



EPI
2012
Interim Report

CORPORATE PROFILE

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.

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EPI (HOLDINGS) LIMITED

(Incorporated in Bermuda with limited liability)

EXECUTIVE DIRECTORS

Mr. Chu Kwok Chi Robert (Chief Executive Officer)

Mr. Hong Kin Choy (Chief Financial Officer)

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Yuk Ming

Mr. Qian Zhi Hui

Mr. Zhu Tiansheng

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)

Mr. Qian Zhi Hui

Mr. Zhu Tiansheng

REMUNERATION COMMITTEE

Mr. Qian Zhi Hui (Chairman)

Mr. Chu Kwok Chi Robert

Mr. Zhu Tiansheng

NOMINATION COMMITTEE

Mr. Qian Zhi Hui (Chairman)

Mr. Chu Kwok Chi Robert

Mr. Zhu Tiansheng

REGISTERED OFFICE

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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 2012: 2,612,877,588

Share price at 30 June 2012: HK\$0.17

Market capitalization at 30 June 2012: HK\$444 million

WEBSITE ADDRESS

www.epiholdings.com

4 Management Discussion and Analysis

The Group's core business is the petroleum exploration and production in the Puesto Pozo Cercado Concession and Chañares Herrados Concession (collectively the "Concessions") in the Cuyana Basin, Mendoza Province of Argentina.

On 5 June 2012, The Group's subsidiaries EP Energy S.A. ("EP Energy") and Have Result Investments Limited ("Have Result") have entered into an Operation Agreement ("Operation Agreement") with Chañares Herrados Empresa de Trabajos Petroleros S.A. ("Chañares") where,

- Chañares agreed to release EP Energy from the Commitment under the JV Agreement signed on 12 January 2011. EP Energy retains the right to drill and invest in the Areas during the life of the concessions awarded with respect to the Areas and any extension thereof;
- The Operation Agreement reconfirmed that Have Result has the right to receive 51% of the hydrocarbon production obtained from the 5 wells drilled by Have Result until the termination of the concessions held in respect of the Areas and any extension thereof;
- Chañares, Have Result and EP Energy have agreed the distribution methodology of the incentive granted from Petr leo Plus program ("Petr leo Plus Program") executed by the government of Argentina. According to this distribution methodology, Chañares have agreed and paid Have Result approximately AR\$7.0 million (equivalent to approximately HK\$12.2 million) being Petr leo Plus Program incentive in respect of production up to June 2011.

During January 2012, the forth oil well CH-1066 and fifth oil well CH-1082 drilled by EP Energy in Chañares Herrados Concession Area has commenced production.

As at June 2012, The Group has finished drilling of 10 oil wells in the Chañares Herrados Concession Area, Mendoza oilfield project Area. All the 10 wells are in production, of which 5 oil wells were drilled by Have Result where the Group entitled 51% interest on production, and 5 oil wells were drilled by EP Energy where the Group entitled 72% interest on production.

The contingent oil resources in certain shallow reservoirs in the Mendoza Oilfield as at 31 December 2011 are as follows,

Contingent Oil Resource (unit: million barrels) *

Category	Gross (100%)
Low Estimate (1C)	84.8
Best Estimate (2C)	146.9
High Estimate (3C)	245.5
Total (1C+2C+3C)	477.2

* According to the Resource Estimation Review Report issued by Roman Oil and Mining Associate Limited on 28 March 2012 on The Chañares Herrados and Puesto Pozo Cercado Oil Project in Mendoza Province, Argentina.

GROUP FINANCIAL REVIEW

For the six months ended 30 June 2012, the Group's turnover was HK\$70.9 million, a decrease of HK\$519.4 million as compared with HK\$590.3 million recorded in the same period last year. The Group recorded a loss for the year of HK\$38.8 million, against a loss for the period of HK\$59.6 million in the corresponding period of 2011. The Group has not carried on the trading of petroleum related products during the period ended 30 June 2012, which led to the substantial decrease in turnover as compared with the period ended 30 June 2011.

