Genesis Energy Holdings Limited
創新能源控股有限公司

Interim Report 2007

Stock Code: 702

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Ms. Xing Xiao Jing *(Chairman)*
Mr. Ma Ji
Mr. Kong Siu Tim

Independent Non-executive Directors

Mr. Ni Zhenwei
Mr. Yip Ching Shan
Mr. Wong Kwok Chuen Peter

COMPANY SECRETARY

Mr. Wan Tze Fan Terence

REGISTERED OFFICE

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HONG KONG LEGAL ADVISORS

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BERMUDA LEGAL ADVISORS

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Bermuda) Limited
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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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PRINCIPAL BANKERS

Bank of China (Hong Kong) Ltd
Standard Chartered Bank (Hong Kong) Ltd
Industrial and Commercial Bank of China

AUDITORS

CCIF CPA Limited
Certified Public Accountants
20/F., Sunning Plaza
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Hong Kong

INTERIM RESULTS

The board of directors (the "Board") of Genesis Energy Holdings Limited (the "Company") announces that the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2007 were as follows:

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2007
(Expressed in Renminbi)

	Notes	**2007 (unaudited) RMB'000**	2006 (unaudited) RMB'000
Turnover	4	**38,572**	37,111
Direct cost		**(37,006)**	(38,339)
Gross profit/(loss)		**1,566**	(1,228)
Other revenue	4	**2,132**	103
Selling and distribution expenses		**(791)**	(622)
Administrative and other operating expenses		**(28,540)**	(9,646)
Loss from operations		**(25,633)**	(11,393)
Finance costs	5	**(17,853)**	(14,728)
Loss before taxation		**(43,486)**	(26,121)
Taxation	6	**(295)**	(533)
Loss for the period		**(43,781)**	(26,654)
Attributable to			
Equity holders of the Company		**(43,781)**	(6,791)
Minority interests		**–**	(19,863)
Loss for the period		**(43,781)**	(26,654)
		RMB (cents)	RMB (cents)
Loss per share			
Basic	8	**(1.10)**	(0.22)
Diluted	8	**N/A**	N/A

The notes on pages 6 to 21 form part of this interim financial report.

CONSOLIDATED BALANCE SHEET

At 30 June 2007

(Expressed in Renminbi)

	Notes	At 30 June 2007 (Unaudited) RMB'000	At 30 June 2007 (Unaudited) RMB'000	At 31 December 2006 (audited) RMB'000	At 31 December 2006 (audited) RMB'000
Non-current assets					
Property, plant and equipment	10		**547,933**		554,265
Intangible assets	11		**33,454**		–
Goodwill	12		**2,222**		–
Land lease prepayments			**4,061**		4,117
			587,670		558,382
Current assets					
Inventories		**451**		982	
Trade and other receivables	13	**20,283**		16,770	
Land lease prepayments		**301**		301	
Cash and cash equivalents	14	**128,094**		51,269	
		149,129		69,322	
Current liabilities					
Bank loans	15	**(373,900)**		(297,900)	
Other loan, secured		**–**		(5,000)	
Trade and other payables	16	**(73,987)**		(60,692)	
		(447,887)		(363,592)	
Net current liabilities			**(298,758)**		(294,270)
Total assets less current liabilities			**288,912**		264,112
Non-current liabilities					
Bank loans	15		**(80,000)**		(160,000)
NET ASSETS			**208,912**		104,112
CAPITAL AND RESERVES					
Share capital			**44,084**		37,928
Reserves			**164,828**		66,184
Total equity attributable to equity holders of the Company			**208,912**		104,112
Minority interests			**–**		–
TOTAL EQUITY			**208,912**		104,112

The notes on pages 6 to 21 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007 – unaudited
(Expressed in Renminbi)

	Attributable to equity holders of the Company							
	Share capital	Share premium	Contributed surplus	Share option reserve	Retained profits/ (accumulated losses)	Total	Minority interests	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	37,928	237,199	86,716	4,542	(262,273)	104,112	–	104,112
Loss for the period	–	–	–	–	(43,781)	(43,781)	–	(43,781)
Issue of shares by placements	3,710	113,856	–	–	–	117,566	–	117,566
Shares issued under employee share option scheme	2,446	17,096	–	–	–	19,542	–	19,542
Employee share option benefits	–	–	–	11,473	–	11,473	–	11,473
Transfer of reserves	–	4,033	–	(4,033)	–	–	–	–
At 30 June 2007	**44,084**	**372,184**	**86,716**	**11,982**	**(306,054)**	**208,912**	**–**	**208,912**
At 1 January 2006	32,593	177,116	86,716	2,110	(177,086)	121,449	19,863	141,312
Loss for the period	–	–	–	–	(6,791)	(6,791)	(19,863)	(26,654)
Shares issued under employee share option scheme	565	2,015	–	–	–	2,580	–	2,580
Employee share option benefits	–	–	–	(604)	–	(604)	–	(604)
At 30 June 2006	33,158	179,131	86,716	1,506	(183,877)	116,634	–	116,634

