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- (i) DISCLOSEABLE TRANSACTION IN RELATION TO  
THE FORMATION OF A JOINT VENTURE COMPANY;**
- (ii) TERMINATION OF PREVIOUS JOINT VENTURE AGREEMENT;  
AND**
- (iii) RESUMPTION OF TRADING**

#### **FORMATION OF THE JV COMPANY**

The Board is pleased to announce that on 2 December 2010, Southstart, a wholly-owned subsidiary of the Company, and Chañares entered into the Agreement in relation to the formation of the JV Company.

Pursuant to the Agreement, EP Energy (to become a wholly-owned subsidiary of Southstart) and Chañares shall form the JV Company which will be owned as to 72% by EP Energy and as to 28% by Chañares. The business of the JV Company will be the exploration, exploitation and development of hydrocarbons in the Areas under the terms of the Agreement.

#### **TERMINATION OF THE PREVIOUS JV AGREEMENT**

Prior to the signing of the Agreement, Have Result sent a letter dated 2 December 2010 to Maxipetrol stating and confirming that the Termination of the Previous JV Agreement and related agreements is ungrounded and solely attributable to Maxipetrol, and reserved all rights and remedies against it. As advised by the Argentina legal advisers of the Company, notwithstanding the Termination, Have Result remains entitled to a 51% right in the production from the Existing Wells, provided that Have Result continues to pay the relevant operating costs. The Company has also been advised by its Argentina legal advisers that the Agreement constitutes valid and binding obligations of Chañares. Based on the aforesaid legal opinion, the Directors consider that (i) there will not be any material adverse effects on the ownership of the rights of Have Result regarding the production of the Existing Wells notwithstanding the Termination; and (ii) the entering into of the Agreement and the future formation of the JV Company enables the Group to continue its expansion plan in the Areas.

## **SUSPENSION AND RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on 2 December 2010 pending the publication of this announcement. An application has been made to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:30 a.m. on 21 December 2010.

The Board is pleased to announce that on 2 December 2010, Southstart, a wholly-owned subsidiary of the Company, and Chañares entered into the Agreement in relation to the formation of the JV Company. Details of the Agreement are set out below.

### **THE AGREEMENT DATED 2 DECEMBER 2010**

#### **Parties**

- (i) Southstart, a wholly-owned subsidiary of the Company; and
- (ii) Chañares.

Chañares is the holder of the Concessions and is principally engaging in the development and operation of oil and gas business in the Areas. To the best of the Directors' knowledge, information and belief and having made all reasonable enquiry, Chañares and its ultimate beneficial owner(s) are third parties independent of the Company and its connected persons (as defined under the Listing Rules).

#### **Formation of the JV Company**

Pursuant to the Agreement, EP Energy, to become a wholly-owned subsidiary of Southstart, and Chañares shall form the JV Company which will be owned as to 72% by EP Energy and as to 28% by Chañares. The business of the JV Company will be the exploration, exploitation and development of hydrocarbons in the Areas under the terms of the Agreement. EP Energy is a special purpose vehicle formed for the purpose of holding the JV Company. The transfer of ownership of EP Energy to Southstart is under progress and it is expected that such transfer will complete by end of December 2010.

#### **The Concessions**

Chañares was awarded the hydrocarbon exploitation concession of the Puesto Pozo Cercado Area by Resolution No. 782 dated 26 June 1992 issued by the Ministry of Economy and Public Works of the National Government of Argentina and approved by National Decree No. 1276 dated 21 July 1992. Chañares was also assigned the concession for the Chañares Herrados Area from the previous owner and such assignment has been authorised by Administrative Decision No. 21 from Chief of Cabinet of the National Government of Argentina in 1996. Both concessions have a term of 25 years commencing from 1992 and 1996 respectively, with the possibility of a 10-year extension. Pursuant to the Agreement, upon formation of the JV Company, EP Energy will be entitled to carry out exploration, exploitation and development of hydrocarbons in the Areas.

