

Interim Report



2011

CORPORATE PROFILE

EPI is a company that primarily focuses on the production of oil in the energy and resource sector. While having a strong oil 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.

Contents

Corporate Profile			
Corporate Information	2	Condensed Consolidated Statement of Changes in Equity	9
Management Discussion and Analysis	4	Condensed Consolidated Statement of Cash Flows	10
Condensed Consolidated Statement of Comprehensive Income	7	Notes to the Condensed Consolidated Interim Financial Statements	11
Condensed Consolidated Statement of Financial Position	8	Other Information	20

EPI (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

EXECUTIVE DIRECTORS

Mr. Wong Chi Wing Joseph (Chairman & CEO)
Mr. Chu Kwok Chi Robert
Mr. Hong Kin Choy (appointed on 1 May 2011)
Mr. Zhou Jacky (resigned on 16 February 2011)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Qian Zhi Hui
Mr. Zhu Tiansheng
Mr. Cheung Yuk Ming (appointed on 10 June 2011)

QUALIFIED ACCOUNTANT AND COMPANY SECRETARY

Mr. Hong Kin Choy

PRINCIPAL SHARE REGISTRAR

Butterfield Fulcrum Group (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM 08 Bermuda

BRANCH SHARE REGISTRAR

Tricor Tengis Limited
26/F., Tesbury Centre
28 Queen's Road East
Hong Kong

AUDIT COMMITTEE

Mr. Cheung Yuk Ming (Chairman of the Audit Committee)
Mr. Qian Zhi Hui
Mr. Zhu Tiansheng

REMUNERATION COMMITTEE

Mr. Chu Kwok Chi Robert
(Chairman of the Remuneration Committee)
Mr. Qian Zhi Hui
Mr. Zhu Tiansheng

NOMINATION COMMITTEE

Mr. Wong Chi Wing Joseph
(Chairman of the Nomination Committee)
Mr. Qian Zhi Hui
Mr. Zhu Tiansheng

REGISTERED OFFICE

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Bermuda

INVESTORS CONTACT

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SOLICITORS

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: 10,000 shares

Financial year end: 31 December

Number of Shares at 30 June 2011: 2,070,877,588

Share price at 30 June 2011: HK\$0.223

Market capitalization at 30 June 2011: HK\$462 million

WEBSITE ADDRESS

www.epiholdings.com

4 Management Discussion and Analysis

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 Area and Chañares Herrados Concession Area (collectively the "Areas") in the Cuyana Basin, Mendoza Province in Argentina.

On 12 January 2011, EP Energy S.A. signed the UTE Agreement with Chañares Herrados Empresa de Trabajos Petroleros S.A. ("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. signed a Drilling Service Agreement with SinoPec International Petroleum Service Corporation Argentina S.R.L. for the provision of drilling services to the Mendoza oilfield project in the Areas.

On 11 March 2011, EP Energy S.A. started drilling its first oil well CH-1059 in the Chañares Herrados Concession Area, and finished the completion work and start test production on 16 June 2011. Drilling of the second oil well CH-1068 started in late April 2011, with completion work finished and test production started on July 2011. Drilling of the CH-1063 well started in late June 2011 and finished in August 2011. As at 30 June 2011, the Group has completed the drilling seven oil wells in the Chañares Herrados Concession Area, of which five wells are now in production.

On 14 July 2011, the Group was informed by Chañares that the Executive of the Province of Mendoza had issued a Decree No. 1467 dated 30 June 2011 ("the Decree") pursuant to which Chañares has obtained an extension of 10 years from the date of expiry of the original term of the Concessions. The Decree approved an agreement between Chañares and Mendoza Province dated 31 May 2011, whereby the parties agreed on the terms and conditions of the aforementioned extension, subject to issuance of the Decree.

The contingent oil resources in certain shallow reservoirs in the Mendoza Oilfield as at 31 December 2010 are as follows:

Contingent Oil Resource (unit: million barrels)

Category	Gross 100%
Low Estimate (1C)	86.0
Best Estimate (2C)	146.9
High Estimate (3C)	245.5

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

GROUP FINANCIAL REVIEW

In the first six months of 2011, the Group's turnover was HK\$590.3 million, representing an increase of 123% as compared to the HK\$264.7 million recorded in the same period last year. Gross profit was HK\$4.4 million, a decrease of 55.1% from HK\$9.8 million of the corresponding period last year.