The notes on pages 6 to 21 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007
(Expressed in Renminbi)

	Six months ended 30 June	
	2007	2006
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Net cash (outflow)/inflow from operating activities	**(3,474)**	15,682
Net cash outflow from investing activities	**(51,371)**	(2,564)
Net cash (outflow)/inflow before financing activities	**(54,845)**	13,118
Net cash inflow/(outflow) from financing activities	**131,670**	(12,760)
Net increase in cash and cash equivalents	**76,825**	358
Cash and cash equivalents at 1 January	**51,269**	3,408
Cash and cash equivalents at 30 June	**128,094**	3,766

The notes on pages 6 to 21 form part of this interim financial report.

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 ("HKASs") 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 judgments, 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 2006 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 ("HKFRSs").

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 2006 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 2006 are available from the Company's head office. The auditors have expressed a qualified opinion on those financial statements in their report dated 25 April 2007.

2. SIGNIFICANT ACCOUNTING POLICIES

This interim financial report has been prepared in accordance with the same accounting policies adopted in the 2006 annual financial statements, which have been prepared in accordance with all applicable HKFRSs, which collectively term includes all applicable individual HKFRSs, HKASs and interpretation issued by HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance and applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited except the following new accounting policies on exploration and evaluation assets and estimation of oil reserves which were not included in the 2006 annual financial statements:–

a) Exploration and evaluation assets

Costs incurred prior to having obtained the legal rights to explore an oil field are expensed directly to the consolidated income statement as they are incurred.

Costs of exploration and evaluation assets are initially capitalized as exploration and evaluation assets. Payments to acquire the legal right to explore, together with the directly related costs of technical services and studies, seismic acquisition, exploratory drilling and testing are capitalized as intangible assets. Tangible assets used in exploration and evaluation activities (such as the Group's vehicles, drilling rigs, seismic equipment and other property, plant and equipment used by the company's exploration function) are classified as oil and gas property stated in property, plant and equipment. However, to the extent that such a tangible asset is consumed in developing an intangible exploration and evaluation asset, the amount reflecting that consumption is recorded as part of the cost of the intangible asset. Such intangible costs include directly attributable overheads, including the depreciation of property, plant and equipment utilized in exploration and evaluation activities, together with the cost of other materials consumed during the exploration and evaluation phases. Exploration and evaluation costs are not amortized prior to the conclusion of appraisal activities

Oil and gas properties are stated at cost less accumulated depletion, depreciation, and amortisation and accumulated impairment losses if any. The successful efforts method of accounting is used for oil and gas properties. Under this method, all costs for development well, support equipment and facilities, and acquired proven mineral interests in oil and gas properties are capitalised. Proven oil and gas reserves are the estimated quantities of crude oil and natural gas which geological and engineering date demonstrates with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, (i.e., prices and costs as of the date the estimate is made). Price includes consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions.

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

a) Exploration and evaluation assets *(continued)*

Depletion, depreciation and amortisation of capitalised costs of oil and gas properties is calculated on the unit-of-production basis over the total proven reserves of the relevant area. The unit-of-production rate for depletion, depreciation and amortisation of oil properties takes into account expenditure incurred to date, together with projected future development expenditure. No depletion, depreciation and amortisation was provided for the period ended 30 June 2007 as the operation from the related oil and gas property has not yet commenced for the period.

Intangible assets regarding the oil exploration right are amortised upon the commercial production of the oil using the unit-of-production method. No amortisation was provided for the period ended 30 June 2007 as the operation from the related oil and gas operation has not yet commenced for the period.

b) Estimation of oil and gas reserves

Oil and gas reserves are key elements in the Group's investment decision-making process. They are also an important element in testing for impairment. Changes in oil and gas reserves, particularly proved developed reserves, will affect unit-of-production depreciation, depletion and amortisation charges to the consolidated income statement. Proved reserves estimates are subject to revision, either upward and downward, based on new information, such as from development drilling and production activities or from changes in economic factors, including product prices, contract terms or development plans. In general, changes in the technical maturity of oil and gas reserves resulting from new information becoming the Group's estimates of proved reserves, particularly proved developed reserves, affect the amount of depreciation, depletion and amortisation recorded in the Group's consolidated financial statements for property, plan and equipment related to oil and gas properties. A reduction in proved developed reserves will increase depreciation, depletion and amortisation charges (assuming constant production) and reduce net profit.

(Expressed in Renminbi)

2. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

The HKICPA has issued a number of amendments, new and revised HKFRSs, which term collectively included HKASs and Interpretations, that are first effective or available for early adoption for accounting periods beginning on or after 1 January 2007. Management has determined the accounting policies expected to be adopted in the preparation of the Group's annual financial statements for the year ended 31 December 2007 on the basis of HKFRSs currently in issue, which management 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 ended 31 December 2007 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 (see note 3).

3. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2007

Up to the date of issue of this interim financial report, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 December 2007 and which have not been adopted in this interim financial report.

Of these developments, the following relate to matters that may be relevant to the Group's operations and financial statements:

		Effective for accounting periods beginning on or after
HKAS 23 (Revised)	Borrowing costs	1 January 2009
HKFRS 8	Operating segments	1 January 2009

Management is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that while the adoption of them may result in new or amended disclosures, it is unlikely to have a significant impact on the Group's results of operations and financial position.

4. SEGMENT REPORTING

Segment information is presented in respect of the Group's business and geographical segments.

Business and geographical segments

The Group comprises the following main business segments in the PRC and the United States:

Crude oil transportation, storage and unloading services:	The operation of crude oil transportation, storage and unloading facilities in the PRC
Natural gas and LPG:	The operation of natural gas pipeline network and refilling stations supplying natural gas and LPG for vehicle use and sale of LPG in cylinder in the PRC
Oil and gas exploitation:	The operation of oil and gas exploitation and extraction business in the United States

4. SEGMENT REPORTING *(continued)*

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
Revenue from external customers in the PRC		
– Crude oil transportation	**24,357**	24,530
– Natural gas		
Sales of natural gas and LPG at refilling stations	**12,265**	11,100
Sales of LPG in cylinder	**1,447**	1,481
Others	**503**	–
	38,572	37,111
Revenue from external customers in the United States		
– Oil exploitation and extraction (note)	**–**	–
Total revenue from external customers	**38,572**	37,111
Other revenue		
– Unallocated	**2,132**	103
Total revenue	**40,704**	37,214
Segment result		
Loss from operations		
Operation in the PRC		
– Crude oil transportation	**(976)**	(1,712)
– Natural gas	**(4,609)**	(4,182)
	(5,585)	(5,894)
Operation in the United States		
– Oil exploitation and extraction	**(50)**	–
Unallocated	**(19,998)**	(5,499)
Loss from operations	**(25,633)**	(11,393)
Finance costs	**(17,853)**	(14,728)
Loss before taxation	**(43,486)**	(26,121)
Taxation	**(295)**	(533)
Loss for the period	**(43,781)**	(26,654)
Minority interest	**–**	19,863
Loss attributable to shareholders	**(43,781)**	(6,791)

Note: During the period ended 30 June 2007, the Group acquired oil field in the United States, which has not yet generated any revenue for the period ended 30 June 2007.

5. LOSS BEFORE TAXATION

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

		Six months ended 30 June	
		2007	2006
		RMB'000	RMB'000
a)	Finance costs		
	Interest on bank loans wholly repayable within five years	**17,744**	14,552
	Interest on other loan wholly repayable within five years	**109**	176
		17,853	14,728
b)	Staff costs		
	Salaries, wages and other benefits	**7,408**	7,225
	Equity-settled share-based payment expenses	**11,743**	–
	Contributions to defined contribution retirement plan	**89**	44
		19,240	7,269
c)	Other items		
	Cost of inventories	**15,299**	15,875
	Cost of services	**21,707**	22,464
	Depreciation and amortization	**24,844**	24,264
	Operating lease charges: minimum lease payments – property rentals	**460**	475
	Net loss on exchange difference	**4,191**	–
d)	Other revenue		
	Interest income	**(2,028)**	(103)

6. TAXATION

Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2007	2006
	RMB'000	RMB'000
Provision for PRC income tax for the period	**295**	533

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.

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 income for the six months ended 30 June 2007 and 2006.

Lejion Gas Co., Ltd. ("Lejion Gas"), 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 Gas is subject to PRC income tax at a rate of 15% for the six months ended 30 June 2007 and 2006.

No provision for income tax of the United States has been made in the financial statements of Genesis Petroleum US, Inc. ("Genesis US"), a Company's subsidiary incorporated in Utah, the United States in January 2007, as Genesis US has no estimated assessable income for the six months ended 30 June 2007.

7. DIVIDENDS

The directors have not declared nor proposed any dividends in respect of the six months ended 30 June 2007 (2006: Nil).

8. 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 RMB43,781,000 (six months ended 30 June 2006: RMB6,791,000) and the weighted average of 3,992,735,000 ordinary shares (2006: 3,076,104,000 ordinary shares) in issue during the period.

Weighted average number of ordinary shares

	Number of shares	
	At 30 June 2007 '000	At 30 June 2006 '000
Issued ordinary share at 1 January	**3,585,134**	3,051,584
Effect of shares issued by the placements	**35,342**	–
Effect of share option exercised	**372,259**	24,520
Weighted average number of ordinary shares at 30 June	**3,992,735**	3,076,104

b) Diluted loss per share

No disclosure of diluted loss per share for six months ended 30 June 2007 and for six months ended 30 June 2006 is shown as the Company's outstanding share options have antidilutive effect.

