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EPI **EPI (Holdings) Limited**
長盈集團(控股)有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 689)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2017

The Board of Directors (the “Board”) of EPI (Holdings) Limited (the “Company”) hereby announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred as the “Group”) for the six months ended 30 June 2017 together with comparative figures as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

		Six months ended 30 June	
		2017	2016
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Revenue	4	27,439	26,548
Purchases, processing and related expenses		(16,837)	(20,324)
Other gain (loss), net	6	1,059	(3,060)
Net gain (loss) on financial assets at fair value through profit or loss	7	10,640	(1,090)
Net fair value changes on convertible notes	10	3,575	–
Wages, salaries and other benefits		(5,095)	(9,199)
Share-based payments expense	10	(73,257)	–
Depreciation and depletion		(1,945)	(2,211)
Other expenses		(4,626)	(15,138)
Finance costs	8	(1,272)	(4,042)
Loss before tax		(60,319)	(28,516)
Income tax expense	9	(624)	–
Loss for the period	10	(60,943)	(28,516)

* For identification purpose only

		Six months ended 30 June	
		2017	2016
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Other comprehensive expense			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Net fair value loss on available-for-sale investments		<u>(2,402)</u>	<u>–</u>
Total comprehensive expense for the period		<u>(63,345)</u>	<u>(28,516)</u>
Loss for the period attributable to owners of the Company		<u>(60,943)</u>	<u>(28,516)</u>
Total comprehensive expense for the period attributable to owners of the Company		<u>(63,345)</u>	<u>(28,516)</u>
Loss per share attributable to owners of the Company			
– Basic	<i>12</i>	<u>HK1.40 cents</u>	<u>HK0.90 cent</u>
– Diluted	<i>12</i>	<u>HK1.42 cents</u>	<u>HK0.90 cent</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	<i>Notes</i>	At 30 June 2017 <i>HK\$'000</i> (Unaudited)	At 31 December 2016 <i>HK\$'000</i> (Audited)
Non-current assets			
Exploration and evaluation assets		–	–
Property, plant and equipment		36,141	38,184
Available-for-sale investments	13	104,083	–
Other tax recoverables		2,410	4,431
		<u>142,634</u>	<u>42,615</u>
Total non-current assets			
Current assets			
Available-for-sale investments	13	3,100	–
Trade and other receivables and prepayments	14	11,263	11,996
Loan receivables	15	99,000	102,000
Other tax recoverables		1,286	1,465
Financial assets at fair value through profit or loss	16	95,009	27,454
Bank balances and cash		94,213	182,204
		<u>303,871</u>	<u>325,119</u>
Total current assets			
Current liabilities			
Trade and other payables	17	12,487	21,801
Income tax payable		715	91
Convertible notes	18	2,400	–
		<u>15,602</u>	<u>21,892</u>
Total current liabilities			
Net current assets		<u>288,269</u>	<u>303,227</u>
Total assets less current liabilities		<u>430,903</u>	<u>345,842</u>
Non-current liabilities			
Derivative financial liability	18	3,884	–
Convertible notes	18	71,265	–
		<u>75,149</u>	<u>–</u>
Total non-current liabilities			
Net assets		<u>355,754</u>	<u>345,842</u>
Capital and reserves			
Share capital	19	43,671	43,671
Reserves		312,083	302,171
		<u>355,754</u>	<u>345,842</u>
Total equity		<u>355,754</u>	<u>345,842</u>

Notes:

1. Basis of preparation

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 “*Interim Financial Reporting*” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The unaudited condensed consolidated interim financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values, and are presented in Hong Kong dollars (“HK\$”) which is the functional currency of the Company.

2. Significant events and transactions in the current interim period

The Company has granted share options to eligible persons to subscribe for a total of 436,710,000 ordinary shares of the Company under the existing share option scheme of the Company on 4 May 2017. The exercise price of the options granted is HK\$0.53 per share and the exercisable period is from 4 May 2017 to 3 May 2020 (both dates inclusive). The Group recognised share-based payments expense, which was non-cash in nature, of HK\$73,257,000 recorded for the grant of share options referred to in Note 20.

3. Principal accounting policies

The unaudited condensed consolidated interim financial statements should be read in conjunction with the audited financial statements for the year ended 31 December 2016. The accounting policies and methods of computation used in the unaudited condensed consolidated interim financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group’s audited consolidated financial statements for the year ended 31 December 2016. In addition, the Group has applied the following accounting policies for available-for-sale financial assets and convertible notes during the current interim period.

Financial instruments

Available-for-sale (“AFS”) financial assets

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss (“FVTPL”).

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

Convertible notes contain debt and derivative components

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 Group's own equity instruments is a conversion option derivative.