During the period ended 30 June 2011, the Group recorded a loss for the period of HK\$58.6 million, as compared to a profit of HK\$8.8 million for the six months ended 30 June 2010. The Company's core business of petroleum exploration and production is still at an early stage of development and makes only a nominal contribution to the Group's profitability.

REVIEW OF GROUP OPERATIONS

During the first six months of year 2011, the Group's continuing operations comprised petroleum exploration and production and the trading of petroleum related products. The Group has suspended the nonferrous metals sourcing and trading business in 2011.

Exploration and sales of petroleum

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

Oil well	Status	Depth (m)	Date of production
CH-1052	In production	3,697	26 Nov 2009
CH-1053	In production	3,580	8 Dec 2009
CH-1055	In production	3,600	25 Mar 2010
CH-25 bis	In production	4,685	12 May 2010
CH-7 bis	In production	4,200	14 Aug 2010
CH-1059	In production	3,600	1 Jul 2011
CH-1068	Test production	3,600	–
CH-1063	Completion	3,600	–

The five wells that had commenced production during 2009 and 2010 continued producing oil during 2011, albeit with a modest decline in production. During the period, the sixth well, CH-1059, started test production.

Between January and June 2011, the five existing wells together with the test production from CH-1059 generated oil sales revenue of HK\$13 million. A significant portion of the oil was sold to YPF Sociedad Anónima, through Chañares, the Concession owner, in total amounting to HK\$12.6 million. A small portion of the oil, to a value of approximately HK\$0.4 million, was sold to Polipetrol S.A., an oil refinery in Mendoza Province.

As of 30 June 2011, the Company has invested HK\$435.4 million in the drilling and completion of its oil wells, as well as related infrastructure, in the Mendoza project. This amount includes: 1) HK\$173.2 million in oil well drilling which is classified as oil & gas assets and for which depreciation started at the commencement of production; 2) HK\$84.8 million in oil well drilling which has not yet completed and commenced production, which is classified as Construction in Progress, and for which no depreciation

is charged until commencement of production;

3) HK\$177.4 million of oil well drilling exploration cost for exploration purposes 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, the depreciation of the oil & gas assets was HK\$7.0 million.

In line with the rising trend in the international oil price, the local selling price of crude oil in Argentina continued to increase during 2011. The local crude oil price increased from US\$52.3 per 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 barrel. The Group expects that the crude oil price will continue to increase and that the gap between domestic and international oil prices will narrow.

The 10-year extension granted under Decree No. 1467 as detailed above has extended the hydrocarbon exploitation rights granted to Chañares by Mendoza Province to 2027.

1.1 Future operation plans

Year 2011 investment plan

According to the investment plan for the year 2011 included in the New UTE Agreement signed with Chañares Herrados, EP Energy S.A. is required to complete drilling of five oil wells in 2011. As of the reporting date, EP Energy S.A. has completed drilling of three wells, CH-1059, CH-1068 & CH-1063, among which CH-1059 commenced production in July 2011 and CH-1068 started test production in August 2011. The Group is confident that it can fulfill the condition of completing the drilling of five wells during 2011.

6 Management Discussion and Analysis

Overall drilling plan

As noted, the Executive of the Province of Mendoza has granted Chañares a 10 year extension of exploration rights to 2027. According to the New UTE Agreement, starting as from 2012, EP Energy S.A. shall drill a minimum of five wells per year for five consecutive years and in subsequent years two wells per year until the year in which 7 years remain until the expiration of the term of the Concessions. The Group is now finishing the year 2012 investment plan and will submit it to Chañares to seek approval from the Government. To optimise the economic benefit of the Mendoza project and to meet the commitment of the New UTE Agreement, the Board of Directors is also now finalising the overall future drilling plan.

In addition, the Group is investigating the opportunity for horizontal drilling in the Concession Areas, which is widespread international practice and may increase the production between three and seven times, returning two times the investment.

1.2 Segment financial results

Sales of petroleum

	Six months ended 30 June		
	Year 2011	Year 2010	% change
	HK\$'000	HK\$'000	
Turnover	13,038	12,514	+4%
Segment Loss	(29,515)	(18,662)	+58%

As of the reporting date, the Group had completed the drilling of three oil wells in year 2011. The first well, CH-1059, commenced production in July 2011. The second well, CH-1068, is completed, has started test production and is expected to commence production in late August or early September 2011. The third well, CH-1063 completed drilling in August 2011 and has

started completion. The five wells that commenced production in 2009 and 2010 continued producing oil in 2011.