The Group has noticed the decrease in production in the 5 wells drilled by Have Result which required performing well workover. Subsequent to the Operation Agreement entered with Chañares, Have Result have been reconfirmed of its right in the 5 wells, and Have Result have planned and scheduled to perform the well workover during the second half of year 2012. As of the date of the report, the Group has finished the workover job on CH-1053 with production better than the expected result.

The Group will perform the impairment assessment during the year end by applying the production subsequent to workover to estimate the discounted future cashflow on oil sales until year 2027.

REVIEW OF GROUP OPERATIONS

During six months ended June 2012, the Group's core and continuing operations is petroleum exploration and production. The Group has not carried out the trading of petroleum related production during the period ended 30 June 2012.

Exploration and sales of petroleum

On January 2012, EP Energy S.A. has finished the test production of the fourth well CH-1066 and fifth well CH-1082. During July 2012, Have Result has completed the workover job on CH-1053 with result better than expected. As of the date of this report, the Group has ten wells in production,

Oil well	Status	Depth (m)	Date of production
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-25bis	In production	4,685	12 May 2010
CH-7 bis	In production	4,200	14 August 2010
CH-1059	In production	3,600	9 July 2011
CH-1068	In production	3,600	17 August 2011
CH-1063	In production	3,600	28 September 2011
CH-1066	In production	3,600	1 January 2012
CH-1082	In production	3,600	10 January 2012

The 5 wells commenced production in year 2009 and 2010 continued producing oil in year 2012, albeit with certain percentage of decline in production.

During the period, the Group have 10 producing wells generate oil sales revenue and has received from Chañares incentive from Petr leo Plus Program in respect of production up to June 2011. All our oil production was sold to YPF Sociedad An nima, through Chañares, the Concession owner. The Group expects that the Argentina government will grant the Petr leo Plus Program incentive for the period from July to December 2011 during forth quarter of year 2012. Turnover generated from the sales of petroleum segment for the period from January to June 2012 is HK\$70.9 million.

As of 30 June 2012, the Company has invested HK\$539.6 million in the drilling and completion of its oil wells, as wells as related infrastructure, in the Mendoza project. This amounts includes: 1) HK\$362.2 million in oil well drilling and completion which is classified as oil & gas assets and for which depreciation started from the commencement of production; 2) HK\$0 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 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 2012, the depreciation of the oil & gas assets was HK\$23.4 million.

1.1 Future operation plan

Short-term development plan

As noted, The Group noticed the production decline in the 5 wells drilled by Have Result, and have prepared the overall workover plan on these 5 wells to increase the production. On 5 June 2012, Have Result and EP Energy has entered into an Operation Agreement with Chañares, where Chañares has reconfirmed that Have Result have 51% working interest on the production of 5 wells. As of the report date, Have Result has finished the workover job on CH-1053 with encouraging result. Have Result and EP Energy will continue to perform workover job on its oil wells and to make other investment to increase the oil production and reduce operating cost during year 2012 and 2013.

To optimize the economic benefit of the Mendoza project, the Board of Director will continue preparing overall future drilling plan.

Other business opportunities

After setting up the technical & operational team and have a stable development in Argentina operation, the Group continues making effort in searching for opportunities on Oil & Gas Exploration and production business. The Group is focused on the oil & gas field with stable production base, with proven reserve, with certain development opportunities, in those industrial-advanced countries, such as United States of America. The Group is now looking into a few acquisition opportunities in North America and one of them has been negotiated to an advance stage. If the proposed acquisition proceeds, the transaction may constitute a major/very substantial acquisition transaction for the Company under Chapter 14 of the Rule Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and further announcement will be made by the Company in accordance with the Listing Rules. The Board wishes to emphasize that the negotiations for the proposed acquisition may or may not proceed. Shareholders and investors of the Company are urged to exercise caution when dealing in the shares of the Company.

1.2 Segment financial results*Sales of petroleum*

	Six months ended 30 June		
	Year 2012	Year 2011	% change
	HK\$'000	HK\$'000	
Turnover	70,906	13,038	+443.8%
Segment Profit/(Loss)	5,074	(29,515)	+117.2%

EP Energy has completed the production testing on CH-1066 (the fourth well) and CH-1082 (the fifth well) in January 2012. The Group has 10 oil wells in operation, including the 5 wells drilled during year 2009 and 2010. During the period from January to June 2012, all the wells are in production.

