 May 2013. In Macau, Mr. Ho is the chairman of P&W Money Changer Limited and Jing Yang Company Limited, and an executive director of Mascargo (Macau) Company Limited.

Mr. Ho graduated from the University of New South Wales, Australia with a Bachelor of Commerce degree, majoring in Finance. Mr. Ho has also obtained his Bachelor of Laws degree from the University of New South Wales. He has been designated as a practicing solicitor in Hong Kong.

EXECUTIVE DIRECTORS

Mr. TSE Kwok Fai, Sammy, Executive Director and Chief Executive Officer, aged 52

Mr. Tse joined the Company in 2009 as a consultant for the business development in Argentina and has been appointed as the Executive Director and Chief Executive Officer of the Company since April 2013.

Mr. Tse's wealth of managerial and executive experience is derived from working at various major corporations including the Hongkong Telecom 2 Group, Hutchison Whampoa Group and South China Group. He had been involved in the day-to-day operations of telecommunications, technology, media, energy and resources businesses in Hong Kong, the PRC and other countries. Mr. Tse has developed an extensive business network in the resources and energy sector and specializes in mergers and acquisitions, listings and asset injections, as well as business development.

Mr. Tse graduated from the University of Hong Kong majoring in Geography and Geology. He also obtained his MBA from the Chinese University of Hong Kong.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Mr. CHAN Chi Hung, Anthony, Executive Director, aged 43

Mr. Chan is an Executive Director and he was appointed as Executive Director on 16 July 2013.

Prior to joining the Company, Mr. Chan has held senior management positions at other Hong Kong listed companies. He was the executive director of China Financial Leasing Group Limited (HKSE Stock Code: 2312) from April 2007 to July 2013. Mr. Chan has also held the position of non-executive director at Build King Holdings Limited (HKSE Stock Code: 240) since December 2008.

In December 2014, Mr. Chan was appointed as independent non-executive director of China Minsheng Drawin Technology Group Limited (HKSE Stock Code: 726). Mr. Chan has been appointed as an independent non-executive director of Milan Station Holdings Company Limited (HKSE stock code: 1150) since July 2015. Prior to his managerial career, Mr. Chan was the investment manager of Springfield Financial Advisory Limited, in charge of private equity, fund-of-funds and fixed income investment portfolios for four years. Mr. Chan started his career as a banker in J.P. Morgan covering Asia ex-Japan region.

Mr. Chan is a graduate of the University of Minnesota — Twin Cities and Stanford Graduate School of Business, both in United States.

Mr. ZOU Feng, Executive Director, aged 50

Mr. Zou is an Executive Director and he was appointed as Executive Director on 7 March 2016.

Mr. Zou has also held the position of independent director at Beijing Davost Tourism & Cultural Creativity Co., Ltd. since November 2012.

As an independent investor, he has been providing investment advisory service in respect of tourism industry to various organizations since March 2013, and conducted in-depth studies on different development patterns of the tourism industry. He has extensive personal connections and resources in China's tourism industry. He was a president of China Comfort Travel Group Co., Limited from 2007 to 2013, responsible for the overall operating management of that group. He successfully served as the financial director and vice president of China Travel Service Head Office Co., Ltd. from 2004 to 2007. During his tenure, he was responsible for the financial management, investment management and inbound business management, as well as the investment and acquisition of several enterprises, including Xian China Travel Service Limited and Qingdao China Travel Service Limited. Mr. Zou has over 10-year experience in tourism business operations management.

Mr. Zou graduated from Tsinghua University with a PhD degree in Accounting. He also obtained a degree of Master of Business Administration from Xiamen University.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

NON-EXECUTIVE DIRECTOR

Mr. PHEN Chun Shing Vincent, Non-executive Director, aged 39

Mr. Phen joined the Company as Non-executive Director on 15 February 2016.

Mr. Phen is currently a non-executive director of Taung Gold International Limited (HKSE stock code: 621) since July 2015. Mr. Phen was an executive director of China Merchants Capital Management (International) Limited, which is engaged in private equity investment and credit financing from September 2012 to July 2015. He was a director of CMS Capital (HK) Co., Limited, formerly known as CMTF Asset Management Limited, between May 2009 and September 2012. He worked in CLSA Capital Partners from 2007 to 2009. Prior to that, Mr. Phen worked in international corporate banking division of various financial institutions for approximately 7 years.

Mr. Phen holds a bachelor degree in business administration from the University of North Texas.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. QIAN Zhi Hui, Independent Non-executive Director, aged 53

Mr. Qian joined the Company in September 2008. He joined China National Native Produce & Animal By-Products Import & Export Corporation, Guangdong Province, as chief legal advisor in 1988. He joined Guangzhou King Pound Law Firm as a lawyer in 1993 and is currently a partner of Guangdong Justwin Law Firm. From 2006 to 2008, he was an independent non-executive director of New Times Energy Corporation Limited (HKSE stock code: 166). He has a Master degree in Procedural Law from Southwest University of Political Science and Law, China.

Mr. ZHU Tiansheng, Independent Non-executive Director, aged 70

Mr. Zhu joined the Company in November 2009. He has over 41 years extensive experience in project management, operations, design and construction process of oil and natural gas transmission pipeline, exploration, production and transporting heavy oil, recycling of light hydrocarbon, design and construction of natural gas treatment plants in numerous oil field projects in China.

Mr. Zhu has been employed by China National Offshore Oil Corporation ("**CNOOC**") since 1986. Since 2005, he is the Senior Consultant and the Chief Project Officer for China Offshore Oil & Gas Development & Utilization Company of CNOOC, participating in the construction of asphalt plant. From 2004 to 2005, he was the Deputy Director of Coordination Office of CNOOC.

From 2001 to 2004, Mr. Zhu was the General Manager of China Ocean Oilfields Services (Hong Kong) Limited. During the period of 1997 to 2001, Mr. Zhu was the General Manager of the Construction Department of CNOOC. The Construction Department was responsible for the organization and investigation of concept design and plans of development, an immediate and final investigation of the basic design. The detailed designs, constructions and installations were managed by the Project Units, which were organized by the Construction Department. The Construction Department also organized and cooperated with foreign companies for the development and construction of oil and gas fields.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

From 1992 to 1997, Mr. Zhu was the Deputy Manager of Development and Production Department of CNOOC and he was responsible for construction development. During the period of 1986 to 1992, he was offered the position of Chief of Project Management Office of Construction Department of CNOOC.

In 1986, Mr. Zhu was transferred to CNOOC from Liaohe Oil Field, China where he had worked there for over 11 years in the 70s and his last position was the Chief of Oil and Gas Management Office of Liaohe Oil Field.

Mr. Zhu graduated from the Beijing Petroleum Institute and was majoring in oil and gas storage and transportation engineering since 1969. During his work tenor, Mr. Zhu was trained in Japan for 3 months in recycling of light hydrocarbon and studied project management in EGT in United Kingdom during 1994.

Mr. TEOH Chun Ming, Independent Non-executive Director, aged 45

Mr. Teoh joined the Company in January 2014. He is currently a non-executive director of Nature Home Holding Company Limited (HKSE Stock Code: 2083) since July 2012 and the chief financial officer and company secretary of Joyer Auto HK Company Limited. Mr. Teoh joined Nature Home Holding Company Limited in 2008 and was appointed as the chief financial officer and the company secretary on 1 September 2008 and 26 March 2009 respectively. Mr. Teoh was also the authorised representative of Nature Home Holding Company Limited for the purpose of the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and The Companies Ordinance. Mr. Teoh held the positions of chief financial officer, company secretary and authorised representative of Nature Home Holding Company Limited until his appointment as a non-executive director of Nature Home Holding Company Limited on 1 July 2012. Mr. Teoh was also the investor relations officer of Nature Home Holding Company Limited. Mr. Teoh has over 20 years of accounting and finance experience and had held senior positions in accounting and finance in various companies listed on The Stock Exchange of Hong Kong Limited.

Mr. Teoh obtained a Master degree in Professional Accounting from the Hong Kong Polytechnic University in 2005. He is a fellow member of The Hong Kong Institute of Certified Public Accountants, a fellow member of The Association of Chartered Certified Accountants and a member of The Institute of Chartered Accountants in England and Wales.

SENIOR MANAGEMENT PROFILE

Mr. TSANG Wing Hung, Company Secretary, aged 53

Mr. Tsang joined the Company in May 2013 as Vice President of Finance and has been appointed as the company secretary of the Company since June 2014.

Mr. Tsang is a Fellow of The Institute of Chartered Accountants in England and Wales and also a member of The Hong Kong Institute of Certified Public Accountants. Mr. Tsang has been a professional accountant since 1986 and has extensive experience in auditing, accounting, management and taxation. Mr. Tsang holds a Bachelor Degree of Economics from University of Manchester, United Kingdom and a Master Degree of Information Management and Systems from Monash University, Australia.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Mr. PAK Ka Kei, Financial Controller, aged 45

Mr. Pak joined the Company in November 2009 as a Financial Controller.

Mr. Pak has over 18 years experience in the fields of audit, internal control, accountancy, taxation and treasury. Prior to joining the Company, Mr. Pak had been working for TCL Multimedia Technology Holdings Limited for over 10 years on the finance departments in Hong Kong, Emerging Markets and Europe and he had held the positions of Deputy Internal Control Director and Deputy Financial Controller for Emerging Markets and Europe there.

Mr. Pak graduated from City University of Hong Kong with a Bachelor of Arts degree in Accounting and has been working for Ernst & Young for 5 years.

Mr. QUIROGA Daniel Federico, General Manager, Argentina, aged 51

Mr. Quiroga joined the Company in December 2010 as the General Manager of Argentina Business. Mr. Quiroga oversees the Company's oil project in Argentina as the General Manager of Argentina Operation. He has over 28 years extensive experience in operations, exploration and production management of oil field projects in Argentina, and Mexico.

Mr. Quiroga had been employed by Tecpetrol S.A. since year 1991. The last position held by Mr. Quiroga in year 2000 was the Head of Secondary Recovery Division. During the work in Tecpetrol S.A., Mr. Quiroga was appointed as Operation Engineer, Production Manager, Field Operation Manager and had gained experiences in operations, production management for various oil fields in Argentina.

Mr. Quiroga was the Operation Superintendent and Field Manager who was in charge of field operations in oil fields located in Neuquina Basin and S.J. Gulf Basin, Argentina for Pioneer NRA S.A. during 2002 to 2006. After that, Mr. Quiroga also worked for Apache Corp Argentina and Petrolera El Trebol.

Before joining the Company, Mr. Quiroga had been working for Weatherford Regional Mexico as the Operation Coordinator. He was in charge of field operations for oil field in Mexico.

Mr. Quiroga graduated from the National University of Cuyo in Mendoza Province, Argentina and was majoring in Petroleum Engineer in year 1991. Mr. Quiroga was the Postgrade in Business & Finance at National University of Cuyo in Mendoza Province, Argentina.

CORPORATE GOVERNANCE REPORT

The board of Directors (the "**Board**") of the Company hereby presents the Corporate Governance Report of the Company for the year ended 31 December 2015.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Board recognises the importance of incorporating elements of good corporate governance into the management structure and the internal control procedures of the Group so as to ensure that all business activities of the Group and the decision making processes are properly regulated. During the year under review, the Company has applied the principles and has complied with the code provisions set out in the Corporate Governance Code (the "**CG Code**") in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited with deviations from the code provision A.4.1 of the CG Code as summarized below.

The code provision A.4.1 of the CG Code stipulates that non-executive directors should be appointed for a specific term, subject to re-election. Currently the non-executive directors are not appointed for a specific term. However, all non-executive directors are subject to retirement and can offer themselves for re-election in accordance with the Company's Bye-laws.

In accordance with Article 99(A) of the Company's bye-laws, all Directors, except the Managing Director, shall retire and, being eligible, offer themselves for re-election at the forthcoming Annual General Meeting of the Company in accordance with the Company's bye-laws.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct rules (the "**Model Code**") regarding securities transactions by Directors on terms no less exactly than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules, and that having made specific enquiry of all Directors, the Company confirms that all the Directors have complied with the Model Code throughout the year.

BOARD OF DIRECTORS

The central role of the Board is to set the Company's strategic direction and to oversee the Company's management and business activities. The Board is also responsible for the promotion of the success of the Company by directing and guiding its affairs in an accountable and effective manner. Board members have a duty to act in good faith, with due diligence and care, and in the best interests of the Company and of its shareholders.

CORPORATE GOVERNANCE

Types of decisions taken by the Board include the following:

1. formulating strategic direction of the Company;

2. setting the Company's mission and values;

3. reviewing and guiding corporate strategies; setting performance objectives, monitoring implementation and corporate performance;

4. monitoring and managing potential conflicts of interests between the Board members and the management of the Company; and

CORPORATE GOVERNANCE REPORT

5. ensuring the integrity of the Company's accounting and financial reporting systems, including the independent audit, and that appropriate systems of control are in place, in particular, systems for monitoring risk, financial control and compliance with the law.

The Board is accountable to shareholders for the performance of the Company. The day-to-day management of the Company is the responsibility of the Chief Executive Officer (the "**CEO**"), as delegated by the Board. The CEO has been given clear guidelines and directions as to his powers and, in particular, the circumstances under which he should report back to, and obtain prior approval from, the Board before making commitments on behalf of the Company. The Board reviews these arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Company.

For the year ended 31 December 2015, the Board:

1. reviewed and approved the audited annual results of the Group for the year ended 31 December 2014 and the unaudited interim results of the Group for the six months ended 30 June 2015;

2. reviewed the performance of and formulated the business strategies of the Group;

3. reviewed the internal controls of the Group;

4. reviewed and approved the price-sensitive transactions;

5. reviewed and approved the capital reorganisation, the open offer of 242,617,879 shares at HK$0.50 per share and the rights issue on the basis of five rights shares for every one existing share of the Company at the subscription price of HK$0.14 per rights share; and

6. reviewed and approved the prospectus regarding the rights issue of 3,639,268,185 shares at a subscription price of HK$0.14 per rights share. The prospectus was published on 31 December 2015 and the rights issue was completed after the year end. Please also refer to Note 36 to the consolidated financial statements.

Regular Board meetings are scheduled in advance to give all directors an opportunity to attend. All directors are kept informed on a timely basis of major changes that may affect the Group's businesses, including relevant rules and regulations. Directors have full access to information on the Group and are able to obtain independent professional advice whenever deemed necessary. No request was made by any director for such independent professional advice in 2015. The company secretary prepares minutes and keeps records of matters discussed and of decisions resolved at all Board meetings, which are available for inspections by any director upon request.

BOARD COMPOSITION

The Board currently comprises one Non-executive Chairman, three Executive Directors, one Non-executive Director and three Independent Non-executive Directors, whose biographical details are set out in "Directors and Senior Management Profile" on page 18. The composition of the Board is well balanced with each director having sound knowledge, experience and expertise relevant to the business operations and developments of the Group. The Company has also adopted the recommended best practice under the CG Code for having at least one-third of its Board members being independent non-executive directors.

All directors are aware of their collective and individual responsibilities to the shareholders and have exercised their duties with care, skill and diligence contributing to the successful performance of the Group.