## **Funding requirements**

Upon signing of the Agreement, Southstart and EP Energy are jointly obliged to pay US\$6,000,000 (equivalent to approximately HK\$46,680,000) to Chañares in consideration for the right to drill in the Areas during the current term of the Concessions. Such amount shall be payable by Southstart and/or EP Energy to Chañares no later than the seventh working day after the formation of the JV Company.

Chañares confirmed in the Agreement that it has made the request for the Extension to the competent authority and further undertakes to make its best efforts to obtain the Extension by 31 December 2011. In the event that Chañares obtains the Extension by 31 December 2011, Southstart and EP Energy are jointly obliged to pay Chañares an amount of US\$800,000 (equivalent to approximately HK\$6,224,000) for each year of extension of the term of the Concessions in excess of five years in consideration for the right to drill in the Areas during the extended term of the Concessions. Therefore, in the event that Chañares obtains an extension of 10 years from the date of expiry of the existing term of the Concessions, Southstart and EP Energy are jointly obliged to pay an aggregate amount of US\$4,000,000 (equivalent to approximately HK\$31,120,000) to Chañares.

In the event that by 31 December 2011, the competent authorities of Argentina fail to render a decision on the request for the Extension or have rejected the request for the Extension and EP Energy has complied with the 2011 Investment Plan, EP Energy may, at its sole discretion, opt to (i) continue to drill in the Areas in which case EP Energy shall not be subject to any commitment to drill a minimum number of wells; or (ii) discontinue drillings in the Areas, in which case Chañares shall reimburse Southstart US\$3,000,000 (equivalent to approximately HK\$23,340,000) and Southstart shall forfeit its right to continue drilling in the Areas, even if the Extension may subsequently be granted, but for the avoidance of doubt, EP Energy will not be forfeiting any right in respect of the wells already drilled by EP Energy.

If Chañares obtains the Extension after 31 December 2011 and if Southstart has opted for alternative (i) above to continue drilling in the Areas after 1 January 2012, Southstart shall pay Chañares an amount of US\$800,000 (equivalent to approximately HK\$6,224,000) for each year of extension of the term of the Concessions in excess of five years in consideration for the right to drill in the Areas during the extended term of the Concessions.

The above funding requirements are determined after arm's length negotiations between Southstart and Chañares with reference to, among other things, the Original Balance payable by Have Result to Maxipetrol under the Previous JV Agreement and the final terms and conditions relating to the rights and obligations of Chañares under the Agreement. Under the Previous JV Agreement, Have Result is obliged to pay Maxipetrol an aggregate of US\$7,500,000 (equivalent to approximately HK\$58,350,000) by November 2010 for payments of fees to be incurred in relation to the Concessions. The Group has paid US\$1,000,000 (equivalent to approximately HK\$7,780,000) and the Original Balance therefore is US\$6,500,000 (equivalent to approximately HK\$50,570,000). Based on the discussion between the Company and its Argentina legal advisers, the Company considers that the Group is not obliged to pay the Original Balance taking into account of the termination of the Previous JV Agreement.

## **Minimum investment commitment**

Under the terms of the Agreement, EP Energy has to complete the 2011 Investment Plan which consisted of the drilling of five wells, and the drilling of the first well thereof has to be finished by no later than 31 March 2011. In this connection, the Company issued a performance bond to Chañares pursuant to which the Company shall pay an aggregate of US\$20,000,000 (equivalent to approximately HK\$155,600,000) to Chañares in the event that EP Energy fails to complete the 2011 Investment Plan, such amount to be allocated as to US\$4,000,000 (equivalent to approximately HK\$31,120,000) per well to be drilled thereunder. The performance bond therefore covers an aggregate cost of US\$20,000,000 (equivalent to approximately HK\$155,600,000) in respect of drillings of new wells and infrastructure works required to handle the production of the wells.