The turnover represents sales of oil to our customers YPF Sociedad Anónima and Polipetrol S.A. of HK\$12.6 million and HK\$0.4 million respectively. The average selling price was US\$54.2 per barrel or US\$340.7 per m³. Gross profit from oil sales was HK\$0.9 million, with the gross profit margin 7.4%.

Administrative and financial expenses of HK\$31.2 million mainly include professional and consultancy fees in relation to oil drilling services and the UTE agreement, exchange differences, salaries, travel expenses and other tax expenses.

Trading of petroleum related products

1.1 Segment financial results

	Six months ended 30 June		
	Year 2011	Year 2010	% change
	HK\$'000	HK\$'000	
Turnover	577,246	–	N/A
Segment Profit	1,542	–	N/A

The Group commenced the trading of petroleum related products in the third quarter of 2010 and therefore there are no comparative figures for the corresponding period of six months ended 30 June 2010. For the six months ended 30 June 2011, the Group purchased 21,511 metric tons of methyl tert-butyl ether (MTBE) and 49,632 metric tons of mixed aromatics from overseas markets and sold them to customers in China.

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2011

	Notes	For the six months ended 30 June	
		2011 HK\$'000 (unaudited)	2010 HK\$'000 (unaudited)
Continuing operations			
Revenue	3	590,284	264,694
Cost of sales		(585,910)	(254,901)
Gross profit		4,374	9,793
Other gains and losses		2,499	48,651
Distribution and selling expenses		(4,055)	(4,137)
Administrative expenses		(52,818)	(37,937)
Other expenses	4	(1,803)	(1,164)
Finance costs	5	(6,767)	(1,916)
(Loss) profit before taxation		(58,570)	13,290
Taxation charge	6	–	(1,500)
(Loss) profit for the period from continuing operations		(58,570)	11,790
Discontinued operations			
(Loss) for the period from discontinued operations		–	(2,959)
(Loss) profit for the period	7	(58,570)	8,831
Other comprehensive (expense)			
Exchange differences arising on translation of foreign operations		(1,021)	(1,847)
Other comprehensive (expense) for the period		(1,021)	(1,847)
Total comprehensive (expense) income for the period		(59,591)	6,984
(Loss) profit for the period attributable to equity holders of the Company		(58,570)	8,831
Total comprehensive (expense) income attributable to equity holders of the Company		(59,591)	6,984
(Loss) earnings per share (Hong Kong cents)			
	8		
From continuing and discontinued operations			
– Basic		(0.31)	0.10
– Diluted		(0.31)	0.05
From continuing operations			
– Basic		(0.31)	0.13
– Diluted		(0.31)	0.07
Dividend paid	9	–	–

8 EPI (Holdings) Limited Interim Report 2011
Condensed Consolidated Statement of Financial Position

At 30 June 2011

	Notes	At 30 June 2011 HK\$'000 (Unaudited)	At 31 December 2010 HK\$'000 (Audited)
Non-current assets			
Exploration and evaluation of assets		3,834,401	3,793,293
Property, plant and equipment		229,527	161,027
Deferred tax assets		–	295
Other tax recoverable		36,567	33,643
		4,100,495	3,988,258
Current assets			
Trade and other receivables	10	101,899	206,032
Available-for-sale investments		67,600	67,600
Held-for-trading investments		17,516	4,000
Pledged bank deposits		–	26,340
Bank balances and cash		7,617	85,204
		194,632	389,176
Current liabilities			
Trade and other payables	11	209,789	168,372
Derivative financial instruments		–	10,596
Bank borrowings – amounts due within one year	12	13,994	135,677
		223,783	314,645
Net current (liabilities) assets		(29,151)	74,531
Total assets less current liabilities		4,071,344	4,062,789
Non-current liabilities			
Promissory notes		1,899	1,899
Deferred tax liabilities		5,718	5,718
Assets retirement obligation		1,871	3,137
		9,488	10,754
		4,061,856	4,052,035
Capital and reserves			
Share capital	13	207,088	185,088
Reserves		3,854,768	3,866,947
Equity attributable to equity holders of the Company		4,061,856	4,052,035