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

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

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant for the preparation of the Group's unaudited condensed consolidated interim financial statements:

Amendments to HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to HKFRSs	As part of annual improvements to HKFRSs 2014-2016 cycle

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts and/or disclosures reported in these condensed consolidated financial statements.

4. Revenue

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

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Sales of petroleum	21,639	25,302
Interest income from money lending business	4,193	446
Arrangement fee income from money lending business	130	–
Dividend income from securities investments (<i>Note</i>)	275	800
Interest income from securities and AFS investments	1,202	–
	27,439	26,548

Note:

The amounts represent the dividend income from securities investments, which were classified as other income in the prior period. During the current period, the management of the Group reclassified such amount from other income to revenue for the purpose of resource allocation and performance assessment for the segment of investment in securities referred to in Note 5.

5. Segment information

The following is an analysis of the Group's revenue and results by operating segments, based on the information reported to the chief operating decision maker representing the Board, for the purposes of resource allocation and assessment of segment performance. This is also the basis upon which the Group is arranged and organised.

The Group's reportable segments under HKFRS 8 are as follows:

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

Segment revenue and results

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

Six months ended 30 June 2017

	Petroleum exploration and production <i>HK\$'000</i> (Unaudited)	Money lending <i>HK\$'000</i> (Unaudited)	Investment in securities <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Segment revenue				
External sales/sources	<u>21,639</u>	<u>4,323</u>	<u>1,477</u>	<u>27,439</u>
Results				
Segment results	<u>(73)</u>	<u>4,447</u>	<u>11,655</u>	16,029
Other gain, net				779
Corporate expenses				(2,598)
Share-based payments expense				(73,257)
Finance costs				<u>(1,272)</u>
Loss before tax				(60,319)
Income tax expense				<u>(624)</u>
Loss for the period				<u>(60,943)</u>

Six months ended 30 June 2016

	Petroleum exploration and production <i>HK\$'000</i> (Unaudited)	Money lending <i>HK\$'000</i> (Unaudited)	Investment in securities <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Segment revenue				
External sales/sources	<u>25,302</u>	<u>446</u>	<u>800</u>	<u>26,548</u>
Results				
Segment results	<u>(319)</u>	<u>294</u>	<u>(529)</u>	(554)
Other loss, net				(3,112)
Corporate expenses				(20,808)
Finance costs				<u>(4,042)</u>
Loss before tax				(28,516)
Income tax expense				<u>—</u>
Loss for the period				<u>(28,516)</u>

The accounting policies of the operating segments are the same as those adopted in the audited consolidated financial statements for the year ended 31 December 2016.

Segment results represents the loss incurred/profit earned by each segment without allocation of certain other gain (loss), net, certain corporate expenses, share-based payments expense, finance costs and income tax expense.

Segment assets and liabilities

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

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Segment assets		
Petroleum exploration and production	46,425	50,653
Money lending	123,731	115,479
Investment in securities	<u>206,012</u>	<u>28,149</u>
Total segment assets	376,168	194,281
Property, plant and equipment	350	482
Bank balances and cash	68,851	171,555
Other unallocated assets	<u>1,136</u>	<u>1,416</u>
Consolidated assets	<u><u>446,505</u></u>	<u><u>367,734</u></u>
Segment liabilities		
Petroleum exploration and production	3,659	5,807
Money lending	312	91
Investment in securities	<u>404</u>	<u>5,000</u>
Total segment liabilities	4,375	10,898
Other payables	8,827	10,994
Derivative financial liability	3,884	–
Convertible notes	<u>73,665</u>	<u>–</u>
Consolidated liabilities	<u><u>90,751</u></u>	<u><u>21,892</u></u>

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

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

Revenue from major products and services

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

6. Other gain (loss), net

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Bank interest income	431	–
Exchange gain (loss), net	113	(3,113)
Others	515	53
	<u>1,059</u>	<u>(3,060)</u>

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

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net unrealised gain on financial assets at FVTPL	1,152	2,766
Net realised gain (loss) on disposal of financial assets at FVTPL	9,488	(3,856)
	<u>10,640</u>	<u>(1,090)</u>

8. Finance costs

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on bank borrowings and overdrafts	–	3,880
Interest on other loans	–	162
Effective interest on convertible notes (<i>Note 18</i>)	1,272	–
	<u>1,272</u>	<u>4,042</u>

9. Income tax expense

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current tax – Hong Kong	624	–

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

Argentina income tax was calculated at 35% of assessable profit for the period. No provision for Argentina income tax was made as there was no assessable profit arising for both periods under review.