The turnover composed of 2 parts, the sales of oil to our customer YPF Sociedad Anónima and incentive from Petróleo Plus Program.

Administrative and Financial expenses of HK\$11 million mainly include professional and consultancy fees in relation to oil drilling service and the Operating Agreement, exchange differences, salaries, travel expenses and other tax expenses.

No Impairment loss on investment cost against the discounted future cashflow from future oil sales was recorded. The Group will perform impairment assessment during the year end based on the production result after workover.

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Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012

	Notes	For the six months ended 30 June	
		2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited) (restated)
Revenue	3	70,906	590,284
Other gains and losses		35	2,499
		70,941	592,783
Purchase oil products and operating expenses		(29,674)	(578,939)
Selling, general and administrative expenses		(29,540)	(38,794)
Employee benefits expenses		(9,724)	(17,796)
Depreciation and amortisation expenses		(24,152)	(7,254)
Other expenses	4	(511)	(1,803)
Total operating expenses		(93,601)	(644,586)
Operating loss		(22,660)	(51,803)
Finance costs	5	(15,795)	(6,767)
Loss before taxation		(38,455)	(58,570)
Taxation charge	6	(311)	–
Loss for the period attributable to owners of the Company	7	(38,766)	(58,570)
Other comprehensive expense			
Exchange differences arising on translation of foreign operations		–	(1,021)
Other comprehensive expense for the period		–	(1,021)
Total comprehensive expense for the period attributable to owners of the Company		(38,766)	(59,591)
Loss per share (Hong Kong cents)			
– Basic	8	(1.71)	(3.10)
– Diluted	8	(1.46)	(3.10)
Dividend paid	9	–	–

Condensed Consolidated Statement of Financial Position

At 30 June 2012

	Notes	At 30 June 2012 HK\$'000 (Unaudited)	At 31 December 2011 HK\$'000 (Audited)
Non-current assets			
Exploration and evaluation of assets		3,837,156	3,837,156
Property, plant and equipment		323,049	340,843
Deferred tax assets		9,013	9,870
Other tax recoverable		31,296	54,148
		4,200,514	4,242,017
Current assets			
Trade and other receivables	10	230,819	186,013
Available-for-sale investments		67,600	67,600
Held-for-trading investments		36	52
Bank balances and cash		2,138	29,509
		300,593	283,174
Current liabilities			
Trade and other payables	11	152,186	169,780
Taxation payable		–	777
Borrowings – amount due within one year	12	37,408	56,328
		189,594	226,885
Net current assets		110,999	56,289
Total assets less current liabilities		4,311,513	4,298,306
Non-current liabilities			
Convertible notes		54,564	74,661
Borrowings – amount due after one year	12	296,400	296,400
Deferred tax liabilities		5,718	6,574
Assets retirement obligation		1,730	1,730
		358,412	379,365
		3,953,101	3,918,941
Capital and reserves			
Share capital	13	261,288	215,088
Reserves		3,691,813	3,703,853
Equity attributable to owners of the Company		3,953,101	3,918,941

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2012

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000	Attributable to owners of the Company			Share options reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
				Investment revaluation reserve HK\$'000	Contributed surplus reserve (Note) HK\$'000	Translation reserve HK\$'000			
Balance at 1 January 2011 (audited)	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
Balance at 1 January 2012	215,088	3,962,469	–	51,458	60,322	–	39,747	(410,143)	3,918,941
Exchange differences arising on translation of foreign operations, representing total income recognised directly in equity	–	–	–	–	–	–	–	–	–
Loss for the period	–	–	–	–	–	–	–	(38,766)	(38,766)
Total comprehensive expenses for the period	–	–	–	–	–	–	–	(38,766)	(38,766)
Issue of new shares	33,000	16,500	–	–	–	–	–	–	49,500
Transaction costs attributable to issue of new shares	–	(2,241)	–	–	–	–	–	–	(2,241)
Conversion of convertible notes	13,200	12,467	–	–	–	–	–	–	25,667
At 30 June 2012 (unaudited)	261,288	3,989,195	–	51,458	60,322	–	39,747	(448,909)	3,953,101