If Chañares obtains the Extension prior to 31 December 2011, for the subsequent investment plans starting from year 2012, EP Energy shall drill (i) a minimum of five wells during each of the years from 2012 to 2016; and (ii) thereafter a minimum of two wells per year during each of the years until the seventh year before the expiration of the extended term of the Concessions. As mentioned above, in the event that the competent authorities of Argentina fail to render a decision on the request for the Extension or reject the request for the Extension by 31 December 2011 and EP Energy has complied with the 2011 Investment Plan and opted to continue to drill in the Areas, it shall not be subject to any commitment to drill a minimum number of wells. If Chañares obtains the Extension after 31 December 2011 and if EP Energy has opted to continue to drill after 1 January 2012, EP Energy shall become automatically bound to drill (i) a minimum of five wells per year in the following five consecutive years from the date of obtaining of the Extension; and (ii) thereafter a minimum of two wells per year during each of the years until the seventh year before the expiration of the extended term of the Concessions. If Chañares obtains an Extension for less than 6 years and EP Energy has not forfeited or waived its right to drill in the Areas, EP Energy may continue drilling in the Areas until the end of the extended term of the Concessions without any commitment to drill a minimum number of wells.

If EP Energy fails to meet the minimum investment commitment above in accordance with the terms of the Agreement, EP Energy shall forfeit its rights to drill in the Areas but it will not forfeit any right in respect of the wells already drilled by it.

EP Energy further has the right, once the 2011 Investment Plan has been completed, based on justified reasons, not to continue drillings in the Areas upon 90 days' prior written notice to Chañares.

## **Funding and profit sharing**

EP Energy shall be responsible for financing all the investments relating to drillings to be made by it in the Areas and infrastructure works required to handle the production of the wells so drilled. The production obtained from the wells drilled by EP Energy and the operating costs associated with the wells so drilled shall be distributed and borne based on the respective equity interest of EP Energy and Chañares in the JV Company. The initial operating fund of the JV Company is AR\$100,000 (equivalent to approximately HK\$195,000), which shall be paid by EP Energy and Chañares in proportion to the respective equity interest of EP Energy and Chañares in the JV Company.

## **Existing wells of Chañares**

Apart from the drilling of new wells in the Areas, pursuant to the Agreement, EP Energy will have the right to select existing wells of Chañares to perform workover program on terms and conditions to be agreed between Chañares and EP Energy, subject to the general principles that EP Energy shall be responsible for all the costs of the workover program of the selected wells and entitled to 51% of the incremental production of these wells. Pursuant to the Agreement, EP Energy will have the right to select, in its sole discretion, existing wells of Chañares to perform workover program. The Company has no commitment to perform such workover program and the related costs therefore does not form part of the capital commitment of the Group.

## **Operating committee**

Chañares and EP Energy will form an operating committee which shall be the JV Company's highest authority. The operating committee shall comprise one representatives from each of Chañares and EP Energy and shall make decisions unanimously.

## **TERMINATION OF THE PREVIOUS JV AGREEMENT AND RELATED AGREEMENTS**

On 7 September 2010, Maxipetrol served a notice to Have Result communicating Maxipetrol's decision to terminate the contractual relationship between them, alleging non-compliance by Have Result of its contractual obligations. The Directors are of the view that the allegations are unfounded and the events complained of arose from Maxipetrol's own default and the Company has instructed Argentina legal advisers to reserve its rights and remedies against Maxipetrol. Also, the subsequent conduct of Maxipetrol was inconsistent with a termination of the contractual arrangements as Maxipetrol continued to request Have Result to fulfill the payment obligations under the Previous JV Agreement and related agreements as if they were still in force. The Directors consider that the termination notice sent by Maxipetrol was not founded on valid grounds. As the Group's ownership of the rights of Have Result regarding the production of the Existing Wells was not affected by Maxipetrol's notice and Have Result's preparation for drillings of new wells was ongoing in the oil field, the Company considered that the financial and trading position of the Group was not materially affected. Accordingly, the Directors considered that the circumstances in relation to the notice were not price sensitive in nature.

