

To: Financial Editor  
Press Release  
For Immediate Release

## **EPI announced its 2011 interim results**

**[Hong Kong, 28 August 2011]** EPI (Holdings) Limited (“EPI” or the “Group”, SEHK: 0689) announced its unaudited condensed consolidated interim results for the six months ended 30 June 2011 on 26 Aug 2011.

- Group’s turnover was HK\$590.3 million (2010: HK\$ 264.7 million) represented an increase of 123% compared to the same period last year.
- Gross profit was HK\$ 4.4 million (2010: HK\$ 9.8 million) decreased by 55.1% from the corresponding period last year.
- Net loss of HK \$58.6 million against a net profit same period last year. (2010: Net profit HK\$ 8.8 million)

**Mr. Joseph Wong, Chairman and CEO of EPI**, said, “The net loss of the period under review is due to our core business of petroleum exploration and production is still in an early development stage and the production of crude oil presently has nominal contribution to the Group’s profitability. Our plan is to drill the next 5 oil wells in 2012 and will help to improve the profitability to the Group. ”

### **Group’s Operations Review**

Following the completion of disposal of the Group’s consumer electronics operation on 31 December 2010, the Group put its focus on the development of the petroleum exploration and production business in the Puesto Pozo Cercado Concession and Chañares Herrados Concession (collectively the “Areas”) in the Cuyana Basin, Mendoza Province of Argentina.

On 12 January 2011, EP Energy S.A. has signed the UTE Agreement with Chañares pursuant to the joint venture agreement signed between Southstart Limited and Chañares on 2 December 2010

On 14 February 2011, EP Energy S.A. has signed a Drilling Service Agreement with SinoPec International Petroleum Service Corporation Argentina S.R.L. for providing service at the Mendoza oilfield project in the Areas.

On 1 March 2011, EP Energy S.A.started drilling of its 1<sup>st</sup> oil well CH-1059 in Chañares Herrados Area, and finished the completion work and start test production on 16 June 2011. The second oil well CH-1068 started drilling in late April 2011, finished completion work and started test production on July 2011. CH-1063 started drilling on late June 2011 and finished drilling on August 2011. As at 30 June 2011, the Group has finished drilling of 7 oil wells in the Chañares Herrados Area of which 5 oil

wells are in production.

On July 14 2011, the Group has been informed by Chañares that the Executive of the Province of Mendoza issued a Decree No. 1467 dated 30 June 2011( the “Decree”) pursuant to which Chañares obtained an extension of 10 years from the date of expiry of the original term of the Concessions.

## **Business Review**

### **Exploration and Sales of Petroleum**

During the period under review, **the sales of petroleum** recorded a turnover of HK\$13.038 million with a segment loss of HK\$29.515 million

During the six months ended June 2011, EP Energy S.A. has completed drilling of 2 wells under the New UTE Agreement with Chañares. As of the date of the results announcement, the Group has six wells in production.

The oilfield drilling and production status:

<b>Well</b>	<b>Status</b>	<b>Depth (m)</b>	<b>Date of Production</b>
CH-1052	• In production	3,697	26 November 2009
CH-1053	• In production	3,580	8 December 2009
CH-1055	• In production	3,600	25 March 2010
CH-25 bis	• In production	4,685	12 May 2010
CH-7 bis	• In production	4,200	14 August 2010
CH-1059	• In production	3,600	1 July 2011
CH-1068	• Test production	3,600	Test Run (drilling completed in July 2011)
CH-1063	• Completion	3,600	--

The 5 oil wells commenced production since 2009 and 2010 is continued to produce oil in year 2011 and to contribute to the group's production at a decline rate. However, the group is continuing to drill more wells to contribute to its sales volume.

During the period under review, the six oil wells generate a total sales revenue of HK 13 million. Out of which HK\$12.6 million was sold to YPF Sociedad Anonima, through the Chañares, the Concession owner and HK\$0.4 million was sold to Polipetrol S.A., a refinery factory in Mendoza.

As of 30 June 2011, the Group has invested HK\$435.4 million in its oil wells drilling, completion and infrastructure in Chañares Mendoza oilfield project comprises of

- HK\$173.2 million in drilling of oil wells, classified as Oil and Gas assets and started depreciation from the commencement of production.
- HK\$ 84.8 million in oil well drilling which has not yet been completed and commenced production, classified as Construction in Progress, with no depreciation charged until commencement of production
- HK\$177.4 million of oil well drilling exploration cost for exploration purpose to collect data in the Potrerillos Formation, that is located at a depth of over 4,200 meters which was expensed in the profit and loss account in Year 2010.

During the six-months ended June 2011, depreciated of oil and gas assets was HK\$7.0 million.

In line with the rising trend in the international oil price, the Argentina local selling price of crude oil continued to increase during the year 2011. The local crude oil price increased from US\$ 52.3 barrel in December 2010 to US\$ 57.2 per barrel in June 2011 representing an increase of US\$ 4.9 per barrel or 9.4%. The crude oil price continued to increase during 2011 with the price in July reaching US\$58.4 per barrels. The Group expects the increasing trend to continue and the gap between Argentina domestic and international oil price will be narrowed.

#### **Oil output interest increase**

EPI has 51% working interest in Puesto Pozo Cercado Area and the Chañares Herrados Area of the Mendoza Chañares oilfield of 5 oil wells namely, CH-1052, CH-1053, CH-1055, CH-25 bis and CH-7 bis and 72% working interest of the 3 oil wells drilled and working since June 2011 namely, CH-1059 , CH-1068, CH-1063.