CORPORATE GOVERNANCE REPORT

BOARD MEETING AND GENERAL MEETING RECORDS

There were nine board meetings and four general meetings held during the financial year 2015 and the attendance summary of each Board member is as follows:

Name of Directors	Number of board meetings attended in 2015	Number of general meetings attended in 2015
Mr. Ho King Fung, Eric (non-executive Chairman)	9/9	4/4
Mr. Tse Kwok Fai, Sammy (executive Director)	9/9	4/4
Mr. Chan Chi Hung, Anthony (executive Director)	9/9	4/4
Mr. Zou Feng *(appointed on 7 March 2016)* (executive Director)	n/a	n/a
Mr. Phen Chun Shing Vincent *(appointed on 15 February 2016)* (non-executive Director)	n/a	n/a
Mr. Qian Zhi Hui (independent non-executive Director)	7/9	0/4
Mr. Teoh Chun Ming (independent non-executive Director)	9/9	2/4
Mr. Zhu Tiansheng (independent non-executive Director)	8/9	0/4

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The CG Code requires the roles of Chairman and Chief Executive Officer be separate and not performed by the same individual to ensure there is a clear division of responsibilities between the running of the Board and the executives who run the business.

The Chairman's responsibility is to provide leadership to the Board and to formulate the Group's business strategies. Mr. Ho King Fung, Eric ("**Mr. Ho**") is the Non-executive Chairman of the Company. The Chief Executive Officer is responsible for the day to day operation of the Company and the implementation of the development strategy adopted by the Board. Mr. Tse Kwok Fai, Sammy ("**Mr. Tse**") is the Chief Executive Officer of the Company.

The code provision A.2.2 of the CG Code stipulates that the chairman should ensure that all directors are properly briefed on issues arising at board meetings and the code provision A.2.3 of the CG Code stipulates that the chairman should be responsible for ensuring that directors receive adequate information, which must be complete and reliable, in a timely manner. Both Mr. Ho and Mr. Tse had complied with the relevant CG Code.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Independent Non-executive Directors serve the relevant function of bringing independent judgment on the development, performance and risk management of the Group. The Independent Non-executive Directors of the Company have been appointed to hold office until the next Annual General Meeting and shall retire and offer themselves for re-election according to the Company's Bye-laws.

All Independent Non-executive Directors are independent from the Company and from any of its subsidiaries.

Each of the Independent Non-executive Director has provided semiannually a written confirmation to the Company confirming that he has met the criteria as set out in Rule 3.13 of the Listing Rules regarding the guidelines for the assessment of the independence of being an independent non-executive director.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

The Board has established the following committees with defined terms of reference:

1. Corporate Governance Committee

2. Audit Committee

3. Remuneration Committee

4. Nomination Committee

Each board committee makes decisions on matters within its terms of reference and applicable limit of authority. The terms of reference as well as the structure and membership of each committee will be reviewed from time to time.

(1) Corporate Governance Committee

(a) Members of the Corporate Governance Committee

Mr. Ho King Fung, Eric *(Chairman of the Committee)*, non-executive Director
Mr. Chan Chi Hung, Anthony, executive Director

(b) Role and function

The Corporate Governance Committee is mainly responsible for:

i. developing and reviewing the Company's policies and practices on corporate governance and making recommendations to the Board;

ii. reviewing and monitoring the training and continuous professional development of Directors and senior management;

iii. reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements;

iv. developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to Directors and employees; and

v. reviewing the Company's compliance with the code provision of Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong.

CORPORATE GOVERNANCE REPORT

(c) Meeting records

One meeting was held during the financial year 2015 and the attendance summary of each committee member is as follows:

Members of the Committee	Number of committee meeting(s) attended in 2015
Mr. Ho King Fung, Eric	1/1
Mr. Chan Chi Hung, Anthony	1/1

During the meeting, the Corporate Governance Committee reviewed the duties and responsibilities of the Chairman and the Chief Executive Officer, Directors' attendance at Board meetings, the independence of the Independent Non-executive Directors and the training and professional development of the Directors.

(2) Audit Committee

(a) Members of the Audit Committee

Mr. Teoh Chun Ming *(Chairman of the Committee)*, independent non-executive Director
Mr. Qian Zhi Hui, independent non-executive Director
Mr. Zhu Tiansheng, independent non-executive Director

(b) Role and function

The Audit Committee is mainly responsible for:

i. reviewing the financial statements and annual reports and considering any significant or unusual items raised by the external auditor before submission to the Board;

ii. reviewing the relationship with the external auditor by reference to the work performed by the auditor, their fees and terms of engagement, and making recommendations to the Board on the appointment, reappointment and removal of external auditor;

iii. reviewing the adequacy and effectiveness of the Company's financial reporting system, internal control and risk management system and associated procedures:

iv. reviewing the Group's financial and accounting policies; and

v. reviewing the external auditor's management letter and ensuring a timely response to the issues raised there.

CORPORATE GOVERNANCE REPORT

(c) Meeting records

Two meetings were held during the financial year 2015 and the attendance summary of each committee member is as follows:

Members of the Committee	Number of committee meetings attended in 2015
Mr. Teoh Chun Ming	2/2
Mr. Qian Zhi Hui	1/2
Mr. Zhu Tiansheng	2/2

During the meetings, the Audit Committee discussed the following matters:

I. Financial Reporting

The Audit Committee reviewed with the Chief Executive Officer and the financial controller of the Company the audited results for the year ended 31 December 2014 and the unaudited interim results for the six months ended 30 June 2015.

II. External Auditors

The Audit Committee reviewed the audit fee for the year ended 31 December 2014 and recommended it to the Board.

The Audit Committee reviewed the Audit Committee Report prepared by PricewaterhouseCoopers for the year ended 31 December 2014 and made recommendation to the Board as to the appointment of Deloitte Touche Tohmatsu as the new auditors of the Company on 24 December 2015.

(3) Remuneration Committee

(a) Members of the Remuneration Committee

Mr. Qian Zhi Hui *(Chairman of the Committee)*, independent non-executive Director
Mr. Ho King Fung, Eric, non-executive Director
Mr. Tse Kwok Fai, Sammy, executive Director
Mr. Zhu Tiansheng, independent non-executive Director

CORPORATE GOVERNANCE REPORT

(b) Role and function

The Remuneration Committee is mainly responsible for:

i. reviewing and approving the management's remuneration proposals with reference to the corporate goals and objectives of the Board;

ii. determining the remuneration packages of individual executive directors and senior management, or recommending to the Board on the remuneration packages of individual executive directors and senior management;

iii. recommending to the Board the remuneration of non-executive directors;

iv. making recommendations to the Board on the Company's policy and the structure of all remuneration of the directors and senior management as well as on the establishment of formal and transparent procedures for developing policy on such remuneration;

v. reviewing and approving the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company; and

vi. ensuring that no director or any of his associates is involved in deciding his or her own remuneration.

(c) Meeting records

One meeting was held during the financial year 2015 and the attendance summary of each committee member is as follows:

Members of the Committee	Number of committee meetings attended in 2015
Mr. Qian Zhi Hui	0/1
Mr. Ho King Fung, Eric	1/1
Mr. Tse Kwok Fai, Sammy	1/1
Mr. Zhu Tiansheng	1/1

During the year under review, the Remuneration Committee reviewed the policies for the remuneration of the directors and senior management of the Group, the staff costs and the headcount of the Group. The Remuneration Committee also reviewed the remuneration package of the directors and senior management to ensure they were in line with the market.

CORPORATE GOVERNANCE REPORT

(4) Nomination Committee

(a) Members of the Nomination Committee

Mr. Qian Zhi Hui *(Chairman of the Committee)*, independent non-executive Director
Mr. Ho King Fung, Eric, non-executive Director
Mr. Tse Kwok Fai, Sammy, executive Director
Mr. Zhu Tiansheng, independent non-executive Director

(b) Role and function

The Nomination Committee is mainly responsible for:

i. reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and making recommendations to the Board regarding any proposed changes;

ii. identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorships;

iii. assessing the independence of the independent non-executive directors; and

iv. making recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive officer.

(c) Meeting Records

One meeting was held during the financial year of 2015 and the attendance summary of each committee member is as follows:

Members of the Committee	Number of committee meetings attended in 2015
Mr. Qian Zhi Hui	0/1
Mr. Ho King Fung, Eric	1/1
Mr. Tse Kwok Fai, Sammy	1/1
Mr. Zhu Tiansheng	1/1

During the year under review, the Board has not dealt with nomination of director since there has been no change to the Board composition. However Nomination Committee reviewed the board diversity policy to ensure there was an appropriate balance of knowledge and experience, skills, cultural background and gender on the Board.

CORPORATE GOVERNANCE REPORT

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors are responsible for preparing the accounts of each financial year, which give a true and fair view of the state of affairs of the Group. The directors also ensure that the financial statements of the Group are prepared in accordance with the statutory requirements and applicable accounting policies.

In preparing the financial statements, the directors consider that the financial statements of the Group are prepared on a going concern basis and appropriate accounting policies have been consistently applied. The directors have also made judgments and estimates that are prudent and reasonable in the preparation of the financial statements.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for the Group's systems of internal control so as to maintain sound and effective controls to safeguard the shareholders' investments and the assets of the Group.

The Board has established an on-going process for identifying, evaluating and managing the significant risks faced by the Group. This process includes continuous updating of the internal control systems of the Group in response to the changing business environment and regulatory requirements. The Board is also conducting a review of the internal controls of the Group to ensure that the policies and procedures in place are adequate.

CONTINUOUS PROFESSIONAL DEVELOPMENT

From 1 July 2013 onwards, upon appointment to the Board, Directors receive an induction package including "A Guide on Directors' Duties" issued by the Companies Registry, "Good Governance and Internal Control — A Corruption Prevention Guide for Listed Companies" issued by Independent Commission Against Corruption, Hong Kong, "A Guide for Effective Audit Committees" issued by HKSA Corporate Governance Committees and information regarding the duties and responsibilities of a director of a company listed on the Stock Exchange of Hong Kong Limited, from the Company's legal adviser on directors' legal role and responsibilities.

The Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills for discharging their duties and responsibilities as Directors. For the year ended 31 December 2015, all Directors have attended the training session arranged by the Company.

INSURANCE ARRANGEMENT

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and Senior Management.

CORPORATE GOVERNANCE REPORT

AUDITOR'S REMUNERATION

For the year ended 31 December 2015, the Company engaged Deloitte Touche Tohmatsu, auditor of the Company, to perform audit service. Their reporting responsibilities on the financial statements of the Group are set out in the Independent Auditor's Report on page 44 of this annual report.

During the year under review, the services provided by Deloitte Touche Tohmatsu and the fees thereof were as follows:

Nature of services	2015 HK$'000
Audit services	**2,400**
Non-audit related services	**673**
	3,073

COMPANY SECRETARY

The Company Secretary directly reports to the Board and is responsible for facilitating the Board's processes and communications among Board members, with shareholders and with management. For the year ended 31 December 2015, the Company Secretary undertook 23 hours of professional training to keep abreast of latest legislative and regulatory changes.

COMMUNICATION WITH SHAREHOLDERS AND INVESTORS

The principal methods used to communicate with shareholders include the following:

1. through publication of interim and annual reports;
2. through the Company's website including public announcements, interim and annual announcements, financial reports and general information about the businesses of the Group; and
3. through the Annual General Meeting.

The Annual General Meeting provides a useful forum for shareholders to exchange views with the Board. The most recent Annual General Meeting was held on 22 June 2015. The Non-executive Chairman, the Executive Directors, the Chairman of the Audit Committee and the external auditor were available to answer questions at the meeting.

The procedures for conducting a poll at each shareholders' meeting were explained at the meeting prior to the polls being taken. Poll voting results of each shareholders' meeting are available on the websites of the Stock Exchange and the Company in the evening after the relevant meetings.

Shareholders and investors may also write their written enquiries and concerns to the Company at its principal place of business in Hong Kong. Contact details are as follows:

Address:	Room 1108-09, 11th Floor, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong (For the attention of the Investor Relations Director)
Hotline:	2116 8396
Email:	enquiries@epiholdings.com

CORPORATE GOVERNANCE REPORT

EMPLOYMENT

The Group is committed to equal-opportunity employment practices. Employees shall not be differentiated due to their nationality, sex and cultural backgrounds. The Group is in full compliance with all the relevant laws and regulations governing fair employment practices. The number of female employees in the Group accounts for 33% of the total. In addition 41% of the employees of the Group attended trainings in the year 2015.

ENVIRONMENT

The Group has implemented green office practices including but not limited to the use of recycled paper, the switching off of lights, computers and photocopiers when not in use. Employees in Argentina follow the relevant local regulations and utilize energy-saving devices in the workplace. The Group ensures that it complies with all regulations in carrying out its operations and is not aware of any breach of the environmental regulations.

REPORT OF THE DIRECTORS

The Directors of the Company (the "**Directors**") have pleasure in submitting their report and the audited consolidated financial statements of the Company and its subsidiaries (together the "**Group**") for the year ended 31 December 2015.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a fair review of the business and a discussion of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business can be found in the "Management Discussion and Analysis" sections (which form part of this report of the Directors) of this annual report.

PRINCIPAL ACTIVITIES AND SEGMENT INFORMATION

The Company is an investment holding company. Its subsidiaries are principally engaged in the petroleum exploration and production. Particulars of the Company's principal subsidiaries are set out in Note 37 to the consolidated financial statements. The analysis of the principal activities and segments of the operations of the Group is set out in Note 6 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2015 are set out in the consolidated statement of profit or loss and other comprehensive income on page 46.

No interim dividend was declared (2014: Nil) and the Directors do not recommend the payment of any dividend for the year.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 111.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in Note 19 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in Note 38 to the consolidated financial statements and the consolidated statement of changes in equity on page 48 respectively.

REPORT OF THE DIRECTORS

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in Note 27 to the consolidated financial statements.

During the reporting year, the Company conducted a capital reorganisation ("**Capital Reorganisation**") comprising, among others, the following:

(i) the share consolidation of every ten (10) shares of nominal value of HK$0.1 each in the issued share capital of the Company into one (1) consolidated share of nominal value of HK$1.0;

(ii) the capital reduction of the nominal value of all the issued consolidated shares from HK$1.0 each to HK$0.01 each by cancelling paid-up capital to the extent of HK$0.99 on each consolidated share so as to form an adjusted share of HK$0.01; and

(iii) the sub-division of each of the authorised but unissued shares of HK$0.10 into ten adjusted shares of HK$0.01 each.

The Capital Reorganisation took effect on 14 May 2015. Please refer to the circular of the Company dated 20 April 2015 for further information on Capital Reorganisation.

PURCHASE, SALES OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2015.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance standards to safeguard the interests of shareholders and to enhance corporate value and accountability.

Details of the corporate governance practices adopted by the Company are set out on page 23 under Corporate Governance Report.

DIRECTORS

The Directors of the Company during the year and up to the date of this report are as follows:

Non-executive Chairman:

Mr. Ho King Fung, Eric

Executive Directors:

Mr. Tse Kwok Fai, Sammy *(Chief Executive Officer)*
Mr. Chan Chi Hung, Anthony
Mr. Zou Feng *(appointed on 7 March 2016)*

REPORT OF THE DIRECTORS

Non-executive Director:

Mr. Phen Chun Shing Vincent *(appointed on 15 February 2016)*

Independent Non-executive Directors:

Mr. Qian Zhi Hui
Mr. Teoh Chun Ming
Mr. Zhu Tiansheng

Biographical details of the Directors are set out on page 18 under "Directors and Senior Management Profile".