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2011

	Attributable to owners of the Company										Total	
	Share capital	Share	Share premium	Capital reserve	Investment	Contributed	Translation reserve	Share	Convertible	Accumulated		
		repurchase reserve			revaluation reserve	surplus reserve (Note)		options reserve	notes reserve	profits (losses)		
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance at 1 January 2010 (audited)	76,936	-	1,401,554	-	-	60,322	(23)	15,518	2,326,356	96,222	3,976,885	
Exchange differences arising on translation of foreign operations, representing total income recognised directly in equity	-	-	-	-	-	-	(1,847)	-	-	-	(1,847)	
Profit for the period	-	-	-	-	-	-	-	-	-	8,831	8,831	
Total comprehensive income for the period	-	-	-	-	-	-	(1,847)	-	-	8,831	6,984	
Issue of new shares	13,900	-	240,470	-	-	-	-	-	-	-	254,370	
Transaction costs attributable to issue of new shares	-	-	(6,718)	-	-	-	-	-	-	-	(6,718)	
Conversion of convertible notes	19,512	-	456,585	-	-	-	-	-	(476,097)	-	-	
Repurchase and cancellation	(210)	-	(2,096)	-	-	-	-	-	-	-	(2,306)	
Recognition of share-based payment expense	-	-	-	-	-	-	-	2,872	-	-	2,872	
Repurchase but not yet cancellation	-	(953)	-	-	-	-	-	-	-	-	(953)	
At 30 June 2010 (unaudited)	110,138	(953)	2,089,795	-	-	60,322	(1,870)	18,390	1,850,259	105,053	4,231,134	
Balance at 1 January 2011	185,088	-	3,853,585	61,721	51,458	60,322	-	32,267	-	(192,406)	4,052,035	
Exchange differences arising on translation of foreign operations, representing total income recognised directly in equity	-	-	-	-	-	-	(1,021)	-	-	-	(1,021)	
(Loss) for the period	-	-	-	-	-	-	-	-	-	(58,570)	(58,570)	
Total comprehensive (expenses) for the period	-	-	-	-	-	-	(1,021)	-	-	(58,570)	(59,591)	
Issue of new shares	22,000	-	104,100	(61,721)	-	-	-	-	-	-	64,379	
Transaction costs attributable to issue of new shares	-	-	(926)	-	-	-	-	-	-	-	(926)	
Recognition of share-based payment expense	-	-	-	-	-	-	-	5,959	-	-	5,959	
At 30 June 2011 (unaudited)	207,088	-	3,956,759	-	51,458	60,322	(1,021)	38,226	-	(250,976)	4,061,856	

Notes:

The contributed surplus reserve represents the credit arising from capital reduction in 2006.

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2011

	For the six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
OPERATING ACTIVITIES		
Cash from (used in) operations	92,887	(62,582)
Hong Kong profits tax paid	–	(151)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	92,887	(62,733)
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(70,062)	(123,791)
Proceeds from disposal of property, plant and equipment	–	735
Interest received	483	32
Decrease in loan receivables	–	15,962
Decrease (Increase) in pledged bank deposits	26,340	(3,709)
Additions of exploration for evaluation of mineral resources	(46,800)	–
(Increase) Decrease in held-for-trading investments	(14,416)	81,212
NET CASH USED IN INVESTING ACTIVITIES	(104,455)	(29,559)
FINANCING ACTIVITIES		
Proceeds from issue of new shares	64,379	254,370
Expenses on issue of new shares	(926)	(6,718)
Net payment of bank borrowings	(121,684)	35,984
Net payment on repurchase of shares	–	(2,306)
Repayment of promissory notes	–	(124,800)
Interest paid	(6,767)	(1,916)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(64,998)	154,614
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(76,566)	62,322
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	(1,021)	(10)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	85,204	93,002
CASH AND CASH EQUIVALENTS AT 30 JUNE	7,617	155,314
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	7,617	155,314

For the six months ended 30 June 2011

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2011 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Hong Kong Accounting Standard (the "HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010.

The Group has not early applied new and revised standards that have been issued but are not yet effective.

The following new or revised standards have been issued after the date the consolidated financial statements for the year ended 31 December 2010 were authorised for issuance and are not yet effective :

HKFRS 10	Consolidated Financial Statements ¹
HKFRS 11	Joint Arrangements ¹
HKFRS 12	Disclosures of Interests in Other Entities ¹
HKFRS 13	Fair Value Measurement ¹
HKAS 27 (as revised in 2011)	Separate Financial Statements ¹
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ¹

¹ Effective for annual periods beginning on or after 1 January 2013.

The directors of the Company anticipate that the application of other new and revised standards will have no material impact on the results and the financial position of the Group.

3. TURNOVER AND SEGMENTS INFORMATION

The Group's operating segments, based on information reported to the chief operating decision maker for the purposes of resource allocation and performance assessment are as follows:

- Petroleum exploration and production – exploration and production of petroleum
- Trading of petroleum related products – trading of petroleum related products
- Metals sourcing and trading – sourcing and trading of non-ferrous metals

Segment information about these businesses is presented below.