10. Loss for the period

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

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Staff costs	5,095	9,199
Net fair value changes on convertible notes (<i>Note 18</i>)	3,575	–
Share-based payments expense (<i>Note 20</i>)	73,257	–
Minimum lease payments under operating leases in respect of office properties and buildings	<u>1,169</u>	<u>1,749</u>

11. Dividends

No dividend was paid or proposed for the six months ended 30 June 2017 (six months ended 30 June 2016: nil), nor has any dividend been proposed since the end of the reporting periods.

12. Loss per share

The calculation of loss per share attributable to owners of the Company is based on the following data:

	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Loss:		
Loss for the period attributable to the owners of the Company for the purpose of calculating basic loss per share	(60,943)	(28,516)
Effect of dilutive potential ordinary shares:		
Effective interest on convertible notes (<i>Note 18</i>)	1,272	–
Net fair value changes on convertible notes (<i>Note 18</i>)	<u>(3,575)</u>	<u>–</u>
Loss for the period attributable to the owners of the Company for the purpose of calculating diluted loss per share	<u>(63,246)</u>	<u>(28,516)</u>

	Six months ended 30 June	
	2017	2016
	'000	'000
	(Unaudited)	(Unaudited)
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	4,367,122	3,184,819
Effect of dilutive potential ordinary shares:		
Convertible notes	<u>81,031</u>	<u>–</u>
Weighted average number of ordinary shares for the purpose of calculating diluted loss per share	<u>4,448,153</u>	<u>3,184,819</u>

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 two categories of potential ordinary shares: convertible notes and share options (six months ended 30 June 2016: share options). The convertible notes (*Note 18*) 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 period.

For the potential ordinary shares arising from the outstanding share options, they were anti-dilutive for the six months ended 30 June 2017 and 2016. The computation of diluted loss per share does not assume the exercise of the Company's share options because the exercise price of share options were higher than the average market price per share of the Company for the six months ended 30 June 2017 and 2016.

13. Available-for-sale investments

AFS investments comprise:

	As at	As at
	30 June	31 December
	2017	2016
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Listed investments, at fair value:		
Debt securities	<u>107,183</u>	<u>–</u>
Analysed as:		
Current portion	3,100	–
Non-current portion	<u>104,083</u>	<u>–</u>
	<u>107,183</u>	<u>–</u>

14. Trade and other receivables and prepayments

	As at 30 June 2017 <i>HK\$'000</i> (Unaudited)	As at 31 December 2016 <i>HK\$'000</i> (Audited)
Trade receivables (<i>Note (i)</i>)	1,036	1,100
Deposits and prepayments	1,148	1,374
Deposits held for petroleum exploration and production operation	4,597	5,264
Interest receivables (<i>Note (ii)</i>)	1,834	3,556
Others (<i>Note (iii)</i>)	2,648	702
	<u>11,263</u>	<u>11,996</u>

Notes:

- (i) The oil selling price for the Argentina operation is quoted in United States dollars (“US\$”) and converted into Argentina Peso for invoicing. The Group allows an average credit period of 30 to 60 days. The trade receivables of HK\$1,036,000 (31 December 2016: HK\$1,100,000) were neither past due nor impaired and aged within 30 days based on the invoice date.

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

- (ii) The amount mainly represents interest receivables from AFS investments and the loans to third party borrowers of the money lending business.
- (iii) The amount includes HK\$2,463,000 (31 December 2016: HK\$696,000) placed with securities brokers in relation to securities trading activities in Hong Kong.

15. Loan receivables

	As at 30 June 2017 <i>HK\$'000</i> (Unaudited)	As at 31 December 2016 <i>HK\$'000</i> (Audited)
Fixed-rate loan receivables	<u>99,000</u>	<u>102,000</u>
Analysed as:		
Current portion	99,000	102,000
Non-current portion	<u>—</u>	<u>—</u>
	<u>99,000</u>	<u>102,000</u>
Analysed as:		
Secured	80,000	—
Unsecured	<u>19,000</u>	<u>102,000</u>
	<u>99,000</u>	<u>102,000</u>

During the period ended 30 June 2017, the range of interest rate on the Group's loan receivables is 15% to 18% per annum (31 December 2016: 8% to 18% per annum). No loan receivables is past due but not impaired.