#### **10-year exploration license extension till 2027**

In 14 July 2011, EPI was informed by Chañares that the Executive of the Province of Mendoza issued a Decree No. 1467 dated 30 June 2011 (the "Decree") pursuant to which Chañares obtained an extension of 10 years from the date of expiry of the original term of the hydrocarbon exploitation concessions. The Decree approved an agreement between Chañares and the Mendoza Province dated 31 May 2011 (the "Extension Agreement"), whereby the parties agreed on the terms and conditions of the aforementioned extension, subject to issuance of the Decree. As disclosed in the Announcement dated 20 December 2010, pursuant to the terms of the Agreement, Southstart and EP Energy (the wholly owned subsidiaries of EPI) are jointly obliged to pay an aggregate amount of US\$4,000,000 (equivalent to approximately HK\$31,120,000) to Chañares in consideration for the right to drill in the Areas during the extended term of the Concessions.

The contingent oil resources and the unrisksed prospective oil resources of the Chañares Herrados Area and the Puesto Pozo Cercado Area in Mendoza, Argentina:

### Contingent Oil Resources:

	Million in Barrel (MMNBBL)	
	Gross (100%)	Net (72%)
Low Estimate (1C)	88.6	56.13
Best Estimate (2C)	146.9	93.07
High Estimate (3C)	245.5	155.54

Data from: Netherland, Sewell & Associates, Inc. (NSAI)

In the licensed area as of January 1st, 2009. Revised as of Dec 2010, base on upgrade interest output from 51% to 72%.

( inclusive net of 12% royalty tax)

Remarks: Quantities of contingent oil resources actually recovered will equal or exceed the estimated amounts is:

- Low Estimate (1C):- at least 90 percent
- Best Estimate (2C):- at least 50 percent
- High Estimate (3C):- at least 10 percent

According to the oil project valuation input of Roma Appraisal Ltd, the market value of 100% equity interest of the Mendoza Oil Project as at 30 June 2011 was US\$ 820 million.

### **Petroleum related products trading**

**For trading of petroleum related products**, the group recorded a turnover of HK\$577.246 million with a segment profit of HK\$1. 542 million. The group purchased 21,511 metric tons of MTBE and 49,632 metric tons of mixed aromatics from overseas market and sold to the customers in China.

### **Future Operation Plan**

#### **Year 2011 investment plan**

According to the year 2011 investment plan included in the New Agreement signed with Chañares Herrados, EP Energy S.A. is required to complete drilling of 5 oil wells in 2011. As of the results reporting date, EP Energy S.A. has completed drilling of 3 oil wells, CH-1059, CH-1068 & CH-1063, of which CH-1059 has commenced production in July 2011, CH-1068 started test production in August 2011. The Group has confident to fulfill the commitment of completing 5 oil wells drilling in Year 2011.

#### **Overall Drilling Plan**

The Executive of the Province of Mendoza has granted to Chañares Herrados an extension of 10 years of exploitation right to Year 2027. According to the New Agreement, starting as from Year 2012, EP Energy S.A. shall drill a minimum of 5 oil wells per year during 5 consecutive years and for the following years 2 oil wells per year until the year as from which 7 years should still run until the expiration of the term of the Concession. The Group is now finishing the year 2012 investment plan and will submit to Chañares to get approval from the Government. To optimize the economic benefit

of the Mendoza project and to meet the commitment of the New Agreement, the Board of Director is now finalizing the overall future drilling plan. The Group is also investigating the opportunity of horizontal drilling in the Concession Areas which may increase the oil production.

### **Liquidity and Financial Resources**

To meet the general working capital requirements and the funding needs of the Mendoza oilfield project, on 9 May 2011, the Group raised net proceeds of approximately HK\$63 million via the top-up subscription placement. And on 19 August 2011, the Group raised another net proceeds of approximately Hk\$60 million via the placement of convertible notes. In order to meet the funding requirements of the Mendoza oil project, the Group is currently undergoing a negotiation with the banks for obtaining the medium term project financing.

Commenting future, **Mr. Joseph Wong, Chairman and CEO of EPI**, said “ The extension of the 10 year exploration license will allow us to operation until Year 2027 to fully capitalize our overall investment plan. As the Chañares oil field project is in an initial production and development stage, it requires extensive capital for further development and we are working closely on the bank financing to achieve the next milestone. We thank all of our shareholders for their support especially during the difficult economic financial situations.”

- End -

### **About EPI (Holdings) Limited (SEHK: 0689)**

EPI is a company that primarily focuses on the production of oil and gas in the energy and resource sector. While having a strong oil and gas exploration and production operation in Argentina, EPI is progressively expanding its portfolio through strategic mergers and acquisitions in other oil and gas projects around the world. EPI is committed to becoming one of Asia’s leading operators in the oil and gas industry and is proactively pursuing investment opportunities that create long-term, sustainable value to our shareholders.

### **About Chañares Herrados Empresa de Trabajos Petroleros S.A. (“Chañares”)**

Chañares is the holder of the Concessions and is principally engaging in the development and operation of oil and gas business in the Chañares Herrados Area and Puesto Pozo Cercado Area covering an aggregate area of 210 square kilometers located in Cuyana Basin, Mendoza Province in Argentina where EPI’s oilfield project locates. Chañares was awarded the hydrocarbon exploitation concession of Chañares Herrados Area and Puesto Pozo Cercado Area with a term of 25 years commencing from 1992 with the possibility of a 10-year extension. Chañares was successfully awarded the 10-year extension license of the Concessions in July 2011.

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