The Company has received from each of the Independent Non-executive Directors biannually confirmations of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and considers all the Independent Non-executive Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

None of the Directors has a service contract with the Company, or any of its subsidiaries, which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTEREST IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

No transaction, arrangement and contract of significance to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

COMPETING INTEREST

None of the Directors or their respective associates (as defined in the Listing Rules) has an interest in a business, which competes or may compete with the business of the Group.

MANAGEMENT CONTRACTS

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

REPORT OF THE DIRECTORS

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

As at 31 December 2015, the interests and short positions of the Directors and chief executive of the Company in any shares of the Company (the "**Shares**"), underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("**SFO**")) which were required to be notified to the Company and the Stock Exchange pursuant to 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 which were required, pursuant to section 352 of Part XV of the SFO, to be entered in the register referred to therein, or were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers of the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Long Positions in the Shares and Underlying Shares of the Company

Directors	Nature of interest	Number of ordinary shares held	Number of share options held	Total interests	Approximate % of issued share capital (Note)
Mr. Tse Kwok Fai, Sammy	Personal	330,000	–	330,000	0.04%

Note: The calculation of percentages is based on 727,853,637 Shares in issue as at 31 December 2015.

Save as disclosed above and as at 31 December 2015, no Directors or chief executive of the Company had any other interests or short position in the Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to be have under such provisions) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required in the Listing Rules pursuant to the Model Code for Securities Transactions by Directors of Listed Companies to be notified to the Company and the Stock Exchange.

The Company, any of its subsidiaries or fellow subsidiaries has not entered into any contract subsisting as at 31 December 2015 whose objects include to enable directors of the Company to acquire benefits by acquisitions of shares or debentures of the Company or any other body corporate.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2015, according to the register of interests maintained by the Company pursuant to section 336 of the SFO and so far as is known to, or can be ascertained after reasonable enquiry by the Directors or chief executive of the Company, the following persons, other than the Directors and the chief executive of the Company, who had an interest or a short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group and the amount of each of such person's interests in such securities, together with particulars of any options in respect of such capital are as follows:

Long/Short Positions in the Shares and Underlying Shares of the Company

Name of Shareholders	Long/short positions	Capacity/ nature of interest	Number of shares/ underlying shares held	Approximate % of issued share capital (Note 1)
City Smart International Investment Limited (Note 2)	Long	Beneficial owner	1,120,027	0.15%
City Wise Investment Limited (Note 3)	Long	Beneficial owner	71,734,945	9.86%
South America Petroleum Investment Holdings Limited (Note 3)	Long	Interest of a controlled corporation	71,734,945	9.86%
Mr. Wu Shaozhang (Note 2 & 3)	Long	Interest of a controlled corporation	72,854,972	10.01%

Notes:

1. The calculation of percentages is based on 727,853,637 Shares in issue as at 31 December 2015.
2. So far as is known to the Directors, City Smart International Investment Limited was wholly owned by Mr. Wu Shaozhang as at 31 December 2015.
3. So far as is known to the Directors, as at 31 December 2015 City Wise Investment Limited was wholly owned by South America Petroleum Investment Holdings Limited which was in turn wholly-owned by Mr. Wu Shaozhang.

Saved as disclosed above, as at 31 December 2015 and so far as is known to, or can be ascertained after reasonable enquiry by the Directors or chief executive of the Company, no persons had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, deemed to be interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group or had any options in respect of such capital.

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

The Company's share option scheme (the "**Scheme**") was adopted for a period of 10 years commencing 6 November 2006 pursuant to an Ordinary Resolution passed at the Special General Meeting of the shareholders held on 6 November 2006 for the purpose of providing incentives or rewards to selected directors and employees for their contribution to the Group.

Under the Scheme, the Company may grant options to selected directors and employees of the Company and its subsidiaries, to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to eligible vendors, customers, advisors and consultants to the Company and its subsidiaries at the discretion of the Board of Directors. A consideration of HK$1.0 is payable on acceptance of the offer for grant of options. An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined by the Board at its absolute discretion and to be notified by the Board to each grantee but may not be exercised after the expiry of ten years from the date of grant of the option.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point of time, without prior approval from the Company's shareholders or to exceed 30% of the shares of the Company in issue from time to time. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders, Independent Non-executive Directors, or any of their respective associates (including a discretionary trust whose discretionary objects include a substantial shareholders, Independent Non-executive Directors, or any of their respective associates) in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must also be approved by the Company's shareholders.

The exercise price of the share options is determinable by the Directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Shares on the date of the offer of the share options which must be a business day; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares.

REPORT OF THE DIRECTORS

As at 31 December 2015, options to subscribe for an aggregate of 22,538,880 shares granted to the Directors, certain employees and other participants pursuant to the Scheme remained outstanding, details of which are as follows:

Category and name of participant(s)	Date of grant	Exercisable period (both dates inclusive)	Exercise price HK$ (Note 3)	Outstanding at 1.1.2015	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year (Note 5)	Adjustments due to share consolidation and open offer	Outstanding at 31.12.2015
Non-executive Chairman									
Mr. Ho King Fung, Eric	30 July 2013 (Note 1)	16 September 2013–29 July 2016	1.7548	108,500,000	–	–	(12,736,817)	(95,763,183)	–
		16 September 2014–29 July 2016	1.7548	54,250,000	–	–	(6,368,407)	(47,881,593)	–
		16 September 2015–29 July 2016	1.7548	54,250,000	–	–	(6,368,407)	(47,881,593)	–
Executive Directors									
Mr. Tse Kwok Fai, Sammy	11 April 2013 (Note 2)	3 July 2013–10 April 2016	2.1722	88,000,000	–	–	(10,330,320)	(77,669,680)	–
Mr. Chan Chi Hung, Anthony	30 July 2013 (Note 1)	16 September 2013–29 July 2016	1.7548	39,000,000	–	–	(4,578,208)	(34,421,792)	–
		16 September 2014–29 July 2016	1.7548	19,500,000	–	–	(2,289,105)	(17,210,895)	–
		16 September 2015–29 July 2016	1.7548	19,500,000	–	–	(2,289,105)	(17,210,895)	–
Employees									
	25 November 2013	25 November 2013–24 November 2016	1.8656	57,000,000	–	–	(6,691,230)	(50,308,770)	–
	17 July 2014	17 July 2014–16 July 2017	1.7037	3,000,000	–	–	(352,170)	(2,647,830)	–
Other participants									
	11 April 2013	11 April 2013 – 10 April 2016	2.1722	128,000,000	–	–	–	(112,974,080)	15,025,920
	25 November 2013	25 November 2013–24 November 2016	1.8656	32,000,000	–	–	(3,756,480)	(28,243,520)	–
	25 November 2013	25 February 2014–24 November 2016	1.8656	64,000,000	–	–	–	(56,487,040)	7,512,960
	4 June 2014	4 June 2014 – 3 June 2017	1.6100	70,000,000	–	–	(8,217,300)	(61,782,700)	–
	17 July 2014	17 July 2014–16 July 2017	1.7037	467,000,000	–	–	(54,821,130)	(412,178,870)	–
				1,204,000,000	–	–	(118,798,679)	(1,062,662,441)	22,538,880

Note 1: Date of approval by shareholders was 16 September 2013.

Note 2: Date of approval by shareholders was 3 July 2013.

Note 3: The exercise price of the outstanding share option has been adjusted to reflect the effect of the share consolidation and the open offer.

Note 4: The mandate limit for the Scheme was refreshed on 18 December 2015 and the total number of shares available for issue under the refreshed Scheme was 72,785,363, representing approximately 1.67% of the total issued share capital as at the date of this report. In addition, there were 22,538,880 outstanding options granted prior to the refreshment on 18 December 2015.

Note 5: Reference is made to the announcement dated 20 November 2015 whereby the Board announced that the Company has agreed with holders of outstanding (and unexercised) share options carrying rights to subscribe for an aggregate of 118,798,679 ordinary shares of the Company of HK$0.01 each to cancel their share options with immediate effect in accordance with the rules of the share option scheme of the Company adopted on 6 November 2006. No consideration is paid or payable for such cancellation.

REPORT OF THE DIRECTORS

EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the human resources department on the basis of their merit, qualifications and competence. The emoluments of the Directors and senior management of the Company are decided by the Remuneration Committee, having regard to factors including the Group's operating results, their responsibilities and comparable market statistics. Details of the Directors' fees and emoluments, and the five highest paid individuals in the Group are set out in Note 14 and 15 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of sales and purchases for the year attributable to the Group's major customers and suppliers are as follows:

Sales

—	the largest customer	100%
—	five largest customers combined	100%

Purchases

—	the largest supplier	100%
—	five largest suppliers combined	100%

None of the Directors and their close associates or any shareholders (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had an interest in the major customers or suppliers as noted above.

EMPLOYEES

As at 31 December 2015, the Group had a total of 19 employees in Hong Kong and 8 employees in Argentina. Employee's cost (excluding directors' emoluments) amounted to approximately HK$13.7 million (2014: HK$20.1 million). The Group ensures that the pay levels of its employees are competitive according to market trend and its employees are rewarded on a performance related basis within the general framework of the Group's salary and bonus system.

PRE-EMPTIVE RIGHTS

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

PUBLIC FLOAT

As at the date of this report, based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital was held by the Public.

REPORT OF THE DIRECTORS

INDEMNITY PROVISION

Pursuant to Bye-law 178 of the bye-laws of the Company, every Director shall be entitled to be indemnified out of the assets of the Company against all actions, costs, charges, losses, damages and expenses which he/she may sustain or incur in or about the execution of the duties in his/her office or trust or in relation thereto except through their own wilful neglect or default, fraud and dishonesty.

EQUITY-LINKED AGREEMENTS

On 11 April 2013, the Company issued HK$100 million 8% convertible notes ("**Convertible Notes**") originally due on 11 April 2015. The net proceeds from the issue of the Convertible Notes were approximately HK$95.5 million. With the approval of the noteholder of the outstanding Convertible Notes, on 8 January 2015, the maturity date of the Convertible Notes was extended to 11 April 2016. On 19 June 2015, the company early redeemed the remaining balance of the outstanding Convertible Notes in the principal amount of HK$60 million. During the year 2015 and prior year, none of the Convertible Notes was converted into the ordinary shares of the company.

On 1 March 2013, the Company issued and allotted 125,000,000 new placing shares with non-listed warrants attached, on the basis of 5 warrants for each placing share issued, at no initial issue price, entitling the holder of each warrant to subscribe for one new share at an initial exercise price of HK$0.20 at any time for a period of three years from the date of issue. The net proceeds from the issue of such new placing shares were approximately HK$21.6 million. As at 31 December 2015, the number of outstanding unlisted warrants was 125,000,000 which were convertible into, after taking into account the effect of share reorganisation and the open offer, 73,529,411 ordinary shares upon full conversion at the subscription price of HK$1.7 per share. As at the date of this report, all such outstanding unlisted warrants were lapsed.

The Company adopted the Scheme on 6 November 2006 and the Scheme is valid and effective for a period of ten years from the date of adoption. Please refer to "Share Option Scheme" on page 39 of this report for further information.

AUDIT COMMITTEE

The Audit Committee has reviewed the accounting principles and policies adopted by the Group and also discussed auditing, internal controls and financial reporting matters, including the review of the consolidated financial statements for the year ended 31 December 2015 with external auditor Deloitte Touche Tohmatsu and with management.

AUDITORS

PricewaterhouseCoopers resigned as auditor of the Company during the reporting year. Deloitte Touche Tohmatsu was then appointed by the Board to act as the new auditor of the Company. Save as disclose above, there was no change of auditors of the Company from 2013 to 2014.

The financial statements for the year ended 31 December 2015 have been audited by Deloitte Touche Tohmatsu, who will retire and being eligible, will offer themselves for re-appointment at the forthcoming annual general meeting ("**AGM**").

A resolution for the re-appointment of Deloitte Touche Tohmatsu as auditor of the Company will be proposed at the forthcoming AGM of the Company.

REPORT OF THE DIRECTORS

EVENTS AFTER THE REPORTING YEAR

Details of significant events occurring after the end of the reporting period are set out in Note 36 to the consolidated financial statements.

The Company will, subject to shareholder's approval at the forthcoming AGM of the Company, propose a new share option scheme. Further details of the new share option scheme, including the relevant details of the resolutions to be passed by shareholders, will be set out in a circular to be published by the Company relating to the matters to be transacted at the forthcoming AGM.

On behalf of the Board
Tse Kwok Fai, Sammy
Executive Director and CEO

Hong Kong, 30 March 2016

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE MEMBERS OF EPI (HOLDINGS) LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of EPI (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 46 to 110, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

OTHER MATTER

The consolidated financial statements of the Group for the year ended 31 December 2014 were audited by another auditor who expressed an unmodified opinion on those statements on 27 March 2015.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
30 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
Continuing operation:			
Revenue	6	**66,571**	85,689
Purchases, processing and related expenses		**(39,146)**	(38,881)
Other losses, net	7	**(15,617)**	(16,542)
Wages, salaries and other benefits		**(21,949)**	(34,253)
Depreciation and depletion		**(17,118)**	(18,043)
Provision of impairment losses	8	**(215,686)**	(73,576)
Fair value gains on financial instruments	9	**12,351**	49,109
Expenses incurred in exploring potential investment opportunities		**(330)**	(25,260)
Other expenses		**(28,798)**	(73,783)
Finance costs	10	**(16,826)**	(34,693)
Loss and total comprehensive expenses for the year from continuing operation	12	**(276,548)**	(180,233)
Discontinued operation:			
Loss and total comprehensive expense for the year from discontinued operation	13	**–**	(200,910)
Loss and total comprehensive expense for the year attributable to owners of the Company		**(276,548)**	(381,143)
			(Restated)
Loss per share attributable to owners of the Company	17		
From continuing operation:			
— basic		**(0.39)**	(0.33)
— diluted		**(0.40)**	(0.33)
From discontinued operation:			
— basic		**N/A**	(0.37)
— diluted		**N/A**	(0.37)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
Non-current assets			
Exploration and evaluation assets	18	–	115,222
Property, plant and equipment	19	**38,723**	138,422
Other tax recoverable	20	**7,721**	17,563
		46,444	271,207
Current assets			
Trade and other receivables and prepayments	21	**26,864**	45,928
Other tax recoverable	20	**6,365**	16,140
Held-for-trading investments	22	**62**	52
Bank balances and cash	23	**13,168**	28,565
		46,459	90,685
Current liabilities			
Trade and other payables	24	**34,028**	44,013
Borrowings — amount due within one year	25	**74,600**	54,600
Convertible notes	26	–	62,877
Derivative financial liabilities	26	–	5,917
		108,628	167,407
Net current liabilities		**(62,169)**	(76,722)
Total assets less current liabilities		**(15,725)**	194,485
Capital and reserves			
Share capital	27	**7,279**	485,236
Reserves		**(132,204)**	(454,551)
Equity attributable to owners of the Company and total equity		**(124,925)**	30,685
Non-current liabilities			
Borrowings — amount due after one year	25	**109,200**	163,800
		(15,725)	194,485

The consolidated financial statements on pages 46 to 110 together with the Company's statement of financial position set out in note 38 to the consolidated financial statements were approved and authorised for issue by the Board of Directors on 30 March 2016 and are signed on its behalf by:

Tse Kwok Fai, Sammy	**Chan Chi Hung, Anthony**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Attributable to owners of the Company					
	Share capital HK$'000	Share premium HK$'000	Contributed surplus reserve HK$'000 *(note a)*	Share options reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2014	416,988	4,100,080	60,322	82,150	(4,441,354)	218,186
Loss and total comprehensive expense for the year	–	–	–	–	(381,143)	(381,143)
Issue of new shares upon placement (note b)	68,248	87,357	–	–	–	155,605
Transaction costs attributable to issue of new shares	–	(5,639)	–	–	–	(5,639)
Recognition of equity-settled share-based payment expense	–	–	–	43,676	–	43,676
At 31 December 2014	485,236	4,181,798	60,322	125,826	(4,822,497)	30,685
Loss and total comprehensive expense for the year	–	–	–	–	(276,548)	(276,548)
Share consolidation	(480,383)	–	480,383	–	–	–
Capital reorganisation (note a)	–	(4,181,798)	(540,705)	–	4,722,503	–
Share consolidation and capital reorganisation expenses	–	(387)	–	–	–	(387)
Issue of new shares upon open offer (note c)	2,426	118,883	–	–	–	121,309
Transaction costs attributable to issue of shares upon open offer	–	(2,546)	–	–	–	(2,546)
Recognition of equity-settled share-based payment expense	–	–	–	2,562	–	2,562
At 31 December 2015	**7,279**	**115,950**	**–**	**128,388**	**(376,542)**	**(124,925)**

Notes:

(a) The contributed surplus reserve represents the credit arising from the capital reduction in 2006 and the credit transferred from the share premium account of the Company together with the application to set off the accumulated losses of the Company in May 2015 (see note 27(b)).