16. Financial assets at fair value through profit or loss

	As at 30 June 2017 <i>HK\$'000</i> (Unaudited)	As at 31 December 2016 <i>HK\$'000</i> (Audited)
Listed investments, at fair value:		
Equity securities listed in Hong Kong	95,009	22,454
Unlisted investment, at fair value:		
Debt securities	<u>—</u>	<u>5,000</u>
	<u>95,009</u>	<u>27,454</u>

17. Trade and other payables

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Trade payables	766	977
Other tax payables	2,344	2,447
Accrued professional fees	8,401	8,605
Payable for acquisition of financial assets at FVTPL	–	5,000
Other payables and accruals	<u>976</u>	<u>4,772</u>
	<u>12,487</u>	<u>21,801</u>

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

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
0 – 30 days	656	451
31 – 60 days	20	20
61 – 90 days	20	20
91 – 120 days	20	20
121 – 365 days	<u>50</u>	<u>466</u>
	<u>766</u>	<u>977</u>

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

18. Convertible notes

On 11 April 2017, the Company entered into a subscription agreement with Beijing Rui Gao Capital Management Limited (literal translation of its Chinese name 北京睿高資本管理有限公司) (the “Subscriber”), a limited liability company established in the People’s Republic of China, for the subscription of the 3% convertible notes in aggregate principal amount of HK\$80,000,000 which could be converted into ordinary shares of HK\$0.01 each of the Company at an initial conversion price of HK\$0.36 per share (the “CN Subscription”).

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

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

The holder of the convertible notes shall, subject to certain conditions, have the right on any business days prior to the earlier of the date on which the Company give notice to exercise the redemption rights or five business days prior to the Maturity Date convert the whole or part of the outstanding principal amount of the convertible notes at an initial conversion price of HK\$0.36 per share into ordinary shares of the Company.

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

The fair value of the liability component upon the issuance of the convertible notes was calculated at the present value of the redemption amount, at 100% of the principal amount.

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

	Issue date as at 26 April 2017	As at 30 June 2017
Conversion price	HK\$0.360	HK\$0.360
Share price	HK\$0.445	HK\$0.320
Volatility	41.31%	36.31%
Remaining life	1.5 years	1.32 years
Risk-free rate	0.68%	0.58%

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

The fair value of the convertible notes at 26 April 2017 amounted to HK\$98,889,000. The difference between the fair value of the convertible notes and the cash consideration of HK\$80,000,000 received of HK\$18,889,000 was recognised in the profit or loss on the date of issuance as this portion represented the loss which the Company would have incurred if the convertible notes were fully converted on the date of issuance. The effective interest rate of the liability component is 10.37%.

During the six months ended 30 June 2017, none of the convertible notes were converted into the ordinary shares of the Company.

	Liability component HK\$'000	Conversion component HK\$'000	Total HK\$'000
Fair value of convertible notes at issue date	72,502	26,387	98,889
Transaction cost	(109)	(39)	(148)
Change of fair value on derivative component recognised in profit or loss	–	(22,464)	(22,464)
Effective interest (<i>Note 8</i>)	<u>1,272</u>	<u>–</u>	<u>1,272</u>
At 30 June 2017	<u>73,665</u>	<u>3,884</u>	<u>77,549</u>

Liability component analysed for reporting purpose as:

	As at 30 June 2017 HK\$'000 (Unaudited)	As at 31 December 2016 HK\$'000 (Audited)
Current liabilities	2,400	–
Non-current liabilities	<u>71,265</u>	–
	<u>73,665</u>	<u>–</u>

19. Share capital

	Number of ordinary shares '000	Share capital HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each at 1 January 2016, 30 June 2016, 1 January 2017 and 30 June 2017	<u>100,000,000</u>	<u>1,000,000</u>
Issued and fully paid:		
Ordinary shares of HK\$0.01 each at 1 January 2016	727,854	7,279
Issue of shares upon rights issue (<i>Note</i>)	<u>3,639,268</u>	<u>36,392</u>
Ordinary shares of HK\$0.01 each at 30 June 2016, 1 January 2017 and 30 June 2017	<u>4,367,122</u>	<u>43,671</u>

Note:

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

20. Share option scheme

The existing share option scheme of the Company (the “Share Option Scheme”) was adopted by the Company at the annual general meeting of the Company held on 22 June 2016 and the previous share option scheme of the Company adopted on 6 November 2006 (the “Old Share Option Scheme”) was terminated on the same date.