Six months ended 30 June 2011 (unaudited)

	Petroleum exploration and production HK\$'000	Trading of petroleum related products HK\$'000	Total HK\$'000
Continuing operations			
Segment revenue			
External sales	13,038	577,246	590,284
Result			
Segment results	(29,515)	1,542	(27,973)
Interest income			483
Other income			643
Unallocated corporate expenses			(24,956)
Finance cost			(6,767)
Loss before taxation			(58,570)
Taxation charge			–
Loss for the period			(58,570)

3. TURNOVER AND SEGMENTS INFORMATION – CONTINUED

Six months ended 30 June 2010 (unaudited)

	Petroleum exploration and production HK\$'000	Metals sourcing and trading HK\$'000	Total HK\$'000
Continuing operations			
Segment revenue			
External sales	12,514	252,180	264,694
Result			
Segment results	(18,662)	49,094	30,432
Interest income			32
Other income			1,800
Unallocated corporate expenses			(17,058)
Finance cost			(1,916)
Profit before taxation			13,290
Taxation charge			(1,500)
Profit for the period			11,790
Discontinuing operation			
		Consumer electronics HK\$'000	Total HK\$'000
Segment revenue			
External sales		35,649	35,649
Result			
Segment results		620	620
Unallocated corporate expenses			(3,579)
Loss before taxation			(2,959)
Taxation charge			–
Loss for the period			(2,959)
Consolidated profit for the period			8,831

4. OTHER EXPENSES

	For the six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Continuing operations:		
Expenses incurred in exploring potential investment opportunities	790	505
Change in fair value of financial assets classified as		
– held-for-trading investments	900	177
– derivative financial instruments	–	482
Loss on disposal of held-for-trading investments	113	–
	1,803	1,164

5. FINANCE COSTS

	For the six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Continuing operations:		
Interest on bank borrowings wholly repayable within five years		
Bank borrowings and overdrafts	6,755	972
Promissory notes	12	944
	6,767	1,916

6. TAXATION CHARGE

No provision for Hong Kong Profits Tax has been made as there is no assessable profit arising in Hong Kong. (2010: Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits for the six months ended 30 June 2010.)

7. (LOSS) PROFIT FOR THE PERIOD

The following items have been charged/(credited) to the (loss) profit for the period:

	For the six months ended 30 June	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
Continuing operations:		
Depreciation of property, plant and equipment	7,254	7,636
Operating leases on land and building	2,209	2,124
Staff costs, including directors' emoluments	17,796	14,703
Share based payment under options scheme	5,959	2,872
Bank interest income	(483)	(32)

8. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to the equity holders of the Company is based on the following data:

	For the six months ended 30 June	
	2011 HK\$'000 (Unaudited)	2010 HK\$'000 (Unaudited)
From continuing and discontinued operations		
(Loss) earnings		
(Loss) earnings for the purpose of basic earnings per share		
((Loss) profit for the period attributable to equity holders of the Company)	(58,570)	8,831
	2011 '000	2010 '000
Number of shares		
Weight average number of ordinary shares for the purpose of basic earnings per share	18,961,454	9,088,745
Effect of dilutive potential ordinary shares: Convertible notes	–	8,675,869
Weight average number of ordinary shares for the purpose of diluted earnings per share	18,961,454	17,764,614

8. (LOSS) EARNINGS PER SHARE – CONTINUED

	For the six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
From continuing operations		
(Loss) profit for the period attributable to equity holders of the Company	(58,570)	8,831
Add: Loss for the period from discontinued operation	–	2,959
(Loss) earnings for the purposes of basic and diluted earnings per share from continuing operations	(58,570)	11,790

9. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2011 (2010: Nil).