(b) During the year ended 31 December 2014, the Company completed a placement by which a total of 682,480,000 shares of the Company were issued. Details of the placement are set out in note 27(a).

(c) During the year ended 31 December 2015, the Company completed an open offer by which a total of 242,617,879 shares of the Company were issued. Details of the open offer are set out in note 27(c).

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	2015 HK$'000	2014 HK$'000
Operating activities		
Loss for the year	**(276,548)**	(381,143)
Adjustments for:		
Depreciation and depletion of property, plant and equipment	**17,118**	18,043
Impairment loss recognised in respect of exploration and evaluation assets	**115,222**	91,049
Impairment loss recognised in respect of property, plant and equipment	**91,093**	–
Impairment loss of other receivables	**7,800**	200,810
Loss on disposal of property, plant and equipment	**–**	464
(Gain) loss on held-for-trading investments	**(10)**	46
Gain on disposal of held-for-trading investments	**(106)**	–
Interest income	**(234)**	(1,016)
Interest expense	**16,769**	34,693
Net gain on modification of terms of convertible notes	**(12,480)**	–
Amortisation of deferred loss on conversion component of convertible notes	**380**	5,347
Gain on derivative component of convertible notes	**–**	(34,687)
Gain on new derivative component recognised in profit or loss	**(135)**	–
Fair value gain on warrants	**–**	(20,751)
Impairment (reversal of impairment) loss of other tax recoverable	**1,571**	(17,473)
Equity-settled share-based payment expense	**2,562**	43,676
Operating cash flows before movements in working capital	**(36,998)**	(60,942)
Decrease (increase) in trade and other receivables and prepayments	**11,370**	(19,546)
Decrease in other tax recoverable	**18,046**	25,066
(Decrease) increase in trade and other payables	**(9,993)**	5,670
Decrease in other non-current liabilities	**–**	(1,410)
Cash used in operations and net cash used in operating activities	**(17,575)**	(51,162)
Investing activities		
Purchase of property, plant and equipment	**(8,512)**	(3,471)
Interest received	**234**	1,016
Net cash used in investing activities	**(8,278)**	(2,455)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	2015 HK$'000	2014 HK$'000
Cash flows from financing activities		
Proceeds from open offer shares	**121,309**	–
New other loans raised	**20,000**	–
Expenses of open offer shares	**(2,546)**	–
Expenses of share consolidation and capital reorganisation	**(387)**	–
Redemption of convertible notes	**(60,000)**	(40,000)
Repayment of bank borrowings	**(54,600)**	(54,600)
Interest paid	**(13,320)**	(19,213)
Proceeds from issue of new shares	**–**	155,605
Repayment of other loans	**–**	(2,000)
Share issue expenses	**–**	(5,639)
Net cash generated from financing activities	**10,456**	34,153
Net decrease in cash and cash equivalents	**(15,397)**	(19,464)
Cash and cash equivalents at beginning of the year	**28,565**	48,029
Cash and cash equivalents at end of the year, representing bank balances and cash	**13,168**	28,565

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

1. GENERAL

The Company is a public limited company incorporated in Bermuda and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The address of the principal place of business of the Company is Room 1108–09, 11/F, Harbour Centre, 25 Harbour Road, Wanchai, Hong Kong.

The Company is an investment holding company. Its subsidiaries are principally engaged in petroleum exploration and production.

The functional currency of the Company is United States dollars ("US$"). Since the Company's shares are listed on the Stock Exchange, the directors consider that it is more appropriate to adopt Hong Kong dollars ("HK$") as the Group's presentation currency in the preparation of the consolidated financial statements.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

The Group incurred a loss attributable to the owners of the Company of HK$276,548,000 and had a net operating cash outflow of HK$36,998,000 during the year end 31 December 2015. As at 31 December 2015, the Group's net liabilities is HK$124,925,000, its current liabilities exceeded its current assets by HK$62,169,000, and its cash and cash equivalents balance was reduced to HK$13,168,000.

In addition, the Group had total borrowings of HK$183,800,000, consisting of a bank loan of HK$163,800,000, as at 31 December 2015. Total borrowings amounted to HK$183,800,000, including the current portion of bank loans and other loan of HK$74,600,000 which will be due for repayment within twelve months after the end of the reporting period.

Pursuant to the bank loan agreement of the outstanding bank loans of HK$163,800,000, the Group is required to comply with certain requirements, including to maintain Mr. Wu Shaozhang ("Mr. Wu") as a substantial shareholder of the Company ("Substantial Shareholder") as defined under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). A Substantial Shareholder is one who is entitled to exercise or control the exercise of 10% or more of the voting power at any general meeting of the Company. The failure to comply with such requirements would constitute an event of default, which may cause the relevant bank loans totalling HK$163,800,000 becoming immediately repayable.

All of the above conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS – CONTINUED

The directors of the Company have reviewed the Group's cash flow projections, which cover a period of twelve months from the end of the reporting period. The directors are of the opinion that, taking into account of the following, the Group will have sufficient working capital to meet its financial obligations as and when they fall due within the next twelve months from the end of the reporting period:

(a) On 26 March 2015, Mr. Wu entered into a deed of undertaking with the Company and undertakes (i) at all times to maintain his position as a Substantial Shareholder, and (ii) to promptly acquire an adequate number of shares of the Company to maintain his position as a Substantial Shareholder in any event that he is reasonably expected to cease to be a Substantial Shareholder as a result of issue of new shares by the Company. As at 31 December 2015 and up to the date of approval of these consolidated financial statements, Mr. Wu, directly or indirectly, holds approximately 10.01% of the Company's issued shares and remains as a Substantial Shareholder.

(b) On 12 November 2015, the Company proposed to raise gross proceeds of not less than approximately HK$509.5 million by way of a rights issue of shares on the basis of five rights shares for every one existing share at HK$0.14 per rights share. The rights issue was completed in January 2016. The estimated net proceeds, after deducting underwriting commission and other related expenses incurred by the Company, amounted to approximately HK$502.1 million. Mr. Wu subscribed for all the rights shares provisionally allotted to him, directly or indirectly, and he continues to hold, directly or indirectly, approximately 10.01% of the Company's issued shares after the rights issue and at the date of approval of these consolidated financial statements. Mr. Wu maintains his position as a Substantial Shareholder. Further details of the rights issue are set out in the prospectus of the Company dated 31 December 2015 and the announcement of the Company dated 26 January 2016.

(c) The Group will be introducing procedures to enhance the production of its existing oil wells and is also implementing tighter cost control measures. It is expected that these measures will improve its operating cash inflows from its continuing operations.

In the opinion of the directors, in light of the above, the Group will have sufficient working capital to finance its operations and fulfil its financial obligations as and when they fall due in the coming twelve months from the end of the reporting period. Accordingly, the directors are satisfied that it is appropriate to prepare these consolidated financial statements on a going concern basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

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

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

Amendments to HKAS 19	Defined benefit plans: Employee contributions
Amendments to HKFRSs	Annual improvements to HKFRSs 2010–2012 cycle
Amendments to HKFRSs	Annual improvements to HKFRSs 2011–2013 cycle

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

New and revised HKFRSs in issue but not yet effective

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

HKFRS 9	Financial instruments[1]
HKFRS 14	Regulatory deferral accounts[2]
HKFRS 15	Revenue from contracts with customers[1]
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations[3]
Amendments to HKAS 1	Disclosure initiative[3]
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation[3]
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer plants[3]
Amendments to HKFRS 27	Equity method in separate financial statements[3]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[4]
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception[3]
Amendments to HKFRSs	Annual improvements to HKFRSs 2012–2014 cycle[3]

1 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
2 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016.
3 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
4 Effective for annual periods beginning on or after a date to be determined.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

HKFRS 9 "Financial instruments"

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include (a) impairment requirements for financial assets and (b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of HKFRS 9:

- all recognised financial assets that are within the scope of HKAS 39 "Financial instruments: Recognition and measurement" are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

HKFRS 9 "Financial instruments" – continued

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company do not anticipate that the application of HKFRS 9 in the future may have a material impact on amounts reported in respect of the Group's financial assets and financial liabilities.

HKFRS 15 "Revenue from contracts with customers"

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

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

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

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15. The directors of the Company do not anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported but may have additional disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") – CONTINUED

Amendments to HKFRS 11 "Accounting for acquisitions of interests in joint operations"

The amendments to HKFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in HKFRS 3 "Business combinations". Specifically, the amendments state that the relevant principles on accounting for business combinations in HKFRS 3 and other standards (e.g. HKAS 12 "Income taxes" regarding the recognition of deferred taxes at the time of acquisition and HKAS 36 "Impairment of assets" regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by HKFRS 3 and other standards for business combinations.

The amendments should be applied prospectively to acquisitions of interests in joint operations (in which the activities of the joint operations constitute businesses as defined in HKFRS 3) occurring from the beginning of annual periods beginning on or after 1 January 2016. The directors of the Company anticipate that the application of these amendments to HKFRS 11 may have an impact on the Group's consolidated financial statements in future periods should such transactions arise.

Amendments to HKAS 16 and HKAS 38 "Clarification of acceptable methods of depreciation and amortisation"

The amendments to HKAS 16 "Property, plant and equipment" prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 "Intangible assets" introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

(a) when the intangible asset is expressed as a measure of revenue; or

(b) when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Group uses the unit-of-production method for depreciation and depletion of oil and gas properties and the straight-line method for depreciation of other property, plant and equipment. The directors of the Company believe that such methods are the most appropriate methods to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the directors do not anticipate that the application of these amendments to HKAS 16 and HKAS 38 will have a material impact on the Group's consolidated financial statements.

The directors of the Company do not anticipate that the application of other amendments will have a material effect on the amounts recognised and the disclosures in the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES

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

The disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the provisions of the new CO regarding preparation of accounts and directors' report, which became effective for the Company for the financial year ended 31 December 2015, and to streamline with HKFRSs. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor CO or Listing Rules but not under the new CO or amended Listing Rules are not disclosed in these consolidated financial statements.

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

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

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

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

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

The principal accounting policies are set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Basis of consolidation

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

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

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

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

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

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

Investment in joint operations

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Interests in joint operations – continued

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

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

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

Discontinued operation

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographic area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resell.

When an operation is classified as discontinued, a single amount is presented in the consolidated statement of profit or loss or other comprehensive income, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs of disposal, or on the disposal, of the disposal group(s) constituting the discontinued operation.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is possible that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Property, plant and equipment

Oil and gas properties

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

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

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

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

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

Construction in progress

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Property, plant and equipment – continued

Other property, plant and equipment

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

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

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

Exploration and evaluation assets

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Exploration and evaluation assets – continued

Impairment of exploration and evaluation assets

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

- the period for which the Group has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed.
- substantive expenditure on further exploration for and evaluation of natural resources in the specific area is neither budgeted nor planned.
- exploration for and evaluation of natural resources in the specific area have not led to the discovery of commercially viable quantities of natural resources and the Group has decided to discontinue such activities in the specific area.
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

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

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

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

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

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

Financial instruments

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

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

Financial assets

Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL"), held-for-trading investments and loans and receivables. The classification depends on the nature and purpose of the financial asset and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in net gains or losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial assets – continued

Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

Loans and receivables

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

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

Impairment of financial assets

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

For financial assets, objective evidence of impairment could include:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Impairment of financial assets – continued

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period and observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

Financial liabilities and equity instruments

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

Equity instruments

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

Other financial liabilities

Other financial liabilities including trade and other payables, liability component of convertible notes and borrowings are subsequently measured at amortised cost, using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Financial liabilities and equity instruments – continued

Effective interest method

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

Convertible notes containing liability component and conversion option derivative

The component parts of the convertible notes issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative.

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

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

Derivative financial instruments

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

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

A financial guarantee contract issued by the Group and is initially measured at its fair value and is subsequently measured at the higher of: (i) the amount of obligation under the contract, as determined in accordance with HKAS 37 "Provisions, contingent liabilities and contingent assets"; and (ii) the amount initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the revenue recognition policy.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Financial instruments – continued

Derecognition

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

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

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

Share-based payment transactions

Equity-settled share-based payment transactions

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 28.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss. At the end of the reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share options reserve.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Share-based payment transactions – continued

Equity-settled share-based payment transactions – continued

Share options granted to other suppliers of goods and services

Share options issued in exchange for goods or services with parties other than employees are measured at the fair value of the goods or services received, except where the fair value cannot be measured reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains goods or the counterparty renders the services. The fair values of the goods or services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

Taxation

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Taxation – continued

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

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

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Retirement benefits costs

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

Leasing

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

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Foreign currencies

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

4. SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Foreign currencies – continued

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

Borrowing costs

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

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

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

5. KEY SOURCES OF ESTIMATION UNCERTAINTY – CONTINUED

Estimated impairment of trade and other receivables

Allowance for trade and other receivables is made based on the evaluation of collectability and ageing analysis of accounts. When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2015, the aggregate carrying amount of trade and other receivables (excluding deposits and prepayments and deposits held for petroleum exploration and production operation) is HK$15,278,000 (with an impairment on other receivables of HK$7,800,000) (2014: HK$20,097,000 with no impairment).

Estimation of petroleum reserves

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

Impairment of oil and gas properties

The carrying amounts of the oil and gas properties are assessed for impairment when facts and circumstances suggest that the carrying amounts of the oil and gas properties may exceed their recoverable amounts. The Group's determination as to whether they are impaired requires an estimation of the recoverable amount of the assets. The Group relies on experts to assess the geological prospects for the discovery of oil in the oil field and estimates the value of oil to be produced in the future at a suitable discount rate in order to calculate the present value. For drilling costs and other exploration and evaluation assets, the Group determines whether the related well costs are expensed if it is determined that such economic viability is not attained after performing further feasibility studies. The Group's carrying value of oil and gas properties as at 31 December 2015 was HK$37,646,000 (2014: HK$137,018,000).