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

Details of the movements in the number of share options during the six months ended 30 June 2017 under the Share Option Scheme are as follows:

Name or category of participant	Date of grant	Exercisable period (both dates inclusive)	Exercise price HK\$	Granted during the period	Exercised during the period	Cancelled/lapsed during the period	Outstanding at 30 June 2017
Directors:							
Mr. Sue Ka Lok	4 May 2017	4 May 2017 – 3 May 2020	0.53	22,800,000	–	–	22,800,000
Ms. Chan Yuk Yee	4 May 2017	4 May 2017 – 3 May 2020	0.53	1,200,000	–	–	1,200,000
Mr. Chan Shui Yuen	4 May 2017	4 May 2017 – 3 May 2020	0.53	900,000	–	–	900,000
Mr. Yiu Chun Kong	4 May 2017	4 May 2017 – 3 May 2020	0.53	600,000	–	–	600,000
Mr. Liu Zhiyi	4 May 2017	4 May 2017 – 3 May 2020	0.53	43,500,000	–	–	43,500,000
Mr. To Yan Ming, Edmond	4 May 2017	4 May 2017 – 3 May 2020	0.53	300,000	–	–	300,000
Mr. Pun Chi Ping	4 May 2017	4 May 2017 – 3 May 2020	0.53	300,000	–	–	300,000
Ms. Leung Pik Har, Christine	4 May 2017	4 May 2017 – 3 May 2020	0.53	300,000	–	–	300,000
				69,900,000	–	–	69,900,000
Employees:							
In aggregate	4 May 2017	4 May 2017 – 3 May 2020	0.53	366,810,000	–	–	366,810,000
				436,710,000	–	–	436,710,000

Notes:

- (i) The share options granted are vested upon granted.
- (ii) The exercise price of the share options is subject to adjustments in the case of capitalisation of profits or reserve, bonus issues, rights issue, open offer, subdivision or consolidation of shares, or reduction of the share capital or other changes in the capital structure of the Company.
- (iii) The closing price per share quoted on the Stock Exchange on the trading date immediate before the date on which the share options were granted on 4 May 2017 was HK\$0.46.
- (iv) 43,500,000 share options of the Company granted on 4 May 2017 to Mr. Liu Zhiyi, who was appointed as Executive Director of the Company with effect from 5 May 2017.

Details of the movements in the number of share options during the six months ended 30 June 2016 under the Old Share Option Scheme are as follows:

Name or category of participant	Date of grant	Exercisable period (both dates inclusive)	Exercise price HK\$ Note (i)	Outstanding at 1 January 2016	Adjusted during the period Note (ii)	Exercised during the period	Cancelled/lapsed during the period	Outstanding at 30 June 2016 Note (iii)
Suppliers and others	11 April 2013	11 April 2013 – 10 April 2016	1.5459	15,025,920	6,087,000	-	(21,112,920)	-
Suppliers and others	25 November 2013	25 February 2014 – 24 November 2016	1.3277	7,512,960	3,043,500	-	-	10,556,460
				<u>22,538,880</u>	<u>9,130,500</u>	<u>-</u>	<u>(21,112,920)</u>	<u>10,556,460</u>

Notes:

- (i) The exercise price of the share options was subject to adjustments in the case of capitalisation of profits or reserve, bonus issues, rights issue, open offer, subdivision or consolidation of shares or reduction of the share capital or other changes in the capital structure of the Company.
- (ii) Upon the completion of the rights issue of the Company on 27 January 2016, the number of shares that can be subscribed for upon exercise of the outstanding share options and the exercise price of the share options were adjusted. Details of these are set out in the announcement of the Company dated 26 January 2016.
- (iii) 10,556,460 outstanding share options granted under the Old Share Option Scheme were lapsed in November 2016.

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

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

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

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

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

The Group recognised share-based payments expense of HK\$73,257,000 during the six months ended 30 June 2017 (six months ended 30 June 2016: nil) in relation to the share options granted by the Company.

21. Events after the reporting period

On 16 June 2017, the Company entered into a placing agreement with a placing agent whereby the Company conditionally agreed to place, through the placing agent, on a best effort basis, up to 651,000,000 new shares of the Company to not less than six independent placees at the placing price of HK\$0.308 per share (the “Placing”). The Placing was completed on 4 July 2017. Further details of the placing were set out in the announcements of the Company dated 16 June 2017 and 4 July 2017.

INTERIM DIVIDEND

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2017 (30 June 2016: nil).

BUSINESS REVIEW

During the six months ended 30 June 2017, the Group continued to principally engage in the business of petroleum exploration and production, money lending and investment in securities.

The Group reported revenue of HK\$27,439,000 for the current period, increased by 3% compared to the previous period (30 June 2016: HK\$26,548,000) that was mainly due to the rise of interest income generated from the money lending and investment in securities businesses, though such increase was partly offset by the decline in revenue of the petroleum business as a result of the drop in average selling price and volume of crude oil produced by the Group's petroleum operation.

Petroleum Exploration and Production

During the first half of 2017, the Group continued to engage in petroleum exploration and production in the Chañares Herrados Area ("CHE Area") and Puesto Pozo Cercado Area ("PPC Area") (together the "Concessions") in the Cuyana Basin, Mendoza Province of Argentina. Chañares Herrados Empresa de Trabajos Petroleros S.A. ("Chañares") was the concessionaire of the Concessions (the "Concessionaire").