9. ACQUISITION OF OIL FIELD

In January 2007, the Group entered into an acquisition agreement with an independent third party ("Vendor"), pursuant to which Genesis Petroleum US, Inc., a subsidiary of the Company, agreed to acquire from the Vendor the exploitation rights together with the ownership title of certain blocks of oil field in Utah of the United States at a total consideration of USD6.6 million (equivalent to approximately RMB51,348,000). Details of the transaction are disclosed in the circular dated 9 May 2007.

10. ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2007, the Group incurred capital expenditure of property, plant and equipment with a cost of RMB 18,523,000 (for the six months ended 30 June 2006: RMB2,570,000), among which, RMB17,894,000 represents acquisition of oil and gas properties in the United States during the period (for the six months ended 30 June 2006: nil). Details of the acquisition are shown in note 9 to the financial statements.

11. INTANGIBLE ASSETS

During the six months ended 30 June 2007, the Group acquired oil exploration right of RMB33,454,000 (for the six months ended 30 June 2006: nil) in the United States through acquisition of oil field in the United States during the period. No amortisation was provided for the period ended 30 June 2007 as the oil business operation has not yet commenced. Details of the acquisition are shown in note 9 to the financial statements.

12. GOODWILL

	At 30 June 2007 RMB'000	At 31 December 2006 RMB'000
Cost		
At 1 January	**–**	10,195
Addition through acquisition of certain oil fields	**2,222**	–
Release upon disposal of a subsidiary	**–**	(10,195)
	2,222	–
Impairment loss	**–**	–
	2,222	–

13. TRADE AND OTHER RECEIVABLES

	At 30 June 2007 RMB'000	At 31 December 2006 RMB'000
Trade debtors (note)	**16,772**	7,150
Consideration receivable	**–**	800
Rental and utility deposits	**1,150**	6
Prepayments and other receivable	**2,361**	3,666
Deposit	**–**	5,148
	20,283	16,770

13. TRADE AND OTHER RECEIVABLES *(continued)*

Note:

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 2007 RMB'000	At 31 December 2006 RMB'000
Current (within 6 months)	**16,772**	7,150
More than 6 months overdue but less than 12 months overdue	**–**	–
	16,772	7,150

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. No impairment for bad and doubtful debts is provided for the trade debtor.

14. CASH AND CASH EQUIVALENTS

	At 30 June 2007 RMB'000	At 31 December 2006 RMB'000
Deposit with banks	**111,550**	47,000
Cash at bank and in hand	**16,544**	4,269
	128,094	51,269

15. BANK LOANS

At 30 June 2007, the bank loans of the Group were repayable as follows:

	At 30 June 2007 RMB'000	At 31 December 2006 RMB'000
Within 1 year or on demand	**373,900**	297,900
After 1 year but within 2 years	**80,000**	110,000
After 2 years but within 5 years	**–**	50,000
	80,000	160,000
	453,900	457,900

At 30 June 2007, the bank loans of the Group were secured as follows:

	At 30 June 2007 RMB'000	At 31 December 2006 RMB'000
Bank loans secured by		
– corporate guarantee put up by independent third parties	**262,500**	266,500
– property, plant and equipment (note)	**191,400**	191,400
	453,900	457,900

Note:

At 30 June 2007, certain of the oil pipeline and ancillary facilities with an aggregate carrying value of approximately RMB298 million (31 December 2006: RMB311 million) have been pledged to a bank for bank loans of RMB191.4 million (31 December 2006: RMB191.4 million) granted to the Group.

16. TRADE AND OTHER PAYABLES

	At 30 June 2007 RMB'000	At 31 December 2006 RMB'000
Accrued expenses and other payables	**4,477**	12,597
Interest payable	**59,188**	43,846
Due to minority shareholder (note (i))	**8,064**	3,573
Due to controlling shareholder of the Company (note (ii))	**2,258**	676
	73,987	60,692

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 controlling shareholder of the 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.

17. COMMITMENTS

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

	At 30 June 2007 RMB'000	At 31 December 2006 RMB'000
Authorised but not contracted for		
– acquisition of the exploitation rights together with the ownership title in certain blocks of oil field	**–**	51,480
Contracted for		
– injection of registered capital of a PRC subsidiary	**113,027**	113,027
	113,027	164,507

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 2007 RMB'000	At 31 December 2006 RMB'000
Within 1 year	**778**	172
After 1 year but within 5 years	**254**	639
	1,032	811

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.

18. CONTINGENT LIABILITIES

The contingent liability of the Group as at 30 June 2007 amounted to approximately RMB269 million (31 December 2006: RMB264 million).

