

# Independent Auditor's Report



**CCIF**

**CCIF CPA LIMITED**

20/F Sunning Plaza  
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Causeway Bay Hong Kong

## **Independent Auditor's Report to the shareholders of Genesis Energy Holdings Limited**

*(Incorporated in Bermuda with limited liability)*

We were engaged to audit the consolidated financial statements of Genesis Energy Holdings Limited (the "Company") on pages 30 to 80, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS**

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **AUDITOR'S RESPONSIBILITY**

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Except for the limitation in the scope of our work as explained below, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. However, because of the matters described in the scope limitation paragraphs of the basis for disclaimer of opinion section, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

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## BASIS FOR DISCLAIMER OF OPINION

### 1) **Scope limitation – Prior year's audit scope limitation affecting opening balances**

As detailed in our report dated 26 April 2006 on the Group's financial statements for the year ended 31 December 2005, because of the significance of the possible effects of the limitation in evidence made available to us, specifically, we were unable to obtain sufficient and appropriate evidence to satisfy ourselves as to whether the financial statement items were fairly stated and free from material misstatement in the following areas: (i) alleged bank loans and interest thereon; and (ii) impairment of interest in a jointly controlled entity. Any adjustments found to be necessary in respect thereof had we obtained sufficient and appropriate evidence would have had a consequential effect on the net assets of the Group and the Company as at 31 December 2005, and of the Group's loss for the current year and the prior year and the related disclosures thereof in the financial statements. In respect of the limitation of scope in prior year in the areas as described above, we are unable to express our opinion as to whether the balances brought forward as at 1 January 2006 and the comparative figures were fairly stated in the financial statements.

### 2) **Scope limitation – Alleged bank loans and interest thereon and Other Receivable**

As explained in previous year's auditor's report and note 36 to the financial statements, there were the alleged forgeries of a former director of the Company on two bank loans amounting to approximately RMB240 million (the "Alleged Loans") borrowed under the name of Xinjiang Xingmei Oil-Pipeline Co., Ltd. ("Xinjiang Xingmei"), a Company's subsidiary established in the People's Republic of China ("PRC"), during the previous accounting periods. Calculated up to 31 December 2006, the interest on the Alleged Loans amounted to approximately RMB24 million (the "Alleged Interest"). With the advice from a legal adviser in the PRC, the directors are of the opinion that it is unlikely that Xinjiang Xingmei or any of other companies among the Group has legal or financial obligation to pay the Alleged Loans and the Alleged Interest. Based on such legal advice, as at the balance sheet date, the Alleged Loans and the Alleged Interest have not been recorded in the books of Xinjiang Xingmei or any other companies among the Group as liabilities.

During the year ended 31 December 2006, incidental to an civil action brought up by one of the aforesaid banks, a civil judgment was served by the Supreme People's Court of Gansu Province, the PRC, on Xinjiang Xingmei demanding the latter to pay RMB49 million as for the foregery loan, RMB366,000 as for the related loan interest and an unspecified amount of default interest thereon. The total amount paid thereof amounted to RMB1,950,000. Further legal advice was obtained by the directors from legal adviser that the civil judgment served on Xinjiang Xingmei is not effective in the circumstance that the criminal proceeding has not been finalized and that the amount of RMB1,950,000 should be paid back by the bank. The amount of RMB1,950,000 already paid to the bank is classified under "Other Receivable" in the consolidated balance sheet .

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## **BASIS FOR DISCLAIMER OF OPINION** *(Continued)*

### **2) Scope limitation – Alleged bank loans and interest thereon and Other Receivable** *(Continued)*

Based on the audit evidence provided by the directors of the Company, there was no sufficient and appropriate evidence to support whether the Group has obligation to pay the Alleged Loans and the Alleged Interest, and there were no practical alternative audit procedures that we could perform to determine whether the amount of RMB1,950,000 carried in the consolidated balance sheet as other receivable as at 31 December 2006, should be impaired.

Any adjustments that might have found to be necessary in respect of the matters set out above would have a consequential effect on the financial position of the Group or the Company as at 31 December 2006, the net loss and cash flows of the Group for the year then ended and the related disclosures in the financial statements.

### **3) Material uncertainties relating to the going concern basis**

In forming our opinion, we have considered the adequacy of the disclosures made in note 2 to the consolidated financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. As explained in note 2 to the consolidated financial statements, the Group is currently undertaking a number of measures to improve its financial and current liquidity position. On the assumption that the attainment of profitable and positive cash flow operations, the successful renewal of short-term bank loans, the ongoing financial support by the Company's controlling shareholder, the availability of additional external fundings, and the favourable outcome for the payment of the alleged loans and alleged interest thereon, as described in note 2 to the financial statements, the directors consider that the Group will be able to meet in full its financial obligations as they fall due in the foreseeable future.

The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the attainment of profitable and positive cash flow operations, the successful renewal of short-term bank loans, the ongoing financial support by the Company's controlling shareholder, the availability of additional external funding, and the favourable outcome for the payment of the alleged loans and alleged interest thereon, as described in note 2 to the financial statements, to ensue that adequate cash resources are available to meet the Group's future working capital and financial requirements. The financial statements do not include any adjustment that may be necessary should the implementation of such measures be unsuccessful. We consider that appropriate disclosures have been made. However, in view of the extent of the material uncertainties relating to the measures mentioned above that may cast significant doubt on the Group's ability to continue as a going concern, we have disclaimed our opinion. The financial statements do not include any adjustments that would be necessary if the various measures as described above fail to take place. Any adjustment to the financial statements may have a consequential significant effect on the financial position of the Group or the Company as at 31 December 2006, the net loss and cash flows of the Group for the year then ended and the related disclosures in the financial statements.

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## **DISCLAIMER OF OPINION: DISCLAIMER ON VIEW GIVEN BY THE FINANCIAL STATEMENTS**

Because of the significance of (i) the effects of the scope limitations in evidence made available to us in each of the areas as set out in paragraphs (1) and (2) in the basis for disclaimer of opinion section and (ii) the material uncertainties relating to the going concern basis, we do not express an opinion on the financial statements as to whether they give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards. In all other respects, in our opinion the financial statements have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

### **CCIF CPA Limited**

*Certified Public Accountants*

Hong Kong, 25 April 2007

### **Betty P.C. Tse**

Practising Certificate Number P03024