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 2012

	For the six months ended 30 June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
OPERATING ACTIVITIES		
Cash (used in) from operations	(38,349)	92,887
Hong Kong profits tax paid	(778)	–
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(39,127)	92,887
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(6,358)	(70,062)
Interest received	–	483
Additions of exploration and evaluation assets	–	(46,800)
Decrease in pledged bank deposits	–	26,340
(Increase) in held-for-trading investments	–	(14,416)
NET CASH (USED IN) INVESTING ACTIVITIES	(6,358)	(104,455)
FINANCING ACTIVITIES		
Proceeds from issue of new shares	49,500	64,379
Expenses on issue of new shares	(2,241)	(926)
Net payment of bank borrowings	(18,920)	(121,684)
Interest paid	(10,225)	(6,767)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	18,114	(64,998)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(27,371)	(76,566)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	–	(1,021)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	29,509	85,204
CASH AND CASH EQUIVALENTS AT 30 JUNE	2,138	7,617
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	2,138	7,617

For the six months ended 30 June 2012

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements of the Group for the six months ended 30 June 2012 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 and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, certain amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are mandatorily effective for the current interim period.

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

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 chemical products related to petroleum

3. TURNOVER AND SEGMENTS INFORMATION – CONTINUED

Segment information about these businesses is presented below.

Six months ended 30 June 2012 (unaudited)

	Petroleum exploration and production HK\$'000	Trading of petroleum related products HK\$'000	Total HK\$'000
Segment revenue			
External sales	70,906	–	70,906
Result			
Segment results	5,074	(762)	4,312
Interest income			–
Other income			9
Unallocated corporate expenses			(26,981)
Finance cost			(15,795)
Loss before taxation			(38,455)
Taxation charge			(311)
Loss for the period			(38,766)

Six months ended 30 June 2011 (unaudited)

	Petroleum exploration and production HK\$'000	Trading of petroleum related products HK\$'000	Total HK\$'000
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)

Notes to the Condensed Consolidated Interim Financial Statements

4. OTHER EXPENSES

	For the six months ended 30 June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Expenses incurred in exploring potential investment opportunities	510	790
Change in fair value of financial assets classified as		
– held-for-trading investments	–	900
Loss on disposal of held-for-trading investments	–	113
Loss on disposal of property, plant and equipment	1	–
	511	1,803

5. FINANCE COSTS

	For the six months ended 30 June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Interest on borrowings wholly repayable within five years		
– Bank borrowings and overdrafts	3,282	6,755
– Promissory notes	–	12
Interest on borrowings not wholly repayable within five years		
– Bank borrowings	6,016	–
Effective interest expense on convertible notes	5,570	–
Others	927	–
Total interest expense	15,795	6,767

6. TAXATION CHARGE

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits. (2011: No provision for Hong Kong Profits Tax has been made as there is no assessable profit arising in Hong Kong.)

7. LOSS FOR THE PERIOD

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

	For the six months ended 30 June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Depreciation of property, plant and equipment	24,152	7,254
Operating leases on land and building	1,712	2,209
Staff costs, including directors' emoluments	9,724	17,796
Share based payment under options scheme	–	5,959
Bank interest income	–	(483)

8. LOSS PER SHARE

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

	For the six months ended 30 June	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
LOSS		
Loss for the purpose of basic loss per share (Loss for the period attributable to owners of the Company)	(38,766)	(58,570)
	2012 '000	2011 '000 (restated)
Number of shares		
Weight average number of ordinary shares for the purpose of basic earnings per share	2,270,548	1,896,145
Effect of dilutive potential ordinary shares: Convertible notes	388,615	–
Weight average number of ordinary shares for the purpose of diluted earnings per share	2,659,163	1,896,145

Notes to the Condensed Consolidated Interim Financial Statements

9. DIVIDENDS

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2012 (2011: Nil).