Further to the disclosure done in the 2005 and 2006 annual reports and information currently available to the Group, this RMB269 million (31 December 2006: RMB264 million) represents two alleged loans amounting to approximately RMB240 million (31 December 2006: RMB240 million) in total and interest thereon amounting to approximately RMB29 million (31 December 2006: RMB24 million) from two PRC banks borrowed by a former director of the Group, in the name of a subsidiary of the Company, Xinjiang Xingmei Oil-Pipeline Co., Ltd. ("Xinjiang Xingmei"), through alleged fraudulent actions.

The Group's PRC legal adviser has reviewed the copies of the above mentioned loan agreements, interviewed the lawyers of the defendant and obtained advice from the PRC police department. The Group's PRC legal adviser is therefore, of the opinion that, with reference to the relevant PRC laws, Xinjiang Xingmei, 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 of the date of this report, none of the operation or business of any companies among the Group have been affected in any material way and adverse way or any existing directors or management personnel has been arrested or detained by the police of the PRC or any other place. Further, the legal proceeding in relation to the above case in the PRC has not yet finalised.

Subsequent to the balance sheet date, subject to shareholders' approval, the Group will have Xinjiang Xingmei disposed of. Details are shown in note 20(b) to the financial statements.

19. MATERIAL RELATED PARTY TRANSACTIONS

a) Provision of crude oil transportation service

There existed an agreement dated 5 December 2005 entered into between Xinjiang Xingmei Oil-Pipeline Co., Ltd and China Petroleum and Chemical Corporation for the provision of crude oil transportation services for a period of 3 years.

During the six months ended 30 June 2007, revenue from the provision of crude oil transportation service to the minority shareholder amounted to RMB24,357,000 (for the six months ended 30 June 2006: RMB24,530,000). The balance due from this minority shareholder as at 30 June 2007, as included in trade debtors in note 13 was RMB16,772,000 (at 31 December 2006: RMB7,150,000).

b) Loan from controlling shareholder of the Company

During the six months ended 30 June 2007, Hong Chang Group Limited, the controlling shareholder of the Company, advanced a loan to the Group, in the amount of RMB2,258,060 (at 31 December 2006: RMB675,870). The loan was unsecured and interest free and had no fixed terms of repayment.

20. POST BALANCE SHEET EVENTS

a) Subsequent to the balance sheet date, the Group entered into a legally binding agreement with an independent third party on 3 August 2007 in relation to an oil exploration and production project in Shaanxi Province, the PRC. Details of the transaction were disclosed in the Company's announcement dated 14 August 2007.

b) Subsequent to the balance sheet date, the Group entered into a disposal agreement with Surplus Way Investments Limited ("Surplus Way"), a wholly owned subsidiary of the Company's controlling shareholder, Hong Chang Group Limited on 7 September 2007. Pursuant to which, Surplus Way, will acquire Xinjiang Xingmei Oil Pipeline Co Ltd. at a nominal consideration of HKD1.00. Details of the transaction were disclosed in the Company's announcement dated 11 September 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 30 June 2007, Genesis Energy Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") recorded a turnover of RMB38.6 million (2006: RMB37.1 million). Loss after taxation was RMB43.8 million for the six months ended 30 June 2007 (2006: loss of RMB26.6 million).

During the six months ended 30 June 2007 under review, despite the loss for the period, the Group's financial statement has recorded a first time gross profit since 2004. During the past eighteen months, we have implemented stringent internal control measure, stabilized the business relationship with our PRC venture partners and recuperated the poor cash flow position to a reasonably healthy one. More importantly, we have tapped the investment opportunities in the upstream oil businesses.

In January 2007, the Group entered into an agreement with an independent third party, pursuant to which the Group acquired the exploitation rights together with the ownership title of an oilfield in Utah, the United States. The Group became the first Chinese listed company acquiring an oil and gas asset in the United States. Grassy Trails is an oil field with proven production of over 600,000 barrels of golden sweet crude since inception in 1960s. An independent American petroleum engineering company was engaged by the Group to undertake an Oil Initial in Place ("OIP") report for Grassy Trails. In accordance with the professional standard and practice as stipulated by the American Society of Petroleum Engineers, the report confirms the total remaining reserves of 1,004,481 barrels of crude in the defined property.

On the other hand, in August 2007, the Group has entered into a legally binding cooperation agreement setting out the principal framework in relation to the oil exploration project in Shaanxi Province, the PRC. An independent OIP report has revealed a preliminary contingent resources of 60.87 million tonnes of crude, together with a positive surprise of 96.93 million tonnes equivalent of natural gas within the defined property. This is the first move of the Group to go into the upstream oil business in the PRC, we strongly believe that this Shaanxi oil field will become a growth engine of the Group. This investment also enables the Group to have a more balanced geographical portfolio of oil assets.

