

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

1. BASIS OF PREPARATION

The interim financial report of Genesis Energy Holdings Limited (the “Company”) and its subsidiaries (collectively the “Group”) has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), including compliance with the Hong Kong Accounting Standard (“HKAS”) 34, “Interim financial reporting”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates. This interim financial report contains consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2005 annual financial statements. The consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”).

This interim financial report is unaudited, but has been reviewed by the Company’s Audit Committee.

The financial information relating to the financial year ended 31 December 2005 that is included in this interim financial report as being previously reported information does not constitute the Group’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2005 are available from the Company’s head office. The auditors have expressed a qualified opinion on those financial statements in their report dated 26 April 2006.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

2. SIGNIFICANT ACCOUNTING POLICIES

This interim financial report has been prepared in accordance with the same accounting policies adopted in the 2005 annual financial statements. The HKICPA has issued a number of new and revised HKFRSs, which term collectively included HKASs and Interpretations, that are effective or available for early adoption for accounting periods beginning on or after 1 January 2006. The Group has determined the accounting policies expected to be adopted in the preparation of the Group's annual financial statements for the year ending 31 December 2006 on the basis of HKFRSs currently in issue, which the Group believes, do not have a significant impact on the Group's prior year financial position and results of operations. The new and revised HKFRSs that will be effective or are available for voluntary early adoption in the annual financial statements for the year ending 31 December 2006 may be affected by the issue of additional interpretation(s) or other changes announced by the HKICPA subsequent to the date of this interim financial report. Therefore the policies that will be applied in the Group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report. The Group has not applied any new standards or interpretations that are not yet effective for the current accounting period.

3. SEGMENT REPORTING

Segment information is presented in respect of the Group's business segments. As all of the Group's revenue and results were substantially derived from the PRC, no geographical segment information is presented.

Business segments

The Group comprises the following main business segments:

Crude oil transportation:	The operation of crude oil transportation, storage and unloading facilities.
Natural gas:	The operation of natural gas pipeline network and refilling stations supplying natural gas and LPG for vehicle use and sale of LPG in cylinder.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

3. SEGMENT REPORTING *(continued)*

Business segments *(continued)*

	Six months ended 30 June	
	2006 RMB'000	2005 RMB'000
Revenue from external customers		
– Crude oil transportation	24,530	19,647
– Natural gas		
Sales of piped natural gas	–	6,852
Sales of natural gas and LPG at refilling stations	11,100	2,295
Sales of LPG in cylinder	1,481	735
Total revenue from external customers	37,111	29,529
Other revenue		
– Unallocated	103	270
Total revenue	37,214	29,799
Segment result		
Loss from operations		
– Crude oil transportation	(1,712)	(2,951)
– Natural gas	(4,182)	(2,541)
– Unallocated	(5,499)	(6,281)
Loss from operations	(11,393)	(11,773)
Finance costs	(14,728)	(12,834)
Loss before taxation	(26,121)	(24,607)
Taxation	(533)	(71)
Loss for the period	(26,654)	(24,678)
Minority interest	19,863	2,345
Loss attributable to shareholders	(6,791)	(22,333)

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

4. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging/(crediting):

	Six months ended 30 June	
	2006 RMB'000	2005 RMB'000
a) Finance costs		
Interest on bank loans wholly repayable within five years	14,552	12,834
Interest on other loan wholly repayable within five years	176	–
	14,728	12,834
b) Staff costs		
Salaries, wages and other benefits	7,225	5,759
Retirement benefit scheme contributions	44	51
	7,269	5,810
c) Other items		
Cost of inventories	9,527	5,615
Depreciation and amortization	24,264	20,126
Operating lease charges: minimum lease payments		
– property rentals	475	720

5. TAXATION

Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2006 RMB'000	2005 RMB'000
Provision for PRC income tax for the period	533	71

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

5. TAXATION *(continued)*

No provision for Hong Kong profits tax has been made in the financial statements as the Group did not derive any income subject to Hong Kong profits tax during the period. Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the jurisdiction in which the Group operates, based on existing legislation, interpretations and practices in respect thereof during the period.

Pursuant to relevant PRC laws and regulations applicable to the sino-foreign equity joint venture enterprises, the Company's PRC subsidiaries are exempted from PRC income tax for two years starting from the first profit-making year, followed by a 50% reduction for the subsequent three years.