10. TRADE AND OTHER RECEIVABLES

	At 30 June 2012 HK\$'000 (Unaudited)	At 31 December 2011 HK\$'000 (Audited)
Trade receivables	3,173	8,416
Other tax recoverable	38,150	15,062
Prepayments to other suppliers (note a)	–	156,000
Amount due from a former director (note b)	5,091	5,091
Other receivables and deposits	184,405	1,444
	230,819	186,013

Notes:

- (a) As at 31 December 2011, the prepayments to other suppliers represent the prepayments for purchase of chemical products related to petroleum in the trading of petroleum related products operation.
- (b) At 30 June 2012 and 31 December 2011, an other loan of HK\$10,000,000 was secured by personal asset of Wong Chi Wing, Joseph. Amount due from a former director represents the advance to Wong Chi Wing, Joseph as securities for his assets pledged. The directors of the Company expect that Wong Chi Wing, Joseph will repay the outstanding balance when the loan owed by the Group to the loan lender is repaid and that charge of personal assets of Wong Chi Wing, Joseph pledged as securities is released. Particulars of the amount due from a former director are as follows:

Former director	Terms of	At 30 June 2012 HK\$'000 (Unaudited)	At 31 December 2011 HK\$'000 (Audited)	Maximum amount outstanding during the period HK\$'000
Wong Chi Wing, Joseph	Unsecured, interest-free and repayable on demand	5,091	5,091	5,091

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 receivables presented based on the invoice date at the end of the reporting period:

	At 30 June 2012 HK\$'000 (Unaudited)	At 31 December 2011 HK\$'000 (Audited)
0 – 30 days	3,173	1,457
31 – 60 days	–	1,341
61 – 90 days	–	1,541
91 – 120 days	–	4,077
	3,173	8,416

11. TRADE AND OTHER PAYABLES

	At 30 June 2012 HK\$'000 (Unaudited)	At 31 December 2011 HK\$'000 (Audited)
Trade payables	57,002	68,004
Payables for assignment of oil concession rights (note a)	50,700	50,700
Payables for oil concession rights (note b)	8,134	20,248
Payables for acquisition of held-for-trading investments as securities to a loan (note c)	16,115	16,115
Interest payable on borrowings	1,399	2,699
Other payables and accruals	18,836	12,014
	152,186	169,780

Notes:

- (a) Pursuant to the assignment agreement dated 24 November 2007 as amended/supplemented by the "Amendment to Contract of Assignment of Rights, Investment and Technical Cooperation" dated 19 December 2008 executed by and between Maxipetrol and Have Result, Have Result was obliged to pay Maxipetrol US\$20,000,000 (approximately HK\$156,000,000) in consideration of Maxipetrol's assignment of 51% rights on the future production as a consequence of new drilling and operation of new wells in the Areas. As at 30 June 2012 and 31 December 2011, the balance payable is US\$6,500,000 (approximately HK\$50,700,000).
- (b) During the year ended 31 December 2011, Chañares obtained an extension of 10 years from the date of expiry of the original terms of the Concessions. Pursuant to the New JV Agreement, the Group is obliged to pay an amount of US\$4,000,000 (approximately HK\$31,200,000) to Chañares. This amount was not fully paid during the period ended 30 June 2012 and the year ended 31 December 2011. At 30 June 2012 and 31 December 2011, the outstanding sum amounted to US\$1,042,800 and US\$2,596,000 (approximately HK\$8,134,000 and HK\$20,248,000).
- (c) The amount, which are interest-free and repayable on demand, represents the payable which arose from purchases of held-for-trading instruments as securities to a loan.