On 2 December 2010, Southstart Limited ("Southstart"), a wholly owned subsidiary of the Company, and Chañares entered into a joint venture agreement ("JV Agreement"). Pursuant to the JV Agreement, among others, EP Energy S.A. ("EP Energy"), a wholly owned subsidiary of Southstart, has the right to drill and invest in the Concessions and 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.

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

During the review period, the Group continued to focus on the investment to improve the production of and had performed maintenance works for the 10 existing producing oil wells. At 30 June 2017, the Group had finished drilling of 10 oil wells in the CHE Area.

For the period under review, the Group's petroleum exploration and production business generated revenue of HK\$21,639,000 (30 June 2016: HK\$25,302,000) and recorded a loss of HK\$73,000 (30 June 2016: HK\$319,000). The decline of the operation's revenue was partly due to the drop in production volume of crude oil by about 3% when compared with the prior period, and partly due to the decrease in sales price of crude oil offered by YPF S.A., an Argentina state-owned oil company and the sole buyer of the operation's output, from on average US\$58.8 per barrel for the six months ended 30 June 2016 to US\$51.4 per barrel for the current period. Nevertheless, the drop in the operation's revenue was compensated by the decrease in the field operating expenses and increase in other gain with the result that a smaller operating loss of only HK\$73,000 was recorded.

The Group performed an impairment review on the exploration and evaluation assets, oil and gas properties and other tax recoverables at 30 June 2017 and determined that there would be no reversal of impairment losses on these assets. The Group also reconsidered the future development of the investment plan on the Concessions at 30 June 2017 and concluded that no further well drilling programme will be launched at present.

References are made to the announcement of the Company dated 25 August 2016 and the annual report of the Company for the year ended 31 December 2016 disclosing that the Group was notified by the Concessionaire of the Concessions that the department of hydrocarbons of the government of Mendoza (the "Mendoza Government") has been reviewing the fulfilment of the terms and conditions of the 10-year extension of the Concessions till 2027 (the "Extension") previously awarded to the Concessionaire, particularly the status of the investment commitment of the Concessionaire. As disclosed in the announcement of the Company dated 15 August 2017, the Group was notified by the Concessionaire that the Executive of the Province of Mendoza published two decrees on 9 August 2017 to the effect that (i) it has accepted the investment commitment plan submitted by the Concessionaire in respect of the Extension for the CHE Area; and (ii) it declared the lapse of the concession in respect of the PPC Area by 30 October 2017. The Concessionaire also advised the Group that based on its discussions with the Mendoza Government, the concession in respect of CHE Area will be extended until 14 November 2027. The Company is requesting the Concessionaire to obtain written confirmation from the Mendoza Government on the exact period of the Extension and is at the same time seeking advice from the Group's legal adviser in Argentina on this matter. Further disclosure on this matter will be made by the Company to shareholders as and when appropriate.

In light of the above, it is the intention of the Group to continue its participation in the operations and sharing of interest on the production of the 10 oil wells drilled in the CHE Area. As regards the PPC Area, as no oil wells have been drilled or are in operations and the Group's exploration and evaluation assets in respect of its right over the hydrocarbon production from the PPC Area was fully impaired in the year ended 31 December 2015, the Board considers that the lapse of the concession in respect of the PPC Area would not have material adverse effect on the business, financial positions or prospects of the Group.

Money Lending

During six months ended 30 June 2017, the Group's money lending business achieved a significant increase in revenue and operating profit by reporting HK\$4,323,000 (30 June 2016: HK\$446,000) and HK\$4,447,000 (30 June 2016: HK\$294,000) respectively. These encouraging results were mainly attributed to the increase in scale of this operation and the Group had applied part of the new funds raised from the convertible notes issued in April 2017 for funding the lending activities.

At 30 June 2017, the loans portfolio held by the Group amounting to HK\$99,000,000 with details as follows:

Category of borrowers	Approximate weighting to the value of the Group's loan portfolio	Interest rate per annum	Maturity
	%	%	
Individual	80.80	15	Within one year
Corporate	<u>19.20</u>	18	Within one year
	<u><u>100.00</u></u>		

During the period under review, there was no impairment loss recognised against the loan receivables.

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

Investment in Securities

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

For the period under review, the Group's investment in securities operation held a financial asset investment portfolio valued at HK\$95,009,000, comprising Hong Kong listed equity securities and overseas listed debt securities, and an available-for-sale investments portfolio valued at HK\$107,183,000, comprising debt securities listed in Hong Kong and overseas. As a whole, the operation recorded a revenue of HK\$1,477,000 (30 June 2016: HK\$800,000) and a profit of HK\$11,655,000 (30 June 2016: loss of HK\$529,000).