In light of and after the aforesaid Maxipetrol's notice of termination of the Previous JV Agreement and related agreements, which as mentioned above the Directors consider is not based on valid grounds, the Company (through Southstart) also began discussion with Chañares on the Agreement and the formation of the JV Company. The commercial terms of the Agreement were finalised after arm's length negotiations between Southstart and Chañares and the Agreement was executed by Southstart and Chañares on 2 December 2010. Prior to the signing of the Agreement, Have Result sent a letter dated 2 December 2010 to Maxipetrol stating and confirming that the termination of the Previous Agreement and related agreements was ungrounded and reserving all rights and remedies against it. The Company has also been advised by its Argentina legal advisers that the Agreement constitutes valid and binding obligations of Chañares. The Company also sought legal advice from its Argentina legal advisers on the implications of the Termination and was given to understand from its Argentina legal advisers that notwithstanding the termination of the Chañares Agreement and the Previous JV Agreement, Have Result

remains entitled to a 51% right in the production from the Existing Wells, provided that Have Result continues to pay the relevant operating costs. Also, on 2 December 2010, the Company received a letter from Chañares dated 22 November 2010 pursuant to which (i) Chañares acknowledged and confirmed, that, among other rights, Have Result is the assignee of the irrevocable right to receive, during the effective term of the Concessions on the Areas, including any extensions thereof, 51% of the production from the Existing Wells; and (ii) the Chañares Agreement has been terminated. Based on the above, the Directors consider that (i) there will not be any material adverse effects on the ownership of the rights of Have Result regarding the production of the Existing Wells notwithstanding the Termination; (ii) the provisions in relation to the Restriction under the Chañares Agreement ceased to have any effects; and (iii) the entering into of the Agreement and the future formation of the JV Company enables the Group to continue its expansion plan in the Areas.

## **REASONS FOR ENTERING INTO THE AGREEMENT**

The Company is an investment holding company. Its subsidiaries are principally engaged in the sourcing and trading of non-ferrous metals, sourcing and trading of consumer electronics products, and petroleum exploration and production in the Areas.

As announced by the Company on 3 November 2009, completion of the Previous Acquisition took place on 3 November 2009 and since then Have Result became a wholly-owned subsidiary of the Company. Pursuant to the Previous JV Agreement, Have Result was responsible for financing all the investment in drillings to be made by Have Result in the Areas and the associated infrastructure. Have Result is in return entitled to 51% of the production of oil and gas as a consequence of its new drillings in the Areas. Further details of the Previous Acquisition are set out in the circular of the Company dated 9 October 2009.

As stated in the interim report of the Company for the six months ended 30 June 2010, two wells commenced production in November 2009 and the Group had completed drilling of three new wells during the first half of 2010. Among the five Existing Wells, two are testing deep wells drilled to 4,685 meters and 4,200 meters respectively for the collection of oil layers information. All the Existing Wells have commenced production by August 2010. For the six months ended 30 June 2010, the oil and gas business of the Group recorded an unaudited segment revenue of approximately HK\$12.5 million.

Upon the formation of the JV Company, the financial results of the JV Company will be consolidated into the Group's financial statements and the Group will be entitled to 72% of the production obtained from the wells drilled by EP Energy. Taking into account of the aforesaid increased profit sharing ratio of 72% as compared to that of the Previous JV Agreement of 51% and the growth potential in the petroleum industry, the Directors consider that the terms of the Agreement are fair and reasonable and the formation of the JV Company is in the interest of the Company and the Shareholders as a whole. The Company has also made enquiries with its auditors and based on the discussions between the Company and its auditors, the Company considers that the termination of the Chañares Agreement and the Previous JV Agreement would not have any material adverse effects on the exploration and evaluation of assets of the Group as recorded in the unaudited financial statements of the Group for the six months ended 30 June 2010 taking into account the entering into of the Agreement and the aforesaid legal opinions from

the Company's Argentina legal advisers. The Group intends to finance the above funding requirements and the drillings and operating costs of EP Energy in the Areas by internal resources of the Group.

## **GENERAL**

The execution of the Agreement constitutes a discloseable transaction for the Company under the Listing Rules.

## **SUSPENSION AND RESUMPTION OF TRADING**

At the request of the Company, trading in the Shares on the Stock Exchange was suspended with effect from 9:30 a.m. on 2 December 2010 pending the publication of this announcement. An application has been made to the Stock Exchange for the resumption of trading in the Shares on the Stock Exchange with effect from 9:30 a.m. on 21 December 2010.