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

	At 30 June 2012 HK\$'000 (Unaudited)	At 31 December 2011 HK\$'000 (Audited)
0 – 30 days	6,587	46,160
31 – 60 days	16,180	17,697
61 – 90 days	1,864	1,610
91 – 180 days	32,371	2,537
	57,002	68,004

Notes to the Condensed Consolidated Interim Financial Statements

12. BORROWINGS

	At 30 June 2012 HK\$'000 (Unaudited)	At 31 December 2011 HK\$'000 (Audited)
	Borrowings comprise the following:	
Bank loans	312,000	312,000
Other loans	21,808	40,728
	333,808	352,728
Analysed as:		
Secured	312,000	312,000
Unsecured	21,808	40,728
	333,808	352,728
Carrying amount repayable:		
Within one year	37,408	56,328
In more than one year, but not more than two years	23,400	23,400
In more than two year, but not more than five years	163,800	163,800
In more than five years	109,200	109,200
	333,808	352,728
Less: Amounts due within one year shown under current liabilities	(37,408)	(56,328)
	296,400	296,400

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

	Effective interest rate		Carrying amount	
	At 30 June 2012 (Unaudited)	At 31 December 2011 (Audited)	At 30 June 2012 (Unaudited) HK\$'000	At 31 December 2011 (Audited) HK\$'000
Fixed-rate borrowings	24%	24% to 31%	21,808	40,728
Variable-rate borrowings	4.73%	4.64%	312,000	312,000
			333,808	352,728

13. SHARE CAPITAL

	Number of shares	Amount HK\$'000
Authorised:		
Ordinary shares of HK\$0.10 each at 31 December 2011	10,000,000,000	1,000,000
Ordinary shares of HK\$0.10 each at 30 June 2012	10,000,000,000	1,000,000
Issued and fully paid:		
Ordinary shares of HK\$0.10 each at 31 December 2011 and 1 January 2012	2,150,877,588	215,088
Issue of new shares (note a)	330,000,000	33,000
Conversion of convertible notes (note b)	132,000,000	13,200
At 30 June 2012	2,612,877,588	261,288

Notes:

- (a) On 25 April 2012, the Company entered into a subscription agreement with City Wise Investment Limited ("City Wise"), a substantial shareholder of the Company, to allot and issue 330,000,000 ordinary shares of HK\$0.1 each (the "First Subscription Shares") at a subscription price of HK\$0.15 per share. The subscription agreement is conditional upon completion of the placing of 330,000,000 ordinary shares of HK\$0.1 each of the Company made by the placing agent on behalf of City Wise. On 9 May 2012, following the completion of the placing, the First Subscription Shares were issued under the general mandate granted to the directors of the Company on 14 October 2011. The net proceeds of approximately HK\$47 million shall be used as general working capital.

Mr Wu, a shareholder of the Company, wholly owned the beneficial interests in City Wise when the above transaction took place.

Further details of the above are set out in the Company's announcements date 25 April 2012 and 9 May 2012.

The First subscription Shares of HK\$0.1 each issued to City Wise pursuant to the subscription agreement.

- (b) During the period, 132,000,000 shares of HK\$0.1 each of the Company were issued upon conversion of convertible notes with an aggregate principal amount of HK\$19,800,000.

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 placement of shares during the period. On 25 April 2012, the Company raised net proceeds of approximately HK\$47 million via a top-up subscription placement of 330,000,000 shares at HK\$0.15 per share. On 28 June 2012, the Company raised net proceeds of approximately HK\$53.6 million via a top-up subscription placement of 250,000,000 shares at HK\$0.155 per share and new shares placement of 110,000,000 shares at HK\$0.155 per share. In order to meet the 2012 investment plan of wells workover funding requirements of the Mendoza oil project, the Group is currently undergoing a negotiation with a bank for 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 2012, 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 POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

Director	Nature of interest	Number of shares/ underlying shares held	Percentage of issued share capital (note 1)
Chu Kwok Chi Robert	Personal	33,852,938	1.30%
Zhu Tiansheng	Personal	270,000	0.01%

Note:

- The calculation of percentages is based on 2,612,877,588 Shares of the Company in issue as at 30 June 2012.