Financial assets at fair value through profit or loss ("FVTPL")

At 30 June 2017, the Group held a financial assets investment portfolio comprising financial assets at FVTPL amounting to HK\$95,009,000 (31 December 2016: HK\$27,454,000) measured at market/fair value. During the review period, the Group's financial assets at FVTPL portfolio generated a revenue of HK\$531,000 (30 June 2016: HK\$800,000) representing dividends from equity securities of HK\$275,000 (30 June 2016: HK\$800,000) and interest income from debt securities of HK\$256,000 (30 June 2016: nil). The Group recognised a net gain on financial assets at FVTPL of HK\$10,640,000, which comprised net unrealised gain on securities held at the period end and net realised gain on disposal of securities of HK\$1,152,000 and HK\$9,488,000 respectively (30 June 2016: net loss of HK\$1,090,000, which comprised net unrealised gain on securities held at the period end and net realised loss on disposal of securities of HK\$2,766,000 and HK\$3,856,000 respectively). Such gain from investments in financial assets at FVTPL was due primarily to the general upturn of the Hong Kong stock market during the first half of 2017.

At 30 June 2017, the Group invested in different category of companies and their weightings to the market/fair value of the Group's financial assets at FVTPL portfolio of HK\$95,009,000 are as below:

Category of companies	Approximate weighting to the market/fair value of the Group's financial assets at FVTPL portfolio
	%
Banking company	49.81
Jewelry, pharmaceutical and health food products retail company	16.84
Petroleum exploration and production company	4.31
Property company	20.08
Real estate investment trust company	6.25
Others	2.71
	<u>100.00</u>

Available-for-sale (“AFS”) investments

At 30 June 2017, the Group's AFS investment portfolio of HK\$107,183,000 (31 December 2016: nil) was measured at market/fair value. During the period under review, the Group's AFS investment portfolio generated total revenue amounting to HK\$946,000 (30 June 2016: nil) representing interest income on listed debt securities held. According to the maturity of the AFS investments, part of the AFS investment portfolio of HK\$3,100,000 is classified as current assets.

During the period under review, the Group invested approximately HK\$109,585,000 to subscribe for bonds in the aggregate principal amount of US\$14,000,000 issued by an aircraft leasing company and six property companies listed on the Stock Exchange. At the period end, a fair value loss on these bond investments amounting to HK\$2,402,000 (30 June 2016: nil), determined by referencing to market prices, was recognised as other comprehensive expense.

At 30 June 2017, the Group invested in bonds issued by an aircraft leasing company and six property companies as AFS investments and their respective weighting to the market/fair value of the Group's AFS investment portfolio of HK\$107,183,000 (together with other information) are as below:

Category of companies	Approximate weighting to the market/fair value of the Group's AFS investment portfolio	Yield to maturity on acquisition date	Acquisition cost	*Acquisition cost during the period/carrying amount as at 1 January 2017	Market/fair value as at 30 June 2017	Accumulated fair value loss recognised up to 30 June 2017	Fair value loss recognised during the period ended 30 June 2017
	%	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			A	B	C	D = C - A	E = C - B
Aircraft leasing company	14.21	4.93	15,444	15,444	15,233	(211)	(211)
Property company	85.79	4.56 - 8.75	94,141	94,141	91,950	(2,191)	(2,191)
	<u>100.00</u>		<u>109,585</u>	<u>109,585</u>	<u>107,183</u>	<u>(2,402)</u>	<u>(2,402)</u>

* The amount represented the acquisition cost for the securities during the six months ended 30 June 2017 and/or the carrying amount of the securities brought forward from the prior financial year after accounting for additional acquisition and/or disposal of the securities (if any) during the current period.

Overall Results

For the six months ended 30 June 2017, the Group reported a loss for the period of HK\$60,943,000 (30 June 2016: HK\$28,516,000) that was mainly attributed to the recognition of the share-based payments expense, which was non-cash in nature, of HK\$73,257,000 (30 June 2016: nil) recorded for the grant of share options to directors and employees on 4 May 2017, despite the profitable results contributed by the money lending and investment in securities businesses and the decrease of corporate expenses by 88% to HK\$2,598,000 (30 June 2016: HK\$20,808,000). Basic loss per share was HK1.4 cents and increased by HK0.5 cent compared to the prior period (30 June 2016: HK0.9 cent). If the effect of the share-based payments expense was excluded, the Group would have, for illustrative purpose, reported a profit of HK\$12,314,000 for the current period which essentially reflects the operating results of the Group.