Judgement is required by the directors to determine key assumptions adopted in the cash flow projections and changes to key assumptions such as discount rates used and the estimated oil to be produced etc, can significantly affect these cash flow projections and therefore the results of the impairment reviews. Details of the key assumptions adopted and the corresponding impact are set out in note 19.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

5. KEY SOURCES OF ESTIMATION UNCERTAINTY – CONTINUED

Impairment of exploration and evaluation assets

The carrying amounts of the exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amounts of the exploration and evaluation assets may exceed their recoverable amounts. The future recoverability of exploration and evaluation expenditure is dependent on a number of factors, including the level of proved and probable petroleum reserves, future technological changes which could impact the cost of drilling, future changes relevant to regulations on exploration, drilling and production of oil in Mendoza, Argentina, changes to the commodity prices, future drilling plan of the Group and the ability of raising financing to meet the drilling plan. The Group's determination as to whether the exploration and evaluation assets are impaired requires an estimation of the recoverable amount of the assets. The directors of the Company exercise their judgement in estimating the recoverable amount. Where the recoverable amount is less than expected, a material impairment loss may arise.

The management decided that it is not feasible to drill any new wells in the oil filed in Mendoza, Argentina, based on its oil price forecast, and it is unlikely to resume its oil wells drilling plan in the near future. This decision has a significant impact on the related expected future cash flows from operation; therefore the management has assessed the impairment of the exploration and evaluation assets. The critical factors that the management assessed were the cessation of its future drilling plan and the failure to obtain reliable comparable market price existing in the market. The Group's carrying value of exploration and evaluation assets as at 31 December 2015 was nil (2014: HK$115,222,000). During the year ended 31 December 2015, an impairment loss of HK$115,222,000 (2014: HK$91,049,000) was recognised in profit or loss in respect of the exploration and evaluation assets. Details of these are set out in note 18.

Recognition of share-based payments

The Group operates a number of equity-settled share-based compensation plans, under which the Group receives services from employees and consultants as consideration for equity instruments (options) of the Group. The directors of the Company used the Binomial Model to determine the total value of the options granted, which was based on fair value and various attributes of the underlying shares of the Company. Significant estimates and assumptions were required to be made in determining the parameters for applying the Binomial Model, including estimates and assumptions regarding the risk-free rate of return, expected dividend yield and volatility of the underlying shares and the expected life of the share options. In addition, the Group was required to estimate the expected percentage of grantees that would remain in employment or terms with the Group at the end of the vesting period. The Group only recognises an expense for those share options expected to vest over the vesting period during which the grantees become unconditionally entitled to these share-based awards. Changes in these estimates and assumptions could have a material effect on the determination of the fair value of the share options and the amount of such share-based awards expected to become vested, which may in turn significantly impact the determination of the share-based payments.

Current and deferred tax

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

5. KEY SOURCES OF ESTIMATION UNCERTAINTY – CONTINUED

Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. The directors of the Company has set up a valuation team to determine the appropriate valuation techniques and inputs for fair value measurements.

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

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

6. REVENUE AND SEGMENT INFORMATION

The Group is principally engaged in the petroleum exploration and production. An analysis of the Group's revenue from continuing operation for the year is as follows:

	2015 **HK$'000**	2014 HK$'000
Sales of petroleum	**66,571**	85,689

Information is reported to the Chief Executive Officer of the Company, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance. The Chief Executive Officer considers the business of the Group from both a geographic and product perspective.

For the year ended 31 December 2014, the Group's reportable segments were:

- Petroleum exploration and production (continuing operation); and
- Metals transactions (discontinued operation), segment information of which is set out in note 13.

For the year ended 31 December 2015, the Chief Executive Officer has determined with management that the Group operated only in two geographical locations, being Argentina and Hong Kong, and has one operating segment on an aggregate basis, i.e. petroleum exploration and production, after the operating segment of metals transactions being discontinued in 2014. Other than the geographical information, no operating results and other discrete financial information are available for the assessment of performance of the respective business divisions. For these reasons, no separate segment information is presented.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

6. REVENUE AND SEGMENT INFORMATION – CONTINUED

Geographical information

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

The Group's revenue from continuing operation from external customers based on the location of customers and information about its non-current assets by geographical location of the assets are detailed below:

	Revenue from external customers		Non-current assets	
	2015	2014	**2015**	2014
	HK$'000	HK$'000	**HK$'000**	HK$'000
Argentina	**66,571**	85,689	**37,963**	252,617
Hong Kong	**–**	–	**760**	1,027
	66,571	85,689	**38,723**	253,644

Non-current assets excluded other tax recoverable.

During the current year, all external revenue of HK$66,571,000 (2014: HK$85,689,000) is generated from one customer. The revenue is attributable to petroleum exploration and production segment.

7. OTHER (LOSSES) GAINS, NET

	2015	2014
	HK$'000	HK$'000
Continuing operation:		
Bank interest income	**1**	2
Other interest income	**233**	1,014
Total interest income	**234**	1,016
Exchange losses, net	**(17,187)**	(18,333)
Loss on disposal of property, plant and equipment	**–**	(464)
Others	**1,336**	1,239
	(15,617)	(16,542)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

8. PROVISION OF IMPAIRMENT LOSSES

	2015 HK$'000	2014 HK$'000
Continuing operation:		
Impairment loss of exploration and evaluation assets	**115,222**	91,049
Impairment loss of property, plant and equipment	**91,093**	–
Impairment loss of other receivables	**7,800**	–
Impairment (reversal of impairment) loss of other tax recoverable	**1,571**	(17,473)
	215,686	73,756

9. FAIR VALUE GAINS (LOSSES) ON FINANCIAL INSTRUMENTS

	2015 HK$'000	2014 HK$'000
Continuing operation:		
Net gain on modification of terms of convertible notes	**12,480**	–
Amortisation of deferred loss on conversion component of convertible notes	**(380)**	(5,347)
Gain on derivative component recognised in profit or loss	**–**	34,687
Gain on new derivative component recognised in profit or loss	**135**	–
Fair value gain (loss) on held-for-trading investments	**10**	(46)
Fair value gain on warrants	**–**	20,751
Loss on disposal of bond	**–**	(936)
Gain on disposal of held-for-trading investments	**106**	–
	12,351	49,109

10. FINANCE COSTS

	2015 HK$'000	2014 HK$'000
Continuing operation:		
Interest on borrowings:		
Bank borrowings and overdrafts	**9,341**	11,564
Other loans	**667**	180
Effective interest expense on convertible notes	**6,761**	22,949
Total interest expense	**16,769**	34,693
Loan arrangement fee	**57**	–
	16,826	34,693

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

11. TAXATION

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

No provision for Hong Kong Profits Tax has been made in the consolidated financial statements as the Group does not have assessable profits in Hong Kong for both years.

Argentina income tax is calculated at 35% of assessable profit for the year. No provision for Argentina income tax has been made as there is no assessable profit arising in Argentina for both years.

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

	2015 HK$'000	2014 HK$'000
Continuing operation:		
Loss for the year	**(276,548)**	(180,233)
Tax at the applicable rates of 16.5% (2014: 16.5%)	**(45,630)**	(29,738)
Tax effect of income not taxable for tax purpose	**(4,038)**	(14,544)
Tax effect of expenses not deductible for tax purpose	**64,872**	26,549
Tax effect of tax losses not recognised as deferred tax asset	**18,943**	14,829
Effect of different tax rates of subsidiaries operating in other jurisdictions	**(34,147)**	2,904
Taxation for the year	**–**	–

At 31 December 2015, the Group had unused tax losses of HK164,756,000 (2014: HK$100,880,000) available for offset against future profits. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams. Included in unused tax losses are losses of HK$76,335,000 (2014: HK$68,814,000) that will expire within 5 years. All other tax losses may be carried forward indefinitely.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

12. LOSS FOR THE YEAR

	2015 HK$'000	2014 HK$'000
Continuing operation:		
Loss for the year has been arrived at after charging:		
Directors' emoluments *(note 14)*	**8,244**	14,180
Other staff's retirement benefits costs (excluding directors)	**189**	162
Other staff's equity-settled share-based payment expense (excluding directors)	**–**	162
Other staff costs	**13,516**	19,749
Total staff costs	**21,949**	34,253
Auditor's remuneration	**2,400**	3,000
Equity-settled share-based payment expenses for consultants *(note 28)*	**–**	34,916
Minimum lease payments under operating leases in respect of office properties and buildings	**3,208**	2,681
Professional and consultancy fees	**5,991**	20,652

13. DISCONTINUED OPERATION

On 5 December 2014, the board of directors of the Company passed a resolution to discontinue the operation in EPI Metals Limited, an indirect wholly-owned subsidiary of the Company. EPI Metals Limited was principally engaged in the trading of metals. The discontinued operation decision was based on the Company's strategy of focusing on the exploration and production of oil and gas industry.

The discontinued operation represented the whole metals transactions segment. The financial information below served the purpose of both discontinued operation.

	2014 HK$'000
Loss for the year from a discontinued operation	
Segment results excluding impairment	(100)
Impairment loss on deposit paid to a supplier	(200,810)
Loss for the year from a discontinued operation	(200,910)
Cashflows from a discontinued operation	
Net cash flows used in operating activities	(14)
Net cash outflows	(14)

As at 31 December 2014, the directors considered that the receivable arising from metals contract amounting to HK$200,810,000 was impaired and fully provided for.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

13. DISCONTINUED OPERATION – CONTINUED

Movements in the Group's allowance for impairment of other receivables and prepayments are as follows:

	2014 HK$'000
At 1 January	13,966
Recognition of impairment loss in profit or loss	200,810
At 31 December	214,776

The taxation for the year can be reconciled to the loss before taxation as follows:

	2014 HK$'000
Loss for the year	(200,910)
Tax at the applicable rates of 16.5%	33,150
Tax effect of expenses not deductible for tax purpose	(33,150)
	–

14. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

	2015 **HK$'000**	2014 HK$'000
Fees	**1,560**	1,434
Other emoluments		
Salaries and other benefits	**4,086**	4,112
Equity-settled share-based payments *(note 28)*	**2,562**	8,598
Retirement benefits scheme contributions	**36**	36
	8,244	14,180

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

14. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS – CONTINUED

The emoluments paid or payable to each of the six (2014: six) directors of the Company including the Chief Executive Officer were as follows:

2015

Name	Fees	Other emoluments Salaries and other benefits	Share-based payments	Retirement benefits scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-executive chairman					
Ho King Fung, Eric	960	–	1,885	–	2,845
Executive directors					
Tse Kwok Fai, Sammy	–	2,646	–	18	2,664
Chan Chi Hung, Anthony	–	1,440	677	18	2,135
Independent non-executive directors					
Qian Zhi Hui	200	–	–	–	200
Teoh Chun Ming	200	–	–	–	200
Zhu Tiansheng	200	–	–	–	200
Total emoluments	1,560	4,086	2,562	36	8,244
2014					
Non-executive chairman					
Ho King Fung, Eric	870	–	6,325	–	7,195
Executive directors					
Tse Kwok Fai, Sammy	–	2,882	–	18	2,900
Chan Chi Hung, Anthony	–	1,230	2,273	18	3,521
Independent non-executive directors					
Qian Zhi Hui	188	–	–	–	188
Teoh Chun Ming *(note)*	188	–	–	–	188
Zhu Tiansheng	188	–	–	–	188
Total emoluments	1,434	4,112	8,598	36	14,180

Note: Being appointed on 10 January 2014.

Tse Kwok Fai, Sammy is also the Chief Executive Officer of the Company in 2015 and 2014 and his emoluments disclosed above include those for services rendered by him as the Chief Executive Officer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

14. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS – CONTINUED

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

There was no arrangement under which a director and the Chief Executive Officer waived or agreed to waive remuneration for both years. In addition, no remuneration was paid by the Group to any of the directors and the Chief Executive Officer as an inducement to join, or upon joining the Group or as compensation for loss of office.

15. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, three (2014: three) were directors (including the Chief Executive Officer of the Company) whose emoluments are included in the disclosure in note 14. The emoluments of the remaining two (2014: two) individuals were as follows:

	2015 **HK$'000**	2014 HK$'000
Salaries and other benefits	**3,290**	2,039
Retirement benefits scheme contributions	**18**	–
	3,308	2,039

Their emoluments were within the following bands:

	2015 **No. of employees**	2014 No. of employees
HK$1,000,001 to HK$1,500,000	**–**	2
HK$1,500,001 to HK$2,000,000	**2**	–

16. DIVIDEND

No dividend was paid or declared during 2015 and 2014, nor has any dividend been proposed since the end of the reporting period for both years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

17. 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.

	2015 HK$'000	2014 HK$'000
Loss for the year attributable to owners of the Company		
Continuing operation		
Loss for the purpose of basic loss per share		
Loss for the year attributable to owners of the Company	**(276,548)**	(180,233)
Effect of dilutive potential ordinary shares:		
Effective interest expense on convertible notes	**2,625**	–
Net gain on modification of terms of convertible notes	**(12,480)**	–
Amortisation of deferred loss on conversion component of convertible notes	**380**	–
Loss for the purpose of diluted loss per share	**(286,023)**	(180,233)
Discontinued operation		
Loss for the purpose of basic and diluted loss per share	**N/A**	(200,910)

	2015 '000	2014 '000 (Restated)
Number of Shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**703,889**	545,035
Effect of dilutive potential ordinary shares:		
Convertible notes	**4,871**	–
Weighted average number of ordinary shares for the purpose of dilutive loss per share	**708,760**	545,035

The denominator for the purpose of calculating basic loss per share for the year ended 31 December 2014 has been adjusted to reflect the consolidation of shares in June 2015 on the basis of ten ordinary shares being consolidated into one ordinary share (the "Share Consolidation") and bonus element of the open offer on the basis of one offer share for every two shares (the "Open Offer").

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

17. LOSS PER SHARE – CONTINUED

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has three categories of potential ordinary shares: warrants, convertible notes and share options (2014: three categories comprising warrants, convertible notes and share options). The 2013 CN (as defined in note 26) are assumed to have been converted into ordinary shares, and the net loss is adjusted to eliminate the related gain/loss and expenses stated above for the current year. For the years ended 31 December 2015 and 2014, the New 2013 CN (as defined in note 26) and 2013 CN, respectively, were not assumed to have been converted into ordinary shares because their exercise would result in a decrease in loss per share, i.e. anti-dilutive.

For the potential ordinary shares from the outstanding warrants and share options, they were anti-dilutive for the years ended December 2015 and 2014. The computation of diluted loss per share does not assume the exercise of the Company's warrants and share options because the exercise prices of those warrants and share options were higher than the average market price for shares for both years.

18. EXPLORATION AND EVALUATION ASSETS

	2015 **HK$'000**	2014 HK$'000
COST		
At 1 January and 31 December	**3,778,574**	3,778,574
IMPAIRMENT		
At 1 January	**3,663,352**	3,572,303
Recognised in profit or loss	**115,222**	91,049
At 31 December	**3,778,574**	3,663,352
NET BOOK AMOUNT		
At 1 January	**115,222**	206,271
At 31 December	**–**	115,222

The balance relates to exploration and evaluation assets in respect of oil exploration rights through the participating interest in the Puesto Pozo Cercado Concession and Chañares Herrados Concession (together, the "Concessions") in the Cuyana Basin, Mendoza Province, Argentina, covering a total surface area of approximately 169.4 and 40 square kilometres, respectively.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

18. EXPLORATION AND EVALUATION ASSETS – CONTINUED

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.

Since 2012 onwards, the Argentina government has been taking more drastic measures to ensure growth and keeping the currency stable, such as import restrictions and severe capital controls. These policies are exacerbating economic stagnation and leading to political unrest. As a result, the directors of the Company decided to delay the Group's overall drilling plan to later years until the investment climate in Argentina is improved.