Save as disclosed above, as at 30 June 2012, 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 2012, 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/SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

Name of Shareholders	Long/short position	Capacity/ nature of interest	Number of shares/ underlying shares held	Percentage of issued share capital (note 3)
City Smart International Investment Limited (note 1)	Long	Beneficial owner	7,466,856	0.29%
City Wise Investment Limited (note 1)	Long	Beneficial owner	398,232,975	15.24%
South America Petroleum Investment Holdings Limited (note 1)	Long	Interest of a controlled corporation	398,232,975	15.24%
Mr. Wu Shaozhang (note 1)	Long	Interest of a controlled corporation	405,699,831	15.53%
Rich Concept Worldwide Limited (note 2)	Long	Beneficial owner	125,810,827	4.80%
	Short	Beneficial owner	90,000,000	3.44%
Mr. Wong Chi Wing Joseph (note 2)	Long	Beneficial owner	5,896,600	0.23%
	Long	Interest of a controlled corporation	125,810,827	4.80%
	Short	Interest of a controlled corporation	90,000,000	3.44%

Notes:

1. So far as is known to the Directors, City Smart International Investment Limited, South America Petroleum Investment Holdings Limited and City Wise Investment Limited are beneficially wholly-owned by Mr. Wu Shaozhang.
2. So far as is known to the Directors, Rich Concept Worldwide Limited is wholly-owned by Mr. Wong Chi Wing Joseph.
3. The calculation of percentages is based on 2,612,877,588 Shares of the Company in issue as at 30 June 2012.

Saved as disclosed above, as at 30 June 2012, 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 shareholders, Independent non-executive directors, or any of their respective associates) in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5,000,000 must be also approved by the Company's shareholders.

The exercise price of the share options is determinable by the 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 2012, options to subscribe for an aggregate of 152,379,999 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	Date of grant	Exercisable period (both dates inclusive)	Exercise price	Outstanding at 1.1.2012	Granted during the period	Lapsed during the period	Cancelled during the period	Outstanding at 30.06.2012
Independent Non-executive Director								
Mr. Zhu Tiansheng	19 March 2010	19 March 2010 – 9 February 2013	1.610	90,000	–	–	–	90,000
	19 March 2010	10 November 2010 – 9 February 2013	1.610	90,000	–	–	–	90,000
	19 March 2010	10 August 2011 – 9 February 2013	1.610	90,000	–	–	–	90,000
Employee								
	10 February 2010	10 February 2010 – 9 February 2013	1.564	2,096,667	–	–	–	2,096,667
	10 February 2010	10 November 2010 – 9 February 2013	1.564	2,096,667	–	–	–	2,096,667
	10 February 2010	10 August 2011 – 9 February 2013	1.564	2,096,667	–	–	–	2,096,667
Other participants								
	10 February 2010	10 February 2010 – 9 February 2013	1.564	1,939,999	–	–	–	1,939,999
	10 February 2010	10 November 2010 – 9 February 2013	1.564	1,939,999	–	–	–	1,939,999
	10 February 2010	10 August 2011 – 9 February 2013	1.564	1,940,000	–	–	–	1,940,000
	11 October 2011	11 October 2011 – 10 October 2013	0.141	140,000,000	–	–	–	140,000,000
				152,379,999	–	–	–	152,379,999

INTERIM DIVIDEND

The board of directors of the Company has resolved that no interim dividend be paid for the period (2011: NIL).

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

During the six months ended 30 June 2012, 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 compiled 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 2012, the Company has complied with the CG Code with deviations from the code provision A.2.2, A.2.3 and A.4.1 of the CG Code as summarized below.

The code provision A.2.2 of the CG Code stipulates that the chairman should ensure that all directors are properly briefed on issues arising at board meetings and the code provision A.2.3 of the CG Code stipulates that the chairman should be responsible for ensuring that directors receive adequate information, which must be complete and reliable, in a timely manner. Since the resignation of Mr. Wong Chi Wing Joseph on 20 December 2011, the office of the chairman of the Company is still vacant. The Company recognizes the importance of the duties of the chairman and will identify a high caliber executive to take up the role as soon as possible.

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 can 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 2012 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 two executive Directors, namely, Mr. Chu Kwok Chi Robert and Mr. Hong Kin Choy and three independent non-executive Directors, namely, Mr. Cheung Yuk Ming, Mr. Qian Zhi Hui and Mr. Zhu Tiansheng.

On behalf of the Board
EPI (Holdings) Limited
Hong Kin Choy
Executive Director