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

On 11 April 2017, the Company entered into an agreement with an investor for the subscription of the 3% convertible notes in aggregate principal amount of HK\$80,000,000 which could be converted into ordinary shares of the Company at an initial conversion price of HK\$0.36 per share (the “CN Subscription”). The completion of the CN Subscription took place on 26 April 2017 and net proceeds of HK\$79,852,000 were raised. The Company intended to use approximately 50% of the net proceeds as working capital for the money lending business and the remaining for the investment in securities business of the Group. At 30 June 2017, part of the net proceeds had been utilised for the lending and investment activities of the Group. The Group recorded a fair value gain on the issuance of convertible notes amounting to HK\$3,575,000. Further details of the issuance of convertible notes were set out in the announcements of the Company dated 11 April 2017 and 26 April 2017.

During the six months ended 30 June 2017, the Group financed its operation mainly by cash generated from its operations, net proceeds from the issuance of convertible notes and shareholders’ funds. At the period end, the Group had current assets of HK\$303,871,000 (31 December 2016: HK\$325,119,000) and liquid assets comprising bank balances and cash as well as financial assets at FVTPL totalling HK\$189,222,000 (31 December 2016: HK\$209,658,000). The Group’s current ratio, calculated based on current assets over current liabilities of HK\$15,602,000 (31 December 2016: HK\$21,892,000), was at a strong ratio of about 19.5 (31 December 2016: 14.9). At 30 June 2017, the Group’s trade and other receivables and prepayments amounted to HK\$11,263,000 (31 December 2016: HK\$11,996,000), which mainly comprised deposit placed as escrow for the petroleum exploration and production operation, amount placed with securities brokers in relation to securities trading activities and interest receivables from AFS investments and money lending business.

At 30 June 2017, the net assets of the Group amounted to HK\$355,754,000, which slightly increased by HK\$9,912,000 compared to the prior financial year end (31 December 2016: HK\$345,842,000). The Group’s gearing ratio, calculated on the basis of total liabilities of HK\$90,751,000 (31 December 2016: HK\$21,892,000) divided by total assets of HK\$446,505,000 (31 December 2016: HK\$367,734,000), was about 20% (31 December 2016: 6%). The finance costs for the period amounted to HK\$1,272,000, which represented the effective interest on convertible notes issued in April 2017 (30 June 2016: HK\$4,042,000, representing mainly interest on bank borrowings which were fully repaid in November 2016).

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

On 16 June 2017, the Company entered into a placing agreement with a placing agent whereby the Company conditionally agreed to place, through the placing agent, on a best effort basis, up to 651,000,000 new shares of the Company to not less than six independent places at the placing price of HK\$0.308 per share (the “Placing”). The Placing was completed on 4 July 2017. The maximum amount of gross proceeds from the Placing was approximately HK\$200,500,000. The Company presently intends to use the entire maximum amount of net proceeds of approximately HK\$195,300,000 from the Placing as general working capital for the Group’s money lending and investment in securities businesses which require readily available funds in order to operate such businesses. However, part of the net proceeds from the Placing may be applied towards funding investment opportunities which may arise from time to time and which the Board considers to be in the interest of the Company to make such investment. Further details of the placing were set out in the announcements of the Company dated 16 June 2017 and 4 July 2017.

PROSPECTS

For the six months ended 30 June 2017, the Group’s petroleum exploration and production operation continued to record loss, though small, of HK\$73,000 as business conditions of the operation remained challenging. Local oil selling price in Argentina remained hovering at low levels at an average of about US\$51.0 per barrel during the current period and this price pattern is expected to continue in the second half of 2017.

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

The investment and stock markets in Hong Kong have been rather volatile recently and the management will continue to take a cautious approach in managing the Group’s listed equity and debt investments portfolio.

Looking forward, the management will continue to develop the Group’s existing businesses and will step up its effort to improve the Group’s financial performance. The management will also seize business and investment opportunities with good prospects aiming to create value to shareholders. As referred to in the Company’s announcement dated 4 July 2017, the Company is in preliminary discussion with potential partners to co-operate to invest in the development of cloud computing business but has not entered into any written agreement in relation to such potential investment. Further announcement on this matter will be made by the Company to shareholders as and when appropriate.

CORPORATE GOVERNANCE

The Company has complied with all the applicable provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2017, except for the following deviation with reason as explained:

Effective communications

Code Provision E.1.2

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

Deviation

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

AUDIT COMMITTEE

The unaudited condensed consolidated interim financial statements of the Company for the six months ended 30 June 2017 have not been audited, but have been reviewed by the Audit Committee of the Company and are duly approved by the Board under the recommendation of the Audit Committee.

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

During the six months ended 30 June 2017, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities.

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

Hong Kong, 25 August 2017

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