The oil pipeline in Xinjiang is operated by our subsidiary Xinjiang Xingmei Oil-pipeline Co. Ltd. ("Xinjiang Xingmei"), which the Group and China Petroleum and Chemical Corporation own as to 80% and 20% of its equity interest respectively. As already disclosed in the financial statements of this interim report, there were bank loan and contingent liabilities of RMB454 million and RMB269 million respectively as at 30 June 2007, while all of these amounts were arising from Xinjiang Xingmei. In the past one and half years, the management has stabilized Xinjiang Xingmei's cash flow situation and received positive response from bankers while negotiating on the proposed loan restructuring.

BUSINESS REVIEW *(continued)*

However, in order to have the loss making business disposed of, the Group has entered into a disposal agreement with the Group's controlling shareholder on 7 September 2007, which will acquire the Group's entire interest in Xinjiang Xingmei. The details of the transaction were disclosed in the announcement dated 11 September 2007. It is our belief that the disposal is in our shareholders' interest. The benefits are three-fold. First of all, the disposal will help the Group to cut losses and financial cost substantially, especially amid a rising interest rate cycle in the PRC. Secondly, new revenue generated from incoming project will not be diluted. The earning prospect of the Group will be able to turnaround in a timely manner. Finally, the Group is able to quarantine itself from any possible contingent liabilities as well as litigation arising from the captioned bank loans. The disposal will also enable us to refocus our management and financial resources on existing upstream business in Grassy Trails, in the United States and other potential investment opportunities in the oil and gas prospects in the PRC.

The natural gas pipeline network is operated by our subsidiary Lejion Gas Co. Ltd. ("Lejion Gas"), which the Group owns as to 72% of its equity interest. Last year, Lejion Gas entered into a short term contracting agreement with the local government that the business of sale of piped natural gas would be operated by the local government while Lejion could focus its resources to the business of refilling stations where natural gas and LPG for vehicle use are supplied. This reallocation of resources has brought improvement to the sales of natural gas at refilling stations.

FINANCIAL REVIEW

Turnover of the Group for the six months ended 30 June 2007 has slightly increased by 4% to RMB38.6 million (2006: RMB37.1 million). Turnover was mainly sourced from two different segments, oil transportation and the business of refilling stations. Oil transportation operation recorded a turnover of RMB24.4 million for the six months ended 30 June 2007 (2006: RMB24.5 million). This is approximately the same as that in the last corresponding period. On the other hand, the business of refilling stations in Korla registered a turnover of RMB14.2 million for the six months ended 30 June 2007 (2006: RMB 12.6 million). This represents an increase of approximately 13% from that in the last corresponding period. The gross profit of the Group for the six months ended 30 June 2007 was RMB1.6 million (2006: gross loss of RMB 1.2 million). These two business segments represent approximately 63% and 37% of the Group's total turnover respectively. For the period under review, the operation of oil exploitation in Utah has not yet contributed revenue to the Group. The loss for the period however increased by 64% to RMB43.8 million (2006: RMB26.6 million). This increase of loss is mainly represented by some non-recurring and non-operating expenses, including the share-based payment expenses, increase of finance expenses of oil pipeline business and loss on exchange and this has not affected the Group's cash flow of operation.

FINANCIAL REVIEW *(continued)*

As at 30 June 2007, the net assets of the Group were RMB208.9 million (31 December 2006: RMB104.1 million) while its total assets were RMB736.8 million (31 December 2006: RMB627.7 million). As at 30 June 2007, the Group's gross borrowings net of cash and bank balances amounted to RMB325.8 million as compared to RMB411.6 million as at 31 December 2006. Gearing ratio based on total assets was 44.2% (31 December 2006: 65.5%). Details of the Group's pledge of assets and the maturity profile of the Group's borrowings as at 30 June 2007 are shown in note 15 to the financial statements. However, the Group has entered into a disposal agreement with the Company's controlling shareholder on 7 September 2007, and the controlling shareholder will acquire the Company's entire interest in Xinjiang Xingmei subject to subsequent approval by independent shareholders. If eventually the disposal of Xinjiang Xingmei can be approved by shareholders, the Group's gearing ratio based on total assets will become nil (assuming all other financial position remains intact as if it is on 30 June 2007). The disposal will therefore dispose of the loss making oil pipeline business and make a clean break against any potential liabilities arising from the bank loans.

In February 2007, the Group raised approximately HK$120 million, net of related expenses, from issue of 374,000,000 new shares of the Company which is intended to be used for general working capital and possible investment in energy sector, in particular the up stream oil and gas business.

In light of the above and the dedicated effort of the management, the Board foresees the liquidity issue which has been bothering the Group for the past few years will be resolved very soon in this year.

The business transactions as well as the bank borrowings of the Group are mainly denominated in Renminbi while cash outflow mainly comprises administration expenses in Hong Kong. The Directors consider that in short run, the exchange rate fluctuation of Renminbi and Hong Kong dollars do not pose a significant risk to the Group and the Group will review and monitor from time to time the risk in relation to foreign exchange.