10. TRADE AND OTHER RECEIVABLES

	At	At
	30 June 2011	31 December 2010
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Trade receivables	7,660	14,623
Bills receivables	–	90,214
Other tax recoverable	7,660	104,837
Prepayments to other suppliers	17,739	6,214
Consideration receivable on disposal of subsidiaries	–	40,000
Consideration receivable on disposal of held-for-trading investments	1,000	1,000
Amount due from a former subsidiary	20,600	49,000
Other receivables and deposits	–	4,064
	54,900	917
	101,899	206,032

The Group allows on average credit period of 30 days to its trade customers. At the discretion of the directors, several major customers are allowed to settle their balances beyond the normal credit terms up to 180 days. The following is an aged analysis of trade and bills receivables presented based on the invoice date (other than bills receivables which are presented based on the issuance date of relevant bills) at the end of the reporting period:

10. TRADE AND OTHER RECEIVABLES – CONTINUED

	At 30 June 2011 HK\$'000 (Unaudited)	At 31 December 2010 HK\$'000 (Audited)
0-30 days	2,918	104,837
31-60 days	4,742	–
	7,660	104,837

11. TRADE AND OTHER PAYABLES

	At 30 June 2011 HK\$'000 (Unaudited)	At 31 December 2010 HK\$'000 (Audited)
Trade payables	49,387	8,575
Bills payables	–	89,128
	49,387	97,703
Payables for acquisition of available-for-sale investments	10,424	10,424
Payables for assignment of oil concession rights	50,700	50,700
Interest payable on promissory notes	494	482
Other payables and accruals	98,784	9,063
	209,789	168,372

The following is an aged analysis by invoice date (bills issued date for bills payable) of trade and bills payables at the end of the reporting period:

	At 30 June 2011 HK\$'000 (Unaudited)	At 31 December 2010 HK\$'000 (Audited)
0 – 30 days	46,410	97,703
31 – 60 days	2,977	–
	49,387	97,703

Notes to the Condensed Consolidated Interim Financial Statements

12. BANK BORROWINGS

The Group had no fixed-rate borrowings. Its variable-rate borrowings comprise the following:

	At 30 June 2011 HK\$'000 (Unaudited)	At 31 December 2010 HK\$'000 (Audited)
Bank borrowings comprise the following:		
Bank loans	854	23,392
Trust receipts loans	12,291	112,285
Bank overdrafts	849	–
	13,994	135,677
Analysed as:		
Secured	12,291	112,285
Unsecured	1,703	23,392
	13,994	135,677
Carrying amount repayable:		
Within one year	13,994	135,677
More than one year, but not exceeding two years	–	–
	13,994	135,677
Less: Amounts due within one year shown under current liabilities	(13,994)	(135,677)
	–	–

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

	At 30 June 2011 (Unaudited)	At 31 December 2010 (Audited)
Effective interest rate:	2.54% to 10.27%	2.27% to 4.12%

The interest rates of variable-rate borrowings are based on bank's standard bills finance rate +1.5% per annum. The trust receipt loans and bank overdrafts carry interest at prevailing market rates.

13. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.01 each at 31 December 2010	100,000,000,000	1,000,000
Ordinary shares of HK\$0.10 each at 30 June 2011 (note b)	10,000,000,000	1,000,000
Issued and fully paid:		
Ordinary shares of HK\$0.01 each at 31 December 2010 and 1 January 2011	18,508,775,885	185,088
Issue of new shares (note a)	2,200,000,000	22,000
Share consolidation (note b)	(18,637,898,297)	–
At 30 June 2011	2,070,877,588	207,088

- a) On 22 December 2010, the Company entered into a subscription agreement with Rich Concept Worldwide Limited (“Rich Concept”), a substantial shareholder of the Company to allot and issue 920,000,000 new ordinary shares of HK\$0.01 each (the “First Subscription Shares”) at the price of HK\$0.0675 per share. The subscription agreement is conditional upon completion of the placing of 920,000,000 issued ordinary shares of the Company made by the placing agent on behalf of Rich Concept. On 3 January 2011, following completion of the placing, the First Subscription Shares were issued under the refreshed general mandate granted to the directors of the Company on 9 June 2010. The net proceeds of approximately HK\$61.7 million shall be used for financing the Mendoza oil project and general working capital.

On 9 May 2011, the Company entered into a subscription agreement with City Wise Investment Limited (“City Wise”), a substantial shareholder of the Company to allot and issue 1,280,000,000 new ordinary shares of HK\$0.01 each (the “Second Subscription Shares”) at the price of HK\$0.05 per share. The subscription agreement is conditional upon completion of the placing of 1,280,000,000 issued ordinary shares of the Company made by the placing agent on behalf of City Wise. On 23 May 2011, following completion of the placing, the Second Subscription Shares were issued under the refreshed general mandate granted to the directors of the Company on 9 June 2010. The net proceeds of approximately HK\$63 million shall be used for financing the Mendoza oil project and general working capital.