## **DEFINITIONS**

Unless the context requires otherwise, the following expressions shall have the following meanings in this announcement:

“2011 Investment Plan”	the investment plan to be conducted by EP Energy for the year 2011 in relation to the drilling in the Areas, which has been approved by Chañares
“Agreement”	the agreement dated 2 December 2010 entered into between Southstart and Chañares in relation to the formation of the JV Company, including the form of the joint venture agreement to be entered into between Chañares and EP Energy
“Areas”	the Puesto Pozo Cercado Area and the Chañares Herrados Area covering an aggregate area of 210 square kilometers located in Cuyana Basin, Mendoza Province of Argentina, of which Chañares is the holder of the Concessions, which are the same as those in the Previous Acquisition
“Board”	the board of Directors
“Chañares”	Chañares Herrados Empresa de Trabajos Petroleros S.A., the holder of the Concessions
“Chañares Agreement”	the agreement dated 14 November 2007 (as amended and supplemented on 30 December 2008) entered into between Chañares and Maxipetrol in relation to the drilling of new wells and production of petroleum in the Areas, details of which are set out in the circular of the Company dated 9 October 2009

“Company”	EPI (Holdings) Limited, a company incorporated in Bermuda with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (stock code: 689)
“Concessions”	the hydrocarbon exploitation concession rights in the Areas held by Chañares
“Director(s)”	the director(s) of the Company
“Existing Wells”	five existing wells drilled by Have Result in the Areas
“Extension”	the extension of the terms of the Concessions
“EP Energy”	EP Energy S.A., a company organized and existing under the laws of Argentina
“Group”	the Company and its subsidiaries
“Have Result”	Have Result Investments Limited (有成投資有限公司), a company incorporated in the British Virgin Islands, which is an indirect wholly-owned subsidiary of the Company
“Hong Kong”	The Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“JV Company”	the joint venture company to be established in accordance with the terms of the Agreement
“Maxipetrol”	Maxipetrol-Petroleros de Occidente S.A., the counterparty to the Previous JV Agreement, details of which are disclosed in the announcement and the circular of the Company dated 25 August 2009 and 9 October 2009 respectively
“Original Balance”	the amount of US\$6,500,000 (equivalent to approximately HK\$50,570,000) originally payable by Have Result to Maxipetrol under the Previous JV Agreement
“Previous Acquisition”	the acquisition of the entire issued share capital of Have Result, details of which are disclosed in the announcement and the circular of the Company dated 25 August 2009 and 9 October 2009 respectively

“Previous JV Agreement”	the joint venture agreement dated 6 August 2009 in relation to the formation of a joint venture company between Have Result and Maxipetrol
“Restriction”	the restriction under the Chañares Agreement which Chañares shall not enter into cooperation agreements with other companies (other than that already exist and Maxipetrol), details of which are set out in the circular of the Company dated 9 October 2009
“Share(s)”	the ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of Share(s)
“Southstart”	Southstart Limited (南興有限公司), a company incorporated in the British Virgin Islands, which is a wholly-owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Termination”	the termination of the Previous JV Agreement and related agreements between Have Result and Maxipetrol
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“AR\$”	Argentine peso, the lawful currency of Argentina
“US\$”	United States dollars, the lawful currency of the United States of America

*For illustration purposes, all amounts denominated in US\$ and AR\$ in this announcement have been translation into HK\$ at the exchange rate of US\$1 = HK\$7.78 and AR\$1=HK\$1.95 respectively, and they do not form any representations or guarantees of any person that the aforesaid currencies could be, have been, or will be converted into the other currency at the exchange rate used in this announcement.*

By order of the Board  
**EPI (Holdings) Limited**  
**Wong Chi Wing, Joseph**  
*Chairman*

Hong Kong, 20 December 2010

*As at the date of this announcement, the board of directors of the Company comprises of three executive Directors, namely Mr. Wong Chi Wing, Joseph, Mr. Chu Kwok Chi, Robert and Mr. Zhou Jacky, one non-executive Director, namely Mr. Leung Hon Chuen and three independent non-executive Directors, namely, Mr. Zhu Tiansheng, Mr. Qian Zhi Hui and Mr. Poon Kwok Shin, Edmond.*

\* for identification purpose only