

# Chairman's Statement

On behalf of the Board of Directors (the "Board") of Genesis Energy Holdings Limited (the "Company") and its subsidiaries (collectively known as the "Group"), I am presenting herewith the annual report of the Company for the year ended 31 December 2006.

## RESULTS

For the year ended 31 December 2006, the Group incurred an audited consolidated net loss attributable to shareholders of RMB85.2 million, as compared with a loss of RMB262.9 million recorded for the 2005 financial year.

2006 was the first year for the Board members to exert control of the Group's operations, We have adopted a prudent and conservative approach to re-engineer its operations and streamline prevailing core business. Xinjiang Xingmei Oil-pipeline Company Limited ("Xingmei") was progressing well with satisfactory results.

A new transportation agreement has been entered into with China Petroleum and Chemical Corporation ("CPCC") immediate after settlement of litigation disputes against CPCC. Since then, Xingmei continued to show signs of improvement. Nevertheless, high gearing and massive interest burden have suffocated the company from improving transportation volume. With the assistance and support from CPCC, the Board has engaged renowned international and local accounting firms to perform due diligence investigation on all assets of Xingmei to provide a more accurate picture. This has helped to lay a solid foundation for the Group's assets and liabilities restructuring exercise in the future.

Capitalizing on the booming stock market in Hong Kong, the Group raised a total proceed of approximately HK\$59.88 million by placing altogether 404.25 million ordinary shares on 29 August and 20 November 2006 respectively. The funds raised are all for purpose of working capital and possible investment in energy sector.

After conducting various due diligence exercises from our geologists both in the States and the PRC, the Company entered into a memorandum of understanding with an oil and gas investor on 20 September 2006 to acquire an oil field in Utah, the United States from Pride Ventures, LLC. A formal sale and purchase agreement was also entered on 10 January 2007 for the acquisition of Grassy Trails Oil Field. The acquisition not only marks a milestone for the Company to improving its underlying assets portfolio and the ambition to tap into upstream oil operations, more importantly, it provides a necessary condition for future assets restructuring.

## DIVIDEND

The Board has resolved not to recommend any payment of dividend for the year ended 31 December 2006.

## OUTLOOK

Notwithstanding a substantial curb on losses, the Board is never satisfied with its success and always strives for the best for further improvement. Looking ahead, the Board has set its goal on turning its book into black in 2008 by implementing strategies to new business acquisitions as well as streamlining its existing operations. To this end, the Board has resolved and taken effective and feasible measures to (1) restructuring the asset portfolio focusing on upstream oil and gas related projects; (2) improving the financial conditions of the Company and (3) attracting talented expertise for future expansion.

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In the second half of 2007, the Group will, by all means, reduce prevailing high gearing and loss situation. To attain this objective, the Board will consider preferably any profitable upstream operations that might secure immediate cash flow for the Group.

To improve the financial position, the Company raised further proceeds of HK\$120 million in the capital market through placement of 374 million ordinary shares in February, 2007. The Group had a net cash of over HK\$160 million as at 31 March 2007, providing adequate financial resources for any future acquisition. Apart from this, the Board will also consider all other financing packages to lower its financing cost aiming at expediting upstream acquisitions.

In April 2007, the Company has invited a number of world renowned petroleum and geological specialists to form a Technical Advisory Board. Members include famous leaders from geology, exploitation, drilling, surface construction of wells, fracturing and oil refining sectors. They have successfully built a strong and concrete foundation to any future acquisitions of domestic and overseas oil fields for the Company and provided us with a more timely, scientific and professional analysis and review on the feasibility studies.

Looking ahead, we expect the Grassy Trails Oil Field acquisition will be completed by end of second quarter. The Company will commence its drilling and oil exploitation soon after completion in order to generate profits for the Group. While international crude oil prices have been sustained at high level for a period of time, and the nation's preferential policy to encourage more private sector participation in the oil industry, we will leverage our competitive edges to acquire more aggressively in the PRC.

## APPRECIATION

It was a very difficult year for the Company in 2006. Yet, we managed to maintain a positive momentum and steady business growth with new acquisitions and fund raising. All these cannot be achieved without tremendous commitment, determination and dedication from all management and staff members as well as my fellow Directors. We are pleased to see the Company returning to its right track with remarkable improvement in shares trading volume. Taking this opportunity, I wish to extend my sincere gratitude to you all and I am looking forward to working closely with every one of you for a brighter future of the Company and to create higher returns for our shareholders in the future.

**Xing Xiao Jing**

*Chairman*

Hong Kong, 25 April 2007