Since the last quarter of 2014, the global oil price has been decreasing drastically. With reference to the latest available future oil price forecast, the directors expect that the deterioration in growth of oil price outlook would continue in the next few years. Should the drilling plan be taken place in accordance with schedule made in last year, it would not be beneficial to the Group. Accordingly, the directors decided to further delay the Group's overall drilling plan. As a result, the directors conducted a review of the Group's petroleum exploration and production business in Argentina and determined that the Group's exploration and evaluation assets, and oil and gas properties under property, plant and equipment should be further impaired.

The above changes in future oil price outlook and the Group's deferral in the Argentina investment plan would have a significant impact to the timing and amount of expected future cash flows from the operation as well as the recoverable amount of the exploration and evaluation assets, and oil and gas properties under property, plant and equipment of the Group. Consequently, impairment losses of HK$91,049,000 was recognised in respect of the Group's exploration and evaluation assets during the year ended 31 December 2014.

At 31 December 2014, the recoverable amount of the exploration and evaluation assets was determined from value in use calculation based on a cash flow projection derived from estimated oil reserve at the Concessions up to the expiry of the concession right in 2027 at a discount rate of 18.06%. The key assumptions for the value in use calculation were those regarding the discount rates, production decline rates and expected changes in future oil prices. The expected future oil prices for the petroleum exploration and production in Argentina for the next five years ranged from US$66.90 to US$106.30 per barrel. Should the future oil price be further decreased by 3%, the carrying amount of the exploration and evaluation assets would have recognised further impairment of HK$47,221,000. Should the discount rate be increased by 1%, additional impairment loss of HK$27,589,000 would have been recognised.

In 2015, based on current available information on oil price forecast, investment costs and operating costs, the Group reconsidered its future development plan for the Argentina investment plan using methods of Breakeven Analysis and Investment Return Analysis. Based on these methods, the management of the Group concluded that it is not economically justifiable to maintain its previous plan and it is also not feasible to drill any new wells. Therefore, the board of directors resolved that no new wells will be drilled until further decision from the board of directors. 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 negotiations with potential purchasers are taking place. Accordingly, no reliable fair value information in the market could be found. Considering these factors, in the opinion of the directors of the Company, the exploration and evaluation assets are fully impaired and an impairment loss of HK$115,222,000 was recognised in profit or loss during the year ended 31 December 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

19. PROPERTY, PLANT AND EQUIPMENT

	Oil and gas properties HK$'000	Others HK$'000	Total HK$'000
COST			
At 1 January 2014	484,861	3,411	488,272
Additions	3,402	69	3,471
Disposals	(1,127)	(7)	(1,134)
At 31 December 2014	487,136	3,473	490,609
Additions	8,494	18	8,512
Disposals	–	(29)	(29)
At 31 December 2015	495,630	3,462	499,092
DEPLETION, DEPRECIATION, AMORTISATION AND IMPAIRMENT			
At 1 January 2014	333,155	1,659	334,814
Provided for the year	17,630	413	18,043
Eliminated on disposals	(667)	(3)	(670)
At 31 December 2014	350,118	2,069	352,187
Provided for the year	16,773	345	17,118
Impairment loss recognised in profit or loss	91,093	–	91,093
Eliminated on disposals	–	(29)	(29)
At 31 December 2015	457,984	2,385	460,369
CARRYING VALUES			
At 31 December 2015	37,646	1,077	38,723
At 31 December 2014	137,018	1,404	138,422

The above items of property, plant and equipment other than oil and gas properties are depreciated on a straight-line basis, and after taking into account their estimated residual value, as follows:

Oil and gas properties	Unit-of-production basis over the total proved reserves
Others	20%–33$^{1}/_{3}$%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

19. PROPERTY, PLANT AND EQUIPMENT – CONTINUED

At 31 December 2015, the Group carried out a review of the recoverable amount of its oil and gas properties, having regard to the operating results in its developed oil and gas properties. The review led to the recognition of an impairment loss in profit and loss of HK$91,093,000 (2014: nil). The recoverable amount of the oil and gas properties was determined based on the discounted cash flow projections derived from production reserves covering the current term of the concessions period until 2027 and the estimated future oil prices with a discount rate of 19.57% (2014: 16.20%), which is categorised as 'Level 3' in the fair value hierarchy under fair value measurement. Significant unobservable inputs include the pre-tax discount rate, production decline rates and expected changes in future oil prices. The expected future oil prices for the petroleum exploration and production in Argentina for the next five years will be maintained at US$58.50 (2014: from US$66.90 to US$106.30) per barrel.

Should the expected oil price be further decreased by 3% (2014: 3%), the Group would have recognised further impairment loss of HK$5,084,000 (2014: HK$4,879,000) in respect of oil and gas properties.

Should the discount rate used in the value in use calculation for oil and gas properties had been one percentage point (2014: one percent point) higher, additional impairment loss of HK$837,000 (2014: HK$4,413,000) would have been recognised.

20. OTHER TAX RECOVERABLE

Pursuant to the relevant rules and regulation in Argentina, value-added tax on expenditure incurred in drilling and purchase of property, plant and equipment relating to the petroleum exploration and production operation in Argentina can be used to offset future value-added tax on sales made. The management estimated the recoverable amount of the value-added tax based on the future revenue which the Group expects would be generated from sales of petroleum, with reference to the current exploration and evaluation stages of the oil field and oil production from wells. During the year ended 31 December 2015, a provision for impairment loss on recoverable value-added tax expense of HK$1,571,000 (2014: reversal of provision for impairment loss of HK$17,473,000) was recognised in profit and loss (see note 8). The directors of the Company expects that an amount of HK$7,721,000 (2014: HK$17,563,000) will be recovered from the sales of petroleum after twelve months from the end of the reporting period. Accordingly, such amount is classified as non-current.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

21. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	2015 HK$'000	2014 HK$'000
Trade receivables *(note a)*	**1,645**	3,596
Loan to a third party *(note b)*	**–**	15,600
Deposits and prepayments	**2,864**	1,747
Deposits held for petroleum exploration and production operation	**8,722**	24,084
Others *(note c)*	**13,633**	901
	26,864	45,928

Notes:

(a) The oil selling price for the Argentina operation is based on US$ and converted into Argentina Peso ("ARS") in official exchange rate on monthly basis. The Group invoices its customers in ARS, which is not the functional currency of the subsidiary generating the revenue, and allows an average credit period of 30 to 60 days to its trade customer. The trade receivables of HK$1,645,000 (2014: HK$3,596,000) 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 relate to a customer for whom there was no recent history of default.

(b) At 31 December 2014, loan to a third party of HK$15,600,000 was unsecured, interest bearing at fixed interest rate of 12% per annum, denominated in US$ and was repayable within six months from the agreement date. HK$7,800,000 of the loan remained outstanding at 31 December 2015, which was overdue and in dispute and was therefore fully impaired. An impairment loss of HK$7,800,000 was recognised in profit or loss in the current year. The Group does not hold any collateral over the balance.

(c) The amount includes HK$13,628,000 (2014: nil) which is kept in 'cash account' of a securities broker which acts an agent of the Group in trading listed securities.

(d) Other items within trade and other receivables and prepayments do not contain impaired assets.

(e) The maximum exposure to credit risk at the end of the reporting period is the carrying value of each class of receivables mentioned above. At 31 December 2015, the Group does not hold any collateral as security.

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

	2015 HK$'000	2014 HK$'000
ARS	**10,388**	28,604
HK$	**16,475**	1,022

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

22. HELD-FOR-TRADING INVESTMENTS

	2015 HK$'000	2014 HK$'000
Held-for-trading investments include:		
Listed securities		
— Equity securities listed in Hong Kong	**62**	52

The investments represent investments in listed equity securities in Hong Kong. The fair values of these securities at 31 December 2015 and 2014 are based on bid prices quoted on the Stock Exchange.

23. BANK BALANCES AND CASH

	2015 HK$'000	2014 HK$'000
Cash at banks and in hand	**13,168**	28,565

Bank balances carry interest at market rates which range from 0.01% to 1.25% (2014: 0.01% to 1.25%) per annum.

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

	2015 HK$'000 Equivalent	2014 HK$'000 Equivalent
HK$	**2,649**	2,372
ARS	**1,808**	3,744

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

24. TRADE AND OTHER PAYABLES

	2015 HK$'000	2014 HK$'000
Trade payables	**389**	253
Interest payable on borrowings	**1,583**	1,575
Other tax payables	**19,228**	19,944
Accrued professional fees	**8,020**	12,806
Other payables and accruals	**4,808**	9,435
	34,028	44,013

The following is an aged analysis by invoice date of trade payables at the end of the reporting period:

	2015 HK$'000	2014 HK$'000
0–30 days	**389**	253

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

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

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

	2015 HK$'000 Equivalent	2014 HK$'000 Equivalent
ARS	**20,146**	25,286
HK$	**12,596**	17,125

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

25. BORROWINGS

	2015 HK$'000	2014 HK$'000
Bank loan, secured *(note a)*	**163,800**	218,400
Other loan, unsecured *(note b)*	**20,000**	–
	183,800	218,400
Carrying amount repayable:		
Within one year	**74,600**	54,600
In more than one year, but not more than two years	**54,600**	54,600
In more than two years, but not more than five years	**54,600**	109,200
	183,800	218,400
Less: Amounts due within one year shown under current liabilities	**(74,600)**	(54,600)
	109,200	163,800

Notes:

(a) On 3 November 2011, the Company entered into a loan agreement (the "Term Loan Agreement") with a bank for a term loan facility of US$40,000,000 (approximately HK$312,000,000) (the "Term Loan") for the purpose of funding the project in connection with the petroleum exploration and production in the Areas (as defined in note 29) or to refinance any debt incurred by the Group for the purpose of this project.

The bank loan is secured by the share capital of certain subsidiaries of the Group, and the share capital and instruments of certain companies in which Mr. Wu has financial interests. The relevant loan agreement also requires Mr. Wu to continue to be a Substantial Shareholder. On 26 March 2015, Mr. Wu entered into a deed of undertaking with the Company and undertakes (i) at all times to maintain his position as a Substantial Shareholder, and (ii) to promptly acquire an adequate number of shares of the Company to maintain his position as a Substantial Shareholder in any event that he is reasonably expected to cease to be a Substantial Shareholder as a result of issue of new shares by the Company.

Mr. Wu has provided a written confirmation to the Company confirming that he will not dispose of his existing interest in the Company for at least a period of twelve months from the date of issuance of the Company's consolidated financial statements. As such, the portion of the Term Loan that is repayable after one year from the end of the reporting period in accordance with the repayment schedule above is shown under non-current liabilities.

(b) Other loan represents a short-term loan from an independent third party. It is interest bearing at a fixed interest rate of 20% per annum, repayable within three months from the drawdown date and secured by personal guarantee of Mr. Wu.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

25. BORROWINGS – CONTINUED

The ranges of effective interest rate (which are also equal to contracted interest rates) on the borrowings are as follows:

	Effective interest rate		Carrying amount	
	2015	2014	**2015**	2014
			HK$'000	HK$'000
Fixed-rate borrowings	**20.00%**	N/A	**20,000**	–
Variable-rate borrowings	**4.57%**	4.33%	**163,800**	218,400
			183,800	218,400

At 31 December 2015, the following assets were pledged to secure the bank borrowings and banking facilities:

(a) The entire issued share capital of EP Energy (as defined in note 29).

(b) The entire issued share capital of Have Result (as defined in note 29).

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

Included in bank and other borrowings are the following amounts of borrowings denominated in currency other than the functional currency of the relevant group entities:

	2015	2014
	HK$'000	HK$'000
	Equivalent	Equivalent
HK$	**20,000**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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26. CONVERTIBLE NOTES

On 11 April 2013, the Company completed a subscription agreement pursuant to which the Company issued 8% convertible notes in an aggregate principal amount of HK$100,000,000 (the "2013 CN") which could be converted into ordinary shares of HK$0.10 each of the Company at an initial conversion price of HK$0.19 per share (subject to anti-dilutive adjustments). As a result of the capital reorganisation of the Company effective on 14 May 2015 (see note 27(b), the conversion price of the outstanding 2013 CN was adjusted to HK$1.90 per share. Furthermore, as a result of the open offer of shares of the Company effective on 17 June 2015 (see note 27(c)), the conversion price was further adjusted to HK$1.62 per share.

The 2013 CN was denominated in HK$, maturing on the second anniversary of the issue date of 11 April 2013 (the "2013 Maturity date"). The Company shall redeem all the 2013 CN on the 2013 Maturity date at 110% of the principal amount outstanding. With the holder's agreement, the Company may at any time and from time to time purchase the outstanding 2013 CN at such price as may be agreed between the Company and the holder thereof. On 20 June 2014, the Company early redeemed 40% of the 2013 CN at their principal amount of HK$40,000,000.

The fair value of the 2013 CN at 11 April 2013 amounted to HK$155,219,000. The difference between the fair value of the 2013 CN and the cash consideration of HK$100,000,000 received to the extent of (i) HK$34,210,000 was recognised in profit or loss on the date of issuance as this portion represented the loss which the Company would have incurred if the 2013 CN was fully converted on the date of issuance; and (ii) HK$21,009,000 was deferred and allocated between the liability component and conversion option based on the relative fair values of these two components on the date of issuance of the 2013 CN. The portion allocated to the liability component was recognised over the terms of 2013 CN using effective interest method whereas the remaining portion allocated to the conversion option was amortised on a straight-line method over the terms of 2013 CN. For the year ended 31 December 2015, the effective interest rate of the liability component was 23.92% (2014: 37.34%). At 31 December 2015, the unamortised deferred losses amounting to nil (2014: HK$799,000) was included in conversion option.

On 8 January 2015, the Company entered into an amendment deed with the 2013 CN holder to extend the maturity date of the remaining outstanding 2013 CN for one year, from 11 April 2015 to 11 April 2016. On 17 February 2015, an ordinary resolution was passed by shareholders of the Company at the special general meeting approving the amendment deed. Details of these are set out in the announcements of the Company dated 8 January 2015 and 17 February 2015. The extension of the maturity date of the 2013 CN causes modification of the terms of the 2013 CN.

The modification of the terms was determined to be substantial and hence resulted in the extinguishment of the original liability and conversion option derivative components of the 2013 CN and the recognition of new liability and conversion option derivative components (the "New 2013 CN"). The fair value of the new liability component immediately following the modification was HK$57,887,000. The liability component was determined using an effective interest rate of 23.92% (2014: 37.34%). The difference between the fair value of the New 2013 CN and the carrying amounts of the original liability and derivative component, amounting to HK$12,480,000, is recognised as a gain in profit or loss under the 'fair value gains on financial instruments' line item.

On 19 June 2015, the Company early redeemed the remaining balance of the New 2013 CN in the principal amount of HK$60,000,000.

During the years ended 31 December 2015 and 2014, none of the 2013 CN/New 2013 CN was converted into ordinary shares of the Company.