- b) Pursuant to an ordinary resolution passed on 22 June 2011, the Company consolidated every 10 issued shares of HK\$0.01 each into 1 consolidated share of HK\$0.1

LIQUIDITY AND FINANCIAL RESOURCES

In order to meet general working capital requirements and the funding needs of the Mendoza oil project, the Group decided to raise additional capital via the placement of shares and convertible notes during the period. On 9 May 2011, the Company raised net proceeds of approximately HK\$63 million via a top-up subscription placement of 1,280,000,000 shares at HK\$0.05 per share. On 19 August 2011, the Company raised net proceeds of approximately HK\$60 million via the placement of an aggregate amount of HK\$62.1 million of zero coupon convertible notes due on the second anniversary of the issue date, convertible into shares of the Company at an initial conversion price of HK\$0.15 per share (subject to adjustments). In order to meet the further funding requirements of the Mendoza oil project, the Group is currently in negotiation with banks for the purpose of obtaining the medium term project finance.

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

As at 30 June 2011, the interests and short positions of the Directors and chief executives of the Company in 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 which were taken or deemed to have under such provisions of the SFO) or were required, pursuant to section 352 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 AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

Director	Long/short position	Nature of interest	Number of shares/underlying shares held	Percentage of issued share capital (note 2)
Wong Chi Wing Joseph	Long position	Personal	5,896,600	0.28%
	Long position	Corporate (note 1)	125,810,827	6.08%
	Short position	Corporate (note 1)	90,000,000	4.35%
Chu Kwok Chi Robert	Long position	Personal	33,852,938	1.63%
Zhu Tiansheng	Long position	Personal	270,000	0.01%

Notes:

1. These shares are held by Rich Concept Worldwide Limited, a company beneficially wholly-owned by Mr. Wong Chi Wing Joseph.
2. The calculation of percentages is based on 2,070,877,588 Shares of the Company in issue as at 30 June 2011.

Save as disclosed above, as at 30 June 2011, no Directors or Chief Executive have any 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.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2011, according to the register of interests maintained by the company pursuant to section 336 of the Securities and Futures Ordinance (“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 were as follows:

LONG POSITIONS IN THE SHARES OF THE COMPANY

Name of Shareholders	Capacity and Nature of Interest	Number of Shares held	Approximate percentage of the issued share capital of the Company (note 3)
City Smart International Investment Limited (note 1)	Beneficial owner	7,466,856	0.36%
City Wise Investment Limited (note 1)	Beneficial owner	398,232,975	19.23%
South America Petroleum Investment Holdings Limited (note 1)	Interest of a controlled corporation	398,232,975	19.23%
Mr. Wu Shaozhang (note 1)	Interest of a controlled corporation	405,699,831	19.59%
Rich Concept Worldwide Limited (note 2)	Beneficial owner	125,810,827	6.08%

Notes:

1. So far as is known to the Directors, City Smart International Investment Limited, South America Petroleum Investment Holding Limited and City Wise Investment Limited are beneficially wholly-owned by Mr. Wu Shaozhang.
2. Rich Concept Worldwide Limited is wholly-owned by Mr. Wong Chi Wing Joseph. Mr. Wong has interest in these shares as disclosed under the section of “Directors’ and Chief Executive’s Interests and Short Positions in Shares, underlying Shares and Debentures”.
3. The calculation of percentages is based on 2,070,877,588 Shares of the Company in issue as at 30 June 2011.

Saved as disclosed above, as at 30 June 2011, 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 are, 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 has any options in respect of such capital.

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 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 vendors, customers, advisors and consultants to the Company and its subsidiaries at the discretion of the Board of Directors.

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 a substantial shareholder, 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 directors, but may not be less than the higher 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 30 June 2011, options to subscribe for an aggregate of 12,679,999 shares of the Company granted to the Directors and certain employees pursuant to the Scheme remained outstanding, details of which were as follows:

Name and category of participant	At 1 January 2011	Grant during the period	Exercised during the period	Number of share options		Date of Grant	Exercisable period (both dates inclusive)	Exercise price
				Cancelled/Lapsed during the period	Outstanding as at 30 June 2011			
Executive Director								
Mr. Zhou Jacky (resigned on 16 February 2011)	500,000	-	-	(500,000)	-	19 March 2010	19 March 2010 to 9 February 2013	1.6100
	500,000	-	-	(500,000)	-	19 March 2010	10 November 2010 to 9 February 2013	1.6100
	500,000	-	-	(500,000)	-	19 March 2010	10 August 2011 to 9 February 2013	1.6100
Independent Non-Executive Director								
Mr. Zhu Tiansheng	90,000	-	-	-	90,000	19 March 2010	19 March 2010 to 9 February 2013	1.6100
	90,000	-	-	-	90,000	19 March 2010	10 November 2010 to 9 February 2013	1.6100
	90,000	-	-	-	90,000	19 March 2010	10 August 2011 to 9 February 2013	1.6100
Employees								
In aggregate	100,000	-	-	-	100,000	15 August 2007	15 August 2008 to 15 August 2011	6.4200
In aggregate	100,000	-	-	-	100,000	15 August 2007	15 August 2009 to 15 August 2011	6.4200
In aggregate	100,000	-	-	-	100,000	15 August 2007	15 August 2010 to 15 August 2011	6.4200
In aggregate	2,309,999	-	-	(213,333)	2,096,666	10 February 2010	10 February 2010 to 9 February 2013	1.5640
In aggregate	2,309,999	-	-	(213,333)	2,096,666	10 February 2010	10 November 2010 to 9 February 2013	1.5640
In aggregate	2,310,000	-	-	(213,333)	2,096,667	10 February 2010	10 August 2011 to 9 February 2013	1.5640
In aggregate	34,000,000	-	-	(34,000,000)	-	10 November 2010	01 January 2011 to 31 December 2012	0.816
In aggregate	34,000,000	-	-	(34,000,000)	-	10 November 2010	01 January 2012 to 31 December 2012	0.816

Name and category of participant	At 1 January 2011	Grant during the period	Exercised during the period	Number of share options		Date of Grant	Exercisable period (both dates inclusive)	Exercise price
				Cancelled/ Lapsed during the period	Outstanding as at 30 June 2011			
Third Parties								
In aggregate	1,940,000	-	-	-	1,940,000	10 February 2010	10 February 2010 to 9 February 2013	1.5640
In aggregate	1,940,000	-	-	-	1,940,000	10 February 2010	10 November 2010 to 9 February 2013	1.5640
In aggregate	1,940,000	-	-	-	1,940,000	10 February 2010	10 August 2011 to 9 February 2013	1.5640
In aggregate	13,500,000	-	-	(13,500,000)	-	10 November 2010	01 January 2011 to 31 December 2012	0.816
In aggregate	13,500,000	-	-	(13,500,000)	-	10 November 2010	01 January 2012 to 31 December 2012	0.816
Total	109,819,998	-	-	(97,139,999)	12,679,999			

Note:

The exercise price and the number of share options granted and exercised were retrospectively adjusted for the share consolidation which became effective on 23 June 2011.

INTERIM DIVIDEND

The board of directors of the Company has resolved that no interim dividend be paid for the period (2010: NIL).

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

During the six months ended 30 June 2011, the Company has not redeemed any of its listed securities. Neither the Company nor any of its subsidiaries has purchased or sold any of the listed securities during the said period.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

For the period ended 30 June 2011, the Company has complied with the CG Code with deviations from the code provision A.2.1 and A.4.1 of the CG Code as summarized below.

The code provision A.2.1 of the CG Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Wong Chi Wing Joseph is the chairman and chief executive officer of the company. The Company recognizes the importance of segregating the duties of the chairman and the chief executive officer and has tried its best to identify a high caliber executive to take up either one of these roles. A suitable candidate has not yet been identified but the Company will continue to look for the right person for the post.

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 were not appointed for a specific term. However, all non-executive directors were subject to retirement and offer themselves for re-election at each Annual General Meeting in accordance with the Company's Bye-laws.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Upon specific enquiry by the Company, all directors have confirmed that they have complied with the required standards set out in the Model Code and its code of conduct regarding directors' securities transactions throughout the period.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited consolidated accounts for the six months ended 30 June 2011 with the Directors.

The Audit Committee comprises three Independent Non-executive Directors, namely Mr. Cheung Yuk Ming (Chairman of the Audit Committee), Mr. Qian Zhi Hui and Mr. Zhu Tiansheng. Mr. Cheung is a certified public accountant.

BOARD OF DIRECTORS

As at the date of this report the Board comprises three executive Directors, namely, Mr. Wong Chi Wing Joseph, Mr. Chu Kwok Chi Robert and Mr. Hong Kin Choy and three independent non-executive Directors, namely, Mr. Qian Zhi Hui, Mr. Zhu Tiansheng and Mr. Cheung Yuk Ming.

On behalf of the Board
EPI (Holdings) Limited
Wong Chi Wing Joseph
Chairman

Hong Kong, 26 August 2011