CONTINGENT LIABILITIES

The contingent liability of the Group as at 30 June 2007 amounted to approximately RMB269 million (31 December 2006: RMB264 million). As disclosed in the last annual report, this amount represents two alleged bank loans and interest from two PRC banks borrowed by a former director of the Group, in the name of a subsidiary of the Company, through alleged fraudulent actions. After review of relevant documents and interview with related personnel, 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 existing member within the Group will not have any legal and financial obligations relating to these alleged bank loans and alleged interest thereon.

However, as mentioned above, the Group entered into a disposal agreement with the Company's controlling shareholder on 7 September 2007, and the controlling shareholder will acquire the Company's interest in Xinjiang Xingmei subject to subsequent approval by independent shareholders. The eventual disposal will make a clean break against any potential liabilities arising from the bank loans, which will also include these contingent liabilities.

OUTLOOK

It has been nearly two years since the existing Board admitted to the management of the Company in November 2005. During the past two years, despite a lot of challenge, we were able to put in place a very strong management team, at both the Board and operational levels.

The Group is pleased to have shareholders support for approving the acquisition in Utah this June, 2007. The oil exploitation operation in Grassy Trails has commenced since August. Re-work of five prevailing wells in the first phase has almost completed smoothly. Four of them are online with better than expected production. The first 1,000 barrels of sweet crude will be delivered to Chevron's Refinery by end of September. With Brent crude price breaking USD80 per barrel recently, the Board might adopt a more aggressive approach to develop the Grassy Trails oil field to take advantage of the recent hike. The first horizontal drilling is expected to take place by end of October. By using the same technology, production of an adjacent oil field in the same basin has been boosted to 150 barrels per single well. The Group is confident that production in Grassy Trails will be lifted to a satisfactory level. Contribution of Grassy Trails might be mediocre in fiscal year 2007, however, a more promising production will be seen in 2008 after the horizontal-kick-out drilling is adopted.

OUTLOOK *(continued)*

In addition to the oil field in the United States, the Group has been aggressively developing oil exploration and exploitation operation in the PRC. The Group has a team of very strong local expertises in the PRC who provide competitive edge for the Group to acquire domestic oil field investment. Initial independent report has confirmed that the oil field in Xun Yi, Shaanxi will be a lucrative investment. On top of the preliminary contingent resources of over 60 million tonnes of crude, an unexpected 96 million tonnes equivalent of natural gas in the area turns out to be a positive surprise. It might take another few months to seek for shareholders' approval for Shaanxi project and preparation of the oil field development plan. Drilling of the first test well might take place in early March, 2008.

The Group has now assembled a diversified asset portfolio, combining both short term and long term growth opportunities. Our strategy is to become a leading independent oil and gas player in the Greater China region with a portfolio of quality assets and to grow the business by developing these assets efficiently.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2007, the Group employed approximately 240 employees. The remuneration policies of the Group are based on the prevailing remuneration level in the market and the performance of respective companies and individual employees.

OTHER INFORMATION

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2007, the interests and short positions of the directors (the "Directors") and chief executive 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 (the "SFO")) as recorded in the register maintained by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follow:

(i) Long position in shares of the Company

Name of Director	Capacity/Nature of interest	Number of shares held	Percentage of total issued shares (%)
Xing Xiao Jing	Corporate	1,720,880,650 (Note)	40.91

Note: 1,662,795,650 shares were owned by China GeoMaxima Co., Ltd., a company wholly owned by Hong Chang Group Limited which in turn is wholly and beneficially owned by Ms. Xing Xiao Jing. In addition, Hong Chang Group Limited directly and beneficially owned 58,085,000 shares in the Company.

(ii) Long positions in underlying shares of the Company

(a)

	Number of options						
Name of Director	Outstanding at 1 January 2007	Granted during the period	Exercised during the period	Outstanding at 30 June 2007	Date of grant	Exercise period	Exercise price per share HK$
Xing Xiao Jing	3,000,000	Nil	Nil	3,000,000	2 November 2005	3 November 2005 to 2 November 2010	0.035
Ma Ji	15,000,000	Nil	Nil	15,000,000	2 November 2005	3 November 2005 to 2 November 2010	0.035
Kong Siu Tim	15,000,000	Nil	Nil	15,000,000	2 November 2005	3 November 2005 to 2 November 2010	0.035

DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES *(continued)*

(ii) Long positions in underlying shares of the Company *(continued)*

(b)

	Number of options						
Name of Director	Outstanding at 1 January 2007	Granted during the period	Exercised during the period	Outstanding at 30 June 2007	Date of grant	Exercise period	Exercise price per share HK$
Xing Xiao Jing	30,000,000	Nil	Nil	30,000,000	2 November 2006	2 November 2006 to 1 November 2011	0.053
Ma Ji	25,000,000	Nil	Nil	25,000,000	2 November 2006	2 November 2006 to 1 November 2011	0.053
Kong Siu Tim	25,000,000	Nil	Nil	25,000,000	2 November 2006	2 November 2006 to 1 November 2011	0.053

The options are held by the Directors personally and beneficially. Details of the Company's share option scheme are set out in the section "Share Option Scheme" below.