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26. CONVERTIBLE NOTES – CONTINUED

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

	17.2.2015	31.12.2014
Conversion price	**HK$0.190**	HK$0.190
Share price	**HK$0.104**	HK$0.156
Expected volatility	**43.51%**	47.503%
Remaining life	**1.15 years**	0.28 years
Risk-free rate	**0.558%**	0.404%

The movements of the components of the 2013 CN/New 2013 CN during the current and prior years are set out below:

	Liability component HK$'000	**Conversion component** HK$'000	**Total** HK$'000
At 1 January 2014	84,054	38,152	122,206
Gain on derivative component recognised in profit or loss	–	(34,687)	(34,687)
Amortisation of deferred loss on conversion component	–	5,347	5,347
Redemption during the year	(37,105)	(2,895)	(40,000)
Interest charge	22,949	–	22,949
Interest paid	(7,021)	–	(7,021)
At 31 December 2014	62,877	5,917	68,794
Amortisation of deferred loss on conversion component	–	380	380
Derecognition of original liability/conversion component upon modification of terms	(65,502)	(6,297)	(71,799)
Recognition of new liability/conversion component upon modification of terms	57,887	1,432	59,319
Gain on new derivative component recognised in profit or loss	–	(135)	(135)
Redemption during the year	(58,703)	(1,297)	(60,000)
Interest charge	6,761	–	6,761
Interest paid	(3,320)	–	(3,320)
At 31 December 2015	–	–	–

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For the year ended 31 December 2015

27. SHARE CAPITAL

	Nominal value per share HK$	Number of ordinary shares '000	Nominal value of ordinary shares HK$'000
Authorised:			
Ordinary shares at 1 January 2014 and 31 December 2014	0.10	10,000,000	1,000,000
Sub-division of shares *(note b)*		90,000,000	–
Ordinary shares at 31 December 2015	0.01	100,000,000	1,000,000
Issued and fully paid:			
Ordinary shares at 1 January 2014	0.10	4,169,878	416,988
Issue of new share upon placement *(note a)*	0.10	682,480	68,248
Ordinary shares at 31 December 2014	0.10	4,852,358	485,236
Effects of share consolidation and capital reduction *(note b)*		(4,367,122)	(480,383)
	0.01	485,236	4,853
Issue of shares by open offer *(note c)*	0.01	242,618	2,426
Ordinary shares at 31 December 2015	0.01	727,854	7,279

Notes:

(a) On 22 April 2014, the Company completed a placement of 682,480,000 ordinary shares of HK$0.10 each at a placing price of HK$0.228 per share to independent third parties. Accordingly, 682,480,000 ordinary shares of HK$0.10 each were issued at a premium of HK$0.128 each and the premium on issue of shares of HK$87,357,000 was credited to the share premium account.

(b) As announced by the Company on 31 March 2015, the Company proposed to effect (i) the share consolidation whereby every ten shares of nominal value of HK$0.10 each in the issued share capital of the Company shall be consolidated into one consolidated share of nominal value of HK$1.00 and any fractional consolidated share in the issued share capital of the Company arising from the share consolidation shall be cancelled; (ii) the capital reduction whereby the nominal value of all the issued consolidated shares shall be reduced from HK$1.00 each to HK$0.01 each by cancelling paid-up capital to the extent of HK$0.99 on each consolidated share so as to form an adjusted share of HK$0.01, and the credit arising from the capital reduction be credited to the contributed surplus account of the Company; (iii) the sub-division of each of the authorised but unissued shares of HK$0.10 into ten adjusted shares of HK$0.01 each; (iv) the cancellation of all amounts standing to the credit of the share premium account of the Company with the credit arising therefrom credited to the contributed surplus account of the Company; and (v) the application of the amounts in the contributed surplus account of the Company to set off the accumulated losses of the Company.

Details of the share consolidation and capital reorganisation are set out, among others, in the circular of the Company dated 20 April 2015. Special resolutions approving the share consolidation and capital reorganisation were passed at the special general meeting of the Company held on 13 May 2015 and the share consolidation and capital reorganisation became effective on 14 May 2015.

(c) As announced by the Company on 31 March 2015 and 17 April 2015, the Company proposed to raise gross proceeds of approximately HK$121 million to approximately HK$175 million, before expenses, by way of open offer of shares of the Company. Under the open offer, the Company allotted and issued 242,617,879 offer shares at the subscription price of HK$0.50 per offer share, on the basis of one offer share for every two adjusted shares held on 21 May 2015.

Details of the open offer are set out in the circular of the Company dated 26 May 2015. The open offer was completed on 17 June 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

27. SHARE CAPITAL – CONTINUED

Notes: – Continued

(d) As part of the placing agreement for placing of shares completed in March 2013 (the "March 2013 Placing Shares"), the Company issued unlisted warrants (the "Warrants") on the basis of 5 Warrants of each of the March 2013 Placing Shares issued, at no initial price. The exercise price of the Warrant was at HK$0.20 each and could be exercised at any time for period of three years from the issue date.

Prior to and upon completion of the share consolidation of the Company on 14 May 2015 (see (b) above), the Company had outstanding Warrants which entitled the holders thereof to subscribe for 625,000,000 and 62,500,000 shares, respectively, of the Company. The subscription price of the outstanding Warrants was adjusted to HK$2.00 pursuant to the terms of the instrument creating the Warrants.

Prior to and upon completion of the open offer of shares of the Company on 17 June 2015 (see (c) above), the Company had outstanding Warrants which entitled the holders thereof to subscribe for 62,500,000 and 73,529,411 shares, respectively, of the Company. The subscription price of the outstanding Warrants was adjusted to HK$1.70 pursuant to the terms of the instrument creating the Warrants.

At 31 December 2015, Warrants which entitled holders to subscribe for 73,529,411 shares remain outstanding.

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

28. SHARE OPTIONS

The Company's share option scheme (the "Scheme") was adopted for a period of 10 years commencing 6 November 2006 pursuant to an ordinary resolution passed at the special general meeting of the shareholders held on 6 November 2006 for the purpose of providing incentives or rewards to selected employees and directors for their contribution to the Group.

Under the Scheme, the Company may grant options to selected employees and directors of the Company and its subsidiaries to subscribe for shares in the Company. Additionally, the Company may, from time to time, grant share options to eligible suppliers, customers, advisors and consultants to the Company and its subsidiaries at the discretion of the board of directors of the Company.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point of time, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders, independent non-executive directors, or any of their respective associates (including a discretionary trust whose discretionary objects include substantial shareholders, independent non-executive directors, or any of their respective associates) in excess of 0.1% of the Company's share capital or with a value in excess of HK$5,000,000 must be also approved by the Company's shareholders.

The exercise price of the share options is determinable by the board of directors, but may not be less than the highest of: (i) the Stock Exchange closing price of the Company's shares on the date of the offer of the share options which must be a business day; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer; and (iii) the nominal value of the Company's shares.

As at 31 December 2015, options to subscribe for an aggregate of 22,538,880 shares (2014: 1,204,000,000 shares) of the Company granted to the directors, certain employees and suppliers pursuant to the Scheme remained outstanding.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

28. SHARE OPTIONS – CONTINUED

Details of the movements in the number of share options during the year ended 31 December 2015 under the Scheme are as follows:

Option type	Date of grant	Exercisable period (both dates inclusive)	Exercise price HK$ note (d)	Outstanding at 1.1.2015	Adjusted during the year note (d)	Forfeited during the year	Cancelled during the year note (e)	Outstanding at 31.12.2015
Employees:								
N	25 November 2013	25 November 2013 – 24 November 2016	1.8656	57,000,000	991,230	(51,300,000)	(6,691,230)	–
R	17 July 2014	17 July 2014 – 16 July 2017	1.7037	3,000,000	52,170	(2,700,000)	(352,170)	–
				60,000,000	1,043,400	(54,000,000)	(7,043,400)	–
Directors:								
J	11 April 2013 *(Note (a))*	3 July 2013 – 10 April 2016	2.1722	88,000,000	1,530,320	(79,200,000)	(10,330,320)	–
K	30 July 2013 *(Note (b))*	16 September 2013 – 29 July 2016	1.7548	147,500,000	2,565,025	(132,750,000)	(17,315,025)	–
L	30 July 2013 *(Note (b))*	16 September 2014 – 29 July 2016	1.7548	73,750,000	1,282,512	(66,375,000)	(8,657,512)	–
M	30 July 2013 *(Note (b))*	16 September 2015 – 29 July 2016	1.7548	73,750,000	1,282,512	(66,375,000)	(8,657,512)	–
				383,000,000	6,660,369	(344,700,000)	(44,960,369)	–
Suppliers and others:								
H	11 April 2013	11 April 2013 – 10 April 2016	2.1722	128,000,000	2,225,920	(115,200,000)	–	15,025,920
N	25 November 2013	25 November 2013 – 24 November 2016	1.8656	32,000,000	556,480	(28,800,000)	(3,756,480)	–
O	25 November 2013	25 February 2014 – 24 November 2016	1.8656	64,000,000	1,112,960	(57,600,000)	–	7,512,960
P	4 June 2014	4 June 2014 – 3 June 2017	1.6100	70,000,000	1,217,300	(63,000,000)	(8,217,300)	–
Q	17 July 2014	17 July 2014 – 16 July 2017	1.7037	467,000,000	8,121,130	(420,300,000)	(54,821,130)	–
				761,000,000	13,233,790	(684,900,000)	(66,794,910)	22,538,880
				1,204,000,000	20,937,559	(1,083,600,000)	(118,798,679)	22,538,880

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

28. SHARE OPTIONS – CONTINUED

Details of the movements in the number of share options during the year ended 31 December 2014 under the Scheme are as follows:

Option type	Date of grant	Exercisable period (both dates inclusive)	Exercise price HK$	Outstanding at 1.1.2014	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2014
Employees:								
N	25 November 2013	25 November 2013 – 24 November 2016	0.219	64,000,000	–	–	(7,000,000)	57,000,000
R	17 July 2014	17 July 2014 – 16 July 2017	0.200	–	3,000,000	–	–	3,000,000
				64,000,000	3,000,000	–	(7,000,000)	60,000,000
Directors:								
J	11 April 2013 *(Note (a))*	3 July 2013 – 10 April 2016	0.255	88,000,000	–	–	–	88,000,000
K	30 July 2013 *(Note (b))*	16 September 2013 – 29 July 2016	0.206	147,500,000	–	–	–	147,500,000
L	30 July 2013 *(Note (b))*	16 September 2014 – 29 July 2016	0.206	73,750,000	–	–	–	73,750,000
M	30 July 2013 *(Note (b))*	16 September 2015 – 29 July 2016	0.206	73,750,000	–	–	–	73,750,000
				383,000,000	–	–	–	383,000,000
Suppliers and others:								
H	11 April 2013	11 April 2013 – 10 April 2016	0.255	128,000,000	–	–	–	128,000,000
I	11 April 2013 *(Note (c))*	11 April 2013 – 28 February 2014	0.255	32,000,000	–	–	(32,000,000)	–
N	25 November 2013	25 November 2013 – 24 November 2016	0.219	32,000,000	–	–	–	32,000,000
O	25 November 2013	25 February 2014 – 24 November 2016	0.219	64,000,000	–	–	–	64,000,000
P	4 June 2014	4 June 2014 – 3 June 2017	0.189	–	70,000,000	–	–	70,000,000
Q	17 July 2014	17 July 2014 – 16 July 2017	0.200	–	467,000,000	–	–	467,000,000
				256,000,000	537,000,000	–	(32,000,000)	761,000,000
				703,000,000	540,000,000	–	(39,000,000)	1,204,000,000

Pursuant to the resolutions of the Company passed on 4 June 2014 and 17 July 2014, the Company granted 3,000,000 and 537,000,000 share options to employees and consultants of the Company, respectively, under the Scheme.

The closing price of the Company's shares on the approval dates on 4 June 2014 and 17 July 2014, the respective dates of grant of the options, were HK$0.189 and HK$0.200, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

28. SHARE OPTIONS – CONTINUED

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

Option type	Grant date	Exercisable period (both dates inclusive)	Fair value on grant date HK$
H	11 April 2013	11 April 2013–10 April 2016	0.096
I	11 April 2013 (note (c))	11 April 2013–28 February 2014	0.096
J	11 April 2013 (note (a))	3 July 2013–10 April 2016	0.084
K	30 July 2013 (note (b))	16 September 2013–29 July 2016	0.093
L	30 July 2013 (note (b))	16 September 2014–29 July 2016	0.095
M	30 July 2013 (note (b))	16 September 2015–29 July 2016	0.098
N	25 November 2013	25 November 2013–24 November 2016	0.077
O	25 November 2013	25 February 2014–24 November 2016	0.077
P	4 June 2014	4 June 2014–3 June 2017	0.0693
Q	17 July 2014	17 July 2014–16 July 2017	0.058
R	17 July 2014	17 July 2014–16 July 2017	0.054

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

	Option type										
	H	I	J	K	L	M	N	O	P	Q	R
Share price on grant date (HK$)	0.255	0.255	0.243	0.234	0.234	0.234	0.215	0.215	0.189	0.200	0.200
Exercise price on grant date (HK$)	0.255	0.255	0.255	0.206	0.206	0.206	0.219	0.219	0.189	0.200	0.200
Expected volatility	60.22%	60.22%	58.03%	58.19%	58.19%	58.19%	57.77%	57.77%	57.13%	55.35%	55.35%
Expected life (years)	3.00	0.88	2.77	2.87	1.87	0.87	3.00	2.75	3	3	3
Risk-free rate	0.19%	0.19%	0.51%	0.54%	0.54%	0.54%	0.37%	0.37%	1.10%	0.80%	0.80%

Expected volatility was determined by using the historical volatility of the Company's share price over the previous five years.

The Group recognised a total expense of HK$2,562,000 (2014: HK$43,676,000) during the year ended 31 December 2015 in relation to the share options granted by the Company, of which HK$2,562,000 (2014: HK$8,760,000) was related to services provided by the directors and employees of the Company and nil (2014: HK$34,916,000) was related to services provided by the Group's consultants.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

28. SHARE OPTIONS – CONTINUED

Notes:

(a) Date of approval by shareholders was 3 July 2013.

(b) Date of approval by shareholders was 16 September 2013.

(c) These share options were granted to an executive director on 11 April 2013 and the director resigned on 29 November 2013. According to the Scheme, the outstanding number of share options held by the director can be exercised within 3 months from the date of his resignation. These share options were classified in the category of "suppliers and others" in the above tables.

(d) With reference to the provisions of the Scheme, Rule 17.03(13) of the Listing Rules and the supplementary guidance issued by the Stock Exchange on 5 September 2005 regarding the interpretation of Rule 17.03(13) of the Listing Rules, upon completion of the share consolidation and capital reorganisation on 14 May 2015 (see note 27(b)) and the open offer of shares of the Company on 12 June 2015 (see note 27(c)), the exercise price of the outstanding share options and the number of shares that can be subscribed for upon the exercise of the outstanding share options were adjusted.

(e) On 20 November 2015, the Company agreed with holders of outstanding (and unexercised) share options carrying rights to subscribe for an aggregate of 118,798,679 ordinary shares of the Company of HK$0.01 each to cancel their options with immediate effect in accordance with the rules of the Scheme. No consideration is paid or payable for such cancellation.

29. JOINT OPERATIONS

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

29. JOINT OPERATIONS – CONTINUED

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

Pursuant to the New JV Agreement, the total consideration for the oil exploration and production right is subject to adjustment with reference to whether or not Chañares can obtain the extension of the term of Concessions (the "Extension") by 31 December 2011. On 14 July 2011, the Company was informed by Chañares that the Executive of the Province of Mendoza has issued a Decree pursuant to which Chañares obtained an extension of 10 years from the date of expiry of the original term of the Concessions until 2027 (see note 18). EP Energy paid an aggregate amount of US$4,000,000 (equivalent to approximately HK$31,200,000) to Chañares in consideration for the oil exploration and production right in the Areas during the extended term of the Concessions. A sum of US$1,404,000 (equivalent to approximately HK$10,952,000) was paid in 2011 and the remaining balance of US$2,596,000 (equivalent to approximately HK$20,248,000) was paid in 2012.