No provision for PRC income tax has been made in the financial statements of Xinjiang Xingmei Oil-Pipeline Co., Ltd. ("Xingmei"), a Company's subsidiary established in the PRC, as Xingmei has no estimated assessable profits for the six months ended 30 June 2006 and 2005.

Lejion Gas Co., Ltd. ("Lejion"), a Company's subsidiary established in the PRC, is entitled to a reduced tax rate of 15%, being 50% of the standard state income tax rate of 30% and full exemption of 3% local income tax. Accordingly, Lejion is subject to PRC income tax at a rate of 15% for the six months ended 30 June 2006 and 2005.

6. DIVIDENDS

The directors have not declared nor proposed any dividends in respect of the six months ended 30 June 2006 (2005: Nil).

7. LOSS PER SHARE

a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to equity holders of the Company of RMB6,791,000 (six months ended 30 June 2005: RMB22,333,000) and the weighted average of 3,076,104,378 ordinary shares (2005: 3,031,583,936 ordinary shares) in issue during the period.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

7. LOSS PER SHARE *(continued)*

b) Diluted loss per share

No disclosure of diluted loss per share for six months ended 30 June 2006 is shown as the Company's outstanding share options have antidilutive effect.

The diluted loss per share for six months ended 30 June 2005 is the same as the basic loss per share for that period as the exercise price of the Company's outstanding share option is higher than the fair price per share of the Company for the period ended 30 June 2005.

8. ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT AND CONSTRUCTION IN PROGRESS

During the six months ended 30 June 2006, the Group incurred capital expenditure of property, plant and equipment and construction in progress with a cost of RMB2,570,000 (for the six months ended 30 June 2005: RMB11,784,000).

9. TRADE AND OTHER RECEIVABLES

	At 30 June 2006 RMB'000	At 31 December 2005 RMB'000
Trade debtors (note (i))	16,417	16,946
Investment deposit (note (ii))	29,950	29,950
Rental and utility deposits	315	263
Prepayments and other receivables	5,050	339
	<u>51,732</u>	<u>47,498</u>

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

9. TRADE AND OTHER RECEIVABLES *(continued)*

Notes:

- (i) All the trade debtors and other receivables, other than rental and utility deposits, are expected to be recovered within one year. Ageing analysis of trade debtors is as follows:

	At 30 June 2006 RMB'000	At 31 December 2005 RMB'000
Current (within 6 months)	16,417	31,507
More than 6 months overdue but less than 12 months overdue	–	6,196
	16,417	37,703
Less: Impairment for bad and doubtful debts	–	(20,757)
	16,417	16,946

Debts are generally due within three to six months from the date of billing. The Group may, on a case by case basis and after evaluation of the business relationship and creditworthiness, extend the credit period upon customers' request.

- (ii) An investment deposit of RMB55,900,000 was paid to a PRC entity in November 2002. A sino-foreign equity joint venture would be established with this PRC entity in which the Group would own 15% equity interest. During the year ended 31 December 2004, the Group decided to withdraw the investment. During the years ended 31 December 2005 and 2004, this PRC entity refunded to the Group an amount of RMB25,950,000. As at 30 June 2006, the remaining balance of RMB29,950,000 (31 December 2005: RMB29,950,000) is unsecured, interest free and repayable on or before 31 July 2006. The PRC entity has requested for an extension of repaying the outstanding balance and the Group is currently assessing its recoverability with reference to the payment history as well as the financial situation of the PRC entity.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

10. BANK LOANS

At 30 June 2006, the bank loans of the Group were repayable as follows:

	At 30 June 2006 RMB'000	At 31 December 2005 RMB'000
Within 1 year or on demand	263,500	269,700
After 1 year but within 2 years	40,000	40,000
After 2 years but within 5 years	160,000	160,000
	200,000	200,000
	463,500	469,700

At 30 June 2006, the bank loans of the Group were secured as follows:

	At 30 June 2006 RMB'000	At 31 December 2005 RMB'000
Bank loans secured by		
– corporate guarantee put up by a subsidiary	–	2,700
– corporate guarantee put up by related companies (note (i))	149,000	149,000
– corporate guarantee put up by an independent third party	120,000	120,000
– fixed assets (note (ii))	194,500	198,000
	463,500	469,700

Notes:

- (i) The corporate guarantees are issued by the companies controlled by Mr. Sun Tian Gang, who was a director up to 22 August 2005 and controlling shareholder of the Company up to 29 August 2005, for bank loans of RMB149,000,000 (31 December 2005: RMB149,000,000) granted to the Group.
- (ii) At 30 June 2006, certain of the oil pipeline and ancillary facilities with an aggregate carrying value of approximately RMB343 million (31 December 2005: RMB343 million) have been pledged to a bank for bank loans of RMB194.5 million (31 December 2005: RMB198 million) granted to the Group.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

11. TRADE AND OTHER PAYABLES

	At 30 June 2006 RMB'000	At 31 December 2005 RMB'000
Accrued expenses and other payables	41,837	29,190
Due to minority shareholder (note (i))	9,979	2,007
Due to ultimate holding company (note (ii))	6,892	6,166
	58,708	37,363

Notes:

- (i) The amount due to minority shareholder, 庫爾勒市燃氣公司, is unsecured, interest free and has no fixed terms of repayment.
- (ii) The amount due to ultimate holding company, Hong Chang Group Limited, is unsecured, interest free and has no fixed terms of repayment.
- (iii) All the trade and other payables are expected to be settled within one year.

12. COMMITMENTS

- a) Capital commitments outstanding not provided for in the financial statements of the Group were as follows:

	At 30 June 2006 RMB'000	At 31 December 2005 RMB'000
Contracted for		
– injection of registered capital of a PRC subsidiary	113,027	113,027
– injection of registered capital of a jointly controlled entity	81,600	81,600
	194,627	194,627

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

12. COMMITMENTS (continued)

- b) The total future minimum lease payments under non-cancellable operating leases of the Group and the Company are payable as follows:

	At 30 June 2006 RMB'000	At 31 December 2005 RMB'000
Within 1 year	553	884
After 1 year but within 5 years	58	182
	611	1,066

The Group lease properties under operating leases. The leases typically run for an initial period of one to two years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

13. CONTINGENT LIABILITIES

The contingent liability of the Group as at 30 June 2006 amounted to approximately RMB248 million (31 December 2005: RMB248 million).

As disclosed in the 2005 annual report, this RMB248 million represents two alleged loans amounting to approximately RMB240 million in total and interest thereon amounting to approximately RMB8 million from two PRC banks borrowed by a former director of the Group (the "Suspect"), in the name of a subsidiary of the Company in the PRC through alleged fraudulent actions. The Company was told that the Suspect was arrested by the PRC Police. Legal opinions as to the PRC law as well as Hong Kong law have been sought.

The Group's PRC legal adviser has reviewed copies of the above mentioned loan agreements, interviewed the PRC legal advisers of the Suspect and obtained advice from the PRC police department. The Group's PRC legal adviser is of the opinion that, with reference to the relevant PRC laws, the subsidiary, its immediate holding company and any member within the Group will not have any legal and financial obligations relating to these alleged bank loans and alleged interest thereon. The Group's legal adviser to Hong Kong law concurs to this view.

As at the date of this report, the legal proceedings in relation to the above case in the PRC have not yet finalised.

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi)

14. MATERIAL RELATED PARTY TRANSACTIONS

a) Provision of crude oil transportation service

There exists an agreement dated 5 December 2005 entered into between Xingmei and China Petroleum and Chemical Corporation for the provision of crude oil transportation services for a period of three years.

During the six months ended 30 June 2006, revenue from the provision of crude oil transportation service to the minority shareholder amounted to RMB24,530,000 (for the six months ended 30 June 2005: RMB18,861,000). The balance due from this minority shareholder as at 30 June 2006, as included in trade debtors in note 9 was RMB16,417,000 (at 31 December 2005: RMB16,946,000).

b) Guarantees

(i) During the six months ended 30 June 2006, Xingmei has given corporate guarantee to a bank to secure a bank loan granted to Lejion, a subsidiary of the Company, in the amount of RMB2,700,000. The amount has been fully settled before balance sheet date (at 31 December 2005: RMB2,700,000).

(ii) During the six months ended 30 June 2006, 庫爾勒市燃氣公司, the PRC joint venture partner of Lejion and the minority shareholder of the Group, has given corporate guarantee to secure other loan of RMB7,700,000 (at 31 December 2005: RMB7,700,000) granted to Lejion. The loan has been fully settled before balance sheet date.

c) Loan from ultimate holding company

During the six months ended 30 June 2006, Hong Chang Group Limited, the ultimate holding company of the Company, advanced a loan to the Group, in the amount of RMB6,892,000 (at 31 December 2005: RMB6,166,000). The loan was unsecured and interest free and had no fixed terms of repayment.