Save as disclosed above, as at 30 June 2007, none of the Directors and chief executive of the Company had any interests or short positions 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) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

OTHER INFORMATION

SHARE OPTION SCHEME

The Company's share option scheme (the "Scheme") was adopted pursuant to an ordinary resolution passed by the shareholders of the Company on 6 March 2002. The Scheme is in full compliance with the relevant requirements of Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

As at 30 June 2007, the Directors and employees of the Group had the following personal interests in options to subscribe for shares of the Company granted at nominal consideration under the Scheme. Each option gives the holder the right to subscribe for one share. Details of share options held by the Directors and employees of the Group and movements in such holdings during the period are as follows:

(a)

	Number of options						
	Outstanding at 1 January 2007	Granted during the period	Exercised during the period	Outstanding at 30 June 2007	Date of grant	Exercise period	Exercise price per share HK$
Directors:							
Xing Xiao Jing	3,000,000	Nil	Nil	3,000,000	2 November 2005	3 November 2005 to 2 November 2010	0.035
Ma Ji	15,000,000	Nil	Nil	15,000,000	2 November 2005	3 November 2005 to 2 November 2010	0.035
Kong Siu Tim	15,000,000	Nil	Nil	15,000,000	2 November 2005	3 November 2005 to 2 November 2010	0.035
Employees	32,000,000	Nil	25,000,000	7,000,000	2 November 2005	3 November 2005 to 2 November 2010	0.035
Total	65,000,000	Nil	25,000,000	40,000,000			

SHARE OPTION SCHEME *(continued)*

(b)

	Number of options						
	Outstanding at 1 January 2007	Granted during the period	Exercised during the period	Outstanding at 30 June 2007	Date of grant	Exercise period	Exercise price per share HK$
Directors:							
Xing Xiao Jing	30,000,000	Nil	Nil	30,000,000	2 November 2006	2 November 2006 to 1 November 2011	0.053
Ma Ji	25,000,000	Nil	Nil	25,000,000	2 November 2006	2 November 2006 to 1 November 2011	0.053
Kong Siu Tim	25,000,000	Nil	Nil	25,000,000	2 November 2006	2 November 2006 to 1 November 2011	0.053
Employees	220,000,000	Nil	170,000,000	50,000,000	2 November 2006	2 November 2006 to 1 November 2011	0.053
Total	300,000,000	Nil	170,000,000	130,000,000			

(c)

	Number of options						
	Outstanding at 1 January 2007	Granted during the period	Exercised during the period	Outstanding at 30 June 2007	Date of grant	Exercise period	Exercise price per share HK$
Employees	Nil	358,000,000	52,750,000	305,250,000	26 January 2007	26 February 2007 to 25 February 2012	0.189
Total	Nil	358,000,000	52,750,000	305,250,000			

Note: 358,000,000 options were granted on 26 January 2007. The closing price of the Company's shares immediately before that date was HK$0.179 per share. During the six months ended 30 June 2007, the weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HK$0.394 per share.

OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30 June 2007, the following persons, not being a Director or chief executive of the Company, had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO, the details of which are set out below:

Long position in shares of the Company

Name of shareholder	Capacity/ Nature of interest	Number of shares held	Percentage of total issued shares (%)
China GeoMaxima Co., Ltd.	Beneficial	1,662,795,650	39.53
Hong Chang Group Limited	Corporate	1,662,795,650	39.53
Hong Chang Group Limited	Beneficial	58,085,000	1.38

Note: 1,662,795,650 shares were owned by China GeoMaxima Co., Ltd., a company wholly owned by Hong Chang Group Limited which in turn is wholly and beneficially owned by Ms. Xing Xiao Jing, the Chairman of the Board of the Company. In addition, Hong Chang Group Limited directly and beneficially owned 58,085,000 shares.

Saved as disclosed above in this section, as at 30 June 2007, the Company has not been notified of any other persons (other than the Directors or chief executive of the Company) who had any interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

During the six months ended 30 June 2007, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The Audit Committee, which comprises all Independent Non-executive Directors, has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited interim financial statements of the Company.

OTHER INFORMATION

CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2007 except for Code Provision A.4.1 which requires that non-executive directors should be appointed for a specific term and subject to re-election. None of the existing Non-executive Directors (including Independent Non-executive Directors) of the Company is appointed for a specific term. However, as all of them are subject to the retirement provisions of the Bye-laws of the Company, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code (the "Model Code") for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the Company's code of conduct and rules governing dealing by all directors in the securities of the Company.

All directors have complied with the required standard regarding directors' securities dealings set out in the Model Code during the six months ended 30 June 2007.

By Order of the Board
Kong Siu Tim
Executive Director

Hong Kong, 24 September 2007