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

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

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

The Operation Agreement reconfirms that Have Result has the right to receive 51% of the hydrocarbon production obtained from the Existing Wells until the termination of the Concessions held in respect of the Areas and any extension thereof. Have Result agreed that part of the proceeds from previous production of the Existing Wells, as well as the future production from the Existing Wells up to 31 December 2013, shall be reinvested in the Areas, including workover of the Existing Wells.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

29. JOINT OPERATIONS – CONTINUED

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

	2015 HK$'000	2014 HK$'000
Assets	**64,282**	318,674
Liabilities	**951**	5,363
Revenue	**66,571**	85,689
Expenses	**251,150**	70,768

30. PLEDGE OF ASSETS

At 31 December 2015 and 2014, the following assets were pledged to secure the Group's bank borrowings and banking facilities:

(a) The entire issued share capital of EP Energy.

(b) The entire issued share capital of Have Result.

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

31. OPERATING LEASE COMMITMENTS

At 31 December 2015, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2015 HK$'000	2014 HK$'000
Within one year	**2,977**	2,672
In the second to fifth year, inclusive	**1,968**	520
	4,945	3,192

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

32. RETIREMENT BENEFITS SCHEMES

The Group contributes to MPF Schemes for all qualifying employees employed under the jurisdiction of the Hong Kong Employment Ordinance. Contributions to the MPF Schemes by the Group and the employees are calculated as a percentage of employee's relevant income. The retirement benefit scheme costs recognised in profit or loss represent contributions payable by the Group to the funds. The assets of the MPF Schemes are held separately from those of the Group in independently administered funds.

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

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

33. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

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

	2015 **HK$'000**	2014 HK$'000
Short-term employee benefits	**10,158**	16,323
Post-employment benefits	**90**	90
Equity-settled share-based payments *(note 28)*	**2,562**	8,598
	12,810	25,011

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

34. FINANCIAL INSTRUMENTS

Financial risk management objectives

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

Categories of financial instruments

	2015	2014
	HK$'000	HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**28,446**	48,662
Held-for-trading investments	**62**	52
	28,508	48,714
Financial liabilities		
Amortised cost	**184,490**	281,831
Derivative financial instruments	**–**	5,917

Interest rate risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

34. FINANCIAL INSTRUMENTS – CONTINUED

Interest rate risk – continued

The Group's sensitivity to interest rate risk has been determined based on the exposure to interest rates for bank balances and variable-rate borrowings at the end of the reporting period and the reasonably possible change taking place at the beginning of each year and held constant throughout the year. If interest rates on bank balances and borrowings had been 50 basis points higher/lower and all other variables were held constant, the potential effect on loss for the year is as follows:

	2015	2014
	HK$'000	HK$'000
Assets	**(65)**	(141)
Liabilities	**819**	1,092
Increase in loss for the year	**754**	951

The management considers that the fair value interest rate risk is insignificant as the Group had no fixed-rate borrowings due more than one year.

Foreign currency risk management

Several subsidiaries of the Company have assets and liabilities (details are disclosed in respective notes) denominated in foreign currencies which expose the Group to foreign currency risk. Since the HK$ is pegged to US$, the management considers that the exchange rate fluctuation between the HK$ and US$ is not significant and therefore has not been included in the sensitivity analysis. The Group currently does not have a formal foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

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

	Liabilities		**Assets**	
	2015	2014	**2015**	2014
	HK$'000	HK$'000	**HK$'000**	HK$'000
ARS	**(20,146)**	(25,286)	**26,282**	66,050

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

34. FINANCIAL INSTRUMENTS – CONTINUED

Foreign currency risk management – continued

Foreign currency sensitivity

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

	Impact of ARS	
	2015	2014
	HK$'000	HK$'000
Increase in loss for the year	**399**	2,650

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk at the year end and the sensitivity analysis does not reflect the exposure during the year.

Other price risk

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

Sensitivity analysis

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

If equity prices had been 20% higher/lower, loss for the year ended 31 December 2015 would decrease/increase by HK$12,400 (2014: HK$10,400) as a result of the change in fair value of held-for-trading investments (2014: held-for-trading investments).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

34. FINANCIAL INSTRUMENTS – CONTINUED

Credit risk

As at 31 December 2015 and 2014, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from:

— the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

The Group's concentration of credit risk for trade receivables by geographical locations is mainly in Argentina (2014: Argentina), which accounted for 100% (2014: 100%) of the total trade receivables as at 31 December 2015. For the years ended 31 December 2015 and 2014, the entire Group revenue was derived from one customer.

The Group had concentration of credit risk 100% (2014: 100%) of the total trade receivables, which was attributable to the Group's only customer as at 31 December 2015 (2014: one customer). The Group's only customer is a state-owned enterprise oil company based in Argentina and with good creditability. In this regard, the management considers that the Group's credit risk is significantly reduced.

Liquidity risk

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

Liquidity forecasts are produced on a monthly basis, to ensure that utilisation of current facilities is optimised; on a quarterly basis to ensure that covenant compliance targets and medium-term liquidity is maintained; and on a long-term projection basis, for the purpose of identifying long-term strategic funding requirements. The board of directors also continuously assesses the balance of capital and debt funding of the Group.

The board of directors continuously manages liquidity risk on a regular basis and will increase the frequencies of such assessment should need arise. Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves of cash and banking facilities and by continuously monitoring the utilisation of bank borrowings and ensuring compliance with loan covenants.

The Group's holdings of cash and short-term deposits, together with net cash flows from operations and proceeds from issue of new shares, are expected to be sufficient to cover the operating cost of the Group in the next financial year. The management considers that the Group expects to have adequate source of funding to finance the Group and manage the liquidity position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

34. FINANCIAL INSTRUMENTS – CONTINUED

Liquidity risk – continued

The following table details the Group's remaining contractual maturity for its financial liabilities based on the agreed repayment terms. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

In addition, the following table details the Group's liquidity analysis for its derivative financial liabilities. The tables have been drawn up based on the undiscounted contractual net cash (inflows) and outflows on derivative instruments settled on a net basis. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the end of the reporting period. The liquidity analysis for the Group's derivative financial instruments is prepared based on the contractual maturities as the management considers that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

Liquidity table

	Weighted average interest rate %	On demand or less than 1 month HK$'000	1 to 6 months HK$'000	7 months to 1 year HK$'000	1 to 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2015 HK$'000
2015							
Non-derivative financial liabilities							
Trade payables	**N/A**	**389**	**–**	**–**	**–**	**389**	**389**
Other payables	**N/A**	**301**	**–**	**–**	**–**	**301**	**301**
Borrowings							
— variable-rate	**4.57%**	**–**	**–**	**62,086**	**116,686**	**178,772**	**163,800**
— fixed-rate	**20.00%**	**–**	**20,500**	**–**	**–**	**20,500**	**20,000**
		690	**20,500**	**62,086**	**116,686**	**199,962**	**184,490**

	Weighted average interest rate %	On demand or less than 1 month HK$'000	1 to 6 months HK$'000	7 months to 1 year HK$'000	1 to 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2014 HK$'000
2014							
Non-derivative financial liabilities							
Trade payables	N/A	253	–	–	–	253	253
Other payables	N/A	301	–	–	–	301	301
Borrowings							
— variable-rate	4.33%	–	–	64,057	177,985	242,042	218,400
Convertible notes	37.34%	–	–	–	66,000	66,000	62,877
		554	–	64,057	243,985	308,596	281,831

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

34. FINANCIAL INSTRUMENTS – CONTINUED

Fair value of financial instruments

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices.
- the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions.
- the fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, fair value is determined based on pricing models such as Black-Scholes Model and Binomial Model.

The directors consider that the carrying amount of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values.

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

	31.12.2015			
	Level 1 HK$'000	**Level 2 HK$'000**	**Level 3 HK$'000**	**Total HK$'000**
Financial assets				
Held-for-trading				
— Trading securities	**62**	**–**	**–**	**62**

	31.12.2014			
	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Financial assets				
Held-for-trading				
— Trading securities	52	–	–	52
Financial liabilities				
Conversion option of convertible notes	–	–	5,917	5,917

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

35. CAPITAL RISK MANAGEMENT

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

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

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

36. EVENTS AFTER THE END OF THE REPORTING PERIOD

The following events took place subsequent to 31 December 2015:

As announced by the Company on 12 November 2015, the Company announced a proposed rights issue of shares on the basis of five rights shares for every one existing share at HK$0.14 per rights share. The rights issue was completed on 20 January 2016 and 3,639,268,185 rights shares of HK$0.01 each were issued. The estimated net proceeds, after deducting underwriting commission and other related expenses incurred by the Company, amounted to approximately HK$502 million. These rights shares rank pari passu with the then existing ordinary shares in all respects.

37. PARTICULARS OF PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries, which are limited liability companies, at 31 December 2015 and 2014, are as follows:

Name of subsidiaries	Place of incorporation/ operations	Nominal value of issued and fully paid ordinary share/ registered capital	Attributable proportion of nominal value of issued/ registered capital held by the Company		Principal activities
			Directly	Indirectly	
EP Energy S.A.	Argentina	ARS303,600	–	100% (2014: 100%)	Petroleum exploration and production
Have Result Investments Limited	British Virgin Islands/ Argentina	US$10,000	–	100% (2014: 100%)	Petroleum exploration and production

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2015 HK$'000	2014 HK$'000
NON-CURRENT ASSETS		
Property, plant and equipment	**754**	1,018
Interests in subsidiaries — unlisted	**8**	8
	762	1,026
CURRENT ASSETS		
Other receivables, prepayment and deposits	**16,187**	577
Amounts due from subsidiaries	**41,969**	427,955
Bank balances and cash	**883**	9,399
	59,039	437,931
CURRENT LIABILITIES		
Other payables	**33,074**	38,644
Amounts due to subsidiaries	**90,750**	90,791
Borrowings — amount due within one year	**74,600**	54,600
Convertible notes	**–**	62,877
Derivative financial liabilities	**–**	5,917
	198,424	252,829
NET CURRENT (LIABILITIES) ASSETS	**(139,385)**	185,102
TOTAL ASSETS LESS CURRENT LIABILITIES	**(138,623)**	186,128
CAPITAL AND RESERVES		
Share capital	**7,279**	485,236
Reserves (note)	**(255,102)**	(462,908)
TOTAL EQUITY	**(247,823)**	22,328
NON-CURRENT LIABILITIES		
Borrowings — amount due after one year	**109,200**	163,800
	(138,623)	186,128

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY – CONTINUED

Note:

Movements of the Company's reserves during the current and the prior years are as follows:

	Share premium HK$'000	Contributed surplus reserve HK$'000	Share options reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2014	4,100,080	60,322	82,150	(4,453,462)	(210,910)
Total comprehensive expense for the year	–	–	–	(377,392)	(377,392)
Issue of new shares	87,357	–	–	–	87,357
Transaction costs attributable to issue of new shares	(5,639)	–	–	–	(5,639)
Recognition of equity-settled share-based payment expense	–	–	43,676	–	43,676
At 31 December 2014	4,181,798	60,322	125,826	(4,830,854)	(462,908)
Total comprehensive expense for the year	–	–	–	(391,089)	(391,089)
Share consolidation	–	480,383	–	–	480,383
Capital reorganisation	(4,181,798)	(540,705)	–	4,722,503	–
Share consolidation and capital reorganisation expenses	(387)	–	–	–	(387)
Issue of new shares	118,883	–	–	–	118,883
Transaction costs attributable to issue of new shares	(2,546)	–	–	–	(2,546)
Recognition of equity-settled share-based payment expense	–	–	2,562	–	2,562
At 31 December 2015	115,950	–	128,388	(499,440)	(255,102)

FIVE YEAR FINANCIAL SUMMARY

	Year ended 31 December				
	2015	2014	2013	2012	2011
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Revenue	**66,571**	85,689	89,853	80,854	42,554
Loss before income tax	**(276,548)**	(180,233)	(665,113)	(3,343,544)	(225,899)
Income tax (expense) credit	**–**	–	–	(10,351)	7,942
Loss for the year from continuing operations	**(276,548)**	(180,233)	(665,113)	(3,353,895)	(217,957)
(Loss) profit for the year from discontinued operations — Metals	**–**	(200,910)	(14,058)	1,855	220
Loss for the year	**(276,548)**	(381,143)	(679,171)	(3,352,040)	(217,737)

	At 31 December				
	2015	2014	2013	2012	2011
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
ASSETS AND LIABILITIES					
Total assets	**92,903**	361,892	676,343	1,136,707	4,525,191
Total liabilities	**(217,828)**	(331,207)	(458,157)	(463,105)	(606,250)
Equity attributable to owners of the Company	**(124,925)**	30,685	218,186	673,602	3,918,941

Note: During the year ended 31 December 2014, the Group discontinued the metals operation, being the trading of metals.

CORPORATE INFORMATION

NON-EXECUTIVE CHAIRMAN

Mr. Ho King Fung, Eric

EXECUTIVE DIRECTORS

Mr. Tse Kwok Fai, Sammy *(Chief Executive Officer)*
Mr. Chan Chi Hung, Anthony
Mr. Zou Feng *(appointed on 7 March 2016)*

NON-EXECUTIVE DIRECTOR

Mr. Phen Chun Shing Vincent *(appointed on 15 February 2016)*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Qian Zhi Hui
Mr. Teoh Chun Ming
Mr. Zhu Tiansheng

COMPANY SECRETARY

Mr. Tsang Wing Hung

PRINCIPAL SHARE REGISTRAR

Butterfield Fulcrum Group (Bermuda) Limited
26 Burnaby Street
Hamilton HM11
Bermuda

BRANCH SHARE REGISTRAR

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1108–09, 11/F
Harbour Centre
25 Harbour Road
Wanchai, Hong Kong
Phone: (852) 2616 3689
Fax: (852) 2481 2902

AUDIT COMMITTEE

Mr. Teoh Chun Ming *(Chairman)*
Mr. Qian Zhi Hui
Mr. Zhu Tiansheng

REMUNERATION COMMITTEE

Mr. Qian Zhi Hui *(Chairman)*
Mr. Ho King Fung, Eric
Mr. Tse Kwok Fai, Sammy
Mr. Zhu Tiansheng

NOMINATION COMMITTEE

Mr. Qian Zhi Hui *(Chairman)*
Mr. Ho King Fung, Eric
Mr. Tse Kwok Fai, Sammy
Mr. Zhu Tiansheng

CORPORATE GOVERNANCE COMMITTEE

Mr. Ho King Fung, Eric *(Chairman)*
Mr. Chan Chi Hung, Anthony

SOLICITORS

ReedSmith Richards Butler
Vincent T.K. Cheung, Yap & Co.

AUDITOR

Deloitte Touche Tohmatsu

SHARE INFORMATION

Place of listing: Main Board of The Stock Exchange
of Hong Kong Limited
Stock Code: 0689
Board lot: 15,000 shares
Financial year end: 31 December
Number of Shares at 31 December 2015: 727,853,637
Closing price per Share as at 31 December 2015: HK$0.191
Market capitalization at 31 December 2015: HK$139.02 million

WEBSITE ADDRESS

www.epiholdings.com

EPI (Holdings) Limited
長盈集團(控股)有限公司

Stock Code : 0689