

# Report of the Directors

The directors submit their annual report together with the audited financial statements for the year ended 31 December 2005, which are set out on pages 29 to 86.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the Group during the year are the operation of transportation and storage facilities for crude oil and the operation of a natural gas pipeline network and refilling stations supplying natural gas and liquefied petroleum gas for vehicle use.

## SUBSIDIARIES AND JOINTLY CONTROLLED ENTITY

Particulars of the Company's subsidiaries and jointly controlled entity are set out in notes 20 and 21 to the financial statements respectively.

## DIVIDENDS

The Board has resolved not to recommend the payment of a dividend for the year ended 31 December 2005 (2004: Nil).

## CHANGE OF COMPANY'S NAME

A special resolution regarding the change of name of the Company from "GeoMaxima Energy Holdings Limited" to "Genesis Energy Holdings Limited" and the adoption of the new Chinese name "創新能源控股有限公司" to replace the Chinese name of "捷美能源控股有限公司" for identification purpose was passed by the shareholders of the Company at the Special General Meeting held on 28 December 2005. The new company name came into effect on 28 December 2005.

## FIXED ASSETS

Details of movements in the fixed assets of the Group during the year are set out in note 16 to the financial statements.

## BORROWINGS

Details of the Group's borrowings at the balance sheet date are set out in note 25 to the financial statements.

## SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in note 31 to the financial statements.

## RESERVES

Details of movements in reserves of the Company and the Group during the year are set out in note 32 to the financial statements.

## FINANCIAL SUMMARY

A summary of results, assets and liabilities of the Group for the last five financial years is set out on page 3.

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## MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers accounted for approximately 69% and the largest customer accounted for approximately 65% of the Group's total turnover for the year. The aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 58% and the largest supplier accounted for approximately 63% of the Group's total purchases for the year.

The largest customer of the Group is the minority shareholder of the Company's subsidiary. Xinjiang Xingmei Oil-Pipeline Co. Limited ("Xinjiang Xingmei"). Please refer to the section "Continuing Connected Transactions" for details.

At no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

## DIRECTORS

The directors of the Company during the year and up to the date of this report were:

### Executive Directors

Ms. Xing Xiao Jing ( <i>Chairman</i> )	(appointed on 29 September 2005)
Mr. Ma Ji	
Mr. Kong Siu Tim	(appointed on 22 August 2005)
Mr. Zhu Jia Zhen	(resigned on 8 March 2005)
Mr. Sun Tian Gang	(resigned on 22 August 2005)
Mr. Guo Ting	(resigned on 1 November 2005)
Mr. Wan Tze Fan Terence	(appointed on 22 August 2005 and resigned on 1 November 2005)

### Non-executive Director

Mr. Zhao Xin Xian	(retired on 21 June 2005)
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### Independent non-executive Directors

Mr. Ni Zhenwei	(appointed on 1 November 2005)
Mr. Yip Ching Shan	
Mr. Wong Kwok Chuen Peter	(appointed on 4 April 2006)
Mr. Yu En Guang	(resigned on 4 April 2006)
Mr. Zhang Xue Min	(resigned on 1 November 2005)

Pursuant to the Company's bye-law 86(2), Ms. Xing Xiao Jing and Messrs Kong Siu Tim, Ni Zhenwei and Wong Kwok Chuen Peter shall hold office until the forthcoming annual general meeting and will retire and, being eligible, will offer themselves for re-election. All other remaining directors continue in office.

The Company has received from each of the independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

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## DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting had a service contract with the Company which is not determinable by the Company within one year without payment other than statutory compensation.

## DIRECTORS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2005, 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 the 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 holding (%)	Name of company
Xing Xiao Jing	Corporate	1,720,880,650 (Note)	56.39	the Company

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

Name of Director	Number of options outstanding as at 1 January 2005	Number of options granted during the year	Number of options exercised during the year	Number of options outstanding as at 31 December 2005	Date of grant	Exercise period	Exercise price per share HK\$
Xing Xiao Jing	Nil	3,000,000	Nil	3,000,000	2 November 2005	3 November 2005 to 2 November 2010	0.035
Ma Ji	Nil	15,000,000	Nil	15,000,000	2 November 2005	3 November 2005 to 2 November 2010	0.035
Kong Siu Tim	Nil	15,000,000	Nil	15,000,000	2 November 2005	3 November 2005 to 2 November 2010	0.035

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

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Save as disclosed above, as at 31 December 2005, none of the Directors nor any of their associates had any interests in the securities 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.

## 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 purpose of the Scheme is to enable the Company to grant options to the eligible participants of the Group in recognition of their contribution to the Group. Eligible participants of the Scheme include any full-time employees and executive and non-executive directors of the Company or its subsidiaries and any suppliers, consultants, agents and advisers. The Scheme became effective on 6 March 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of shares in respect of which options may be granted under the Scheme shall not in aggregate exceed 10% of the shares of the Company in issue as at the date of approval of the limit and such limit may be refreshed by shareholders in general meeting. However, the total maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes must not exceed 30% of the shares in issue from time to time.

The maximum entitlement for any eligible person (other than a substantial shareholder or an independent non-executive director of the Company, or any of their respective associates) is that the total number of shares issued and to be issued upon exercise of all options granted and to be granted in any 12-month period up to and including the date of the latest grant does not exceed 1% of the shares of the Company in issue at the relevant time. Any further grant of share options in excess of this limit is subject to shareholders' approval in general meeting. The period within which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised later than 10 years from 6 March 2002.

The exercise price in relation to each option shall be determined by the Board in its absolute discretion, but in any event shall not be less than the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant of such option; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant of such option; and (iii) the nominal value of a share on the date of grant of such option.

During the year ended 31 December 2005, Hong Chang Group Limited made an offer (the "Option Offer") for cancellation of all outstanding share options under Rule 13 of The Hong Kong Code on Takeovers and Mergers. Valid acceptances in respect of 40,000,000 options were received prior to the close of the offer period on 19 October 2005. These options together with the remaining options under the Option Offer, representing 88,000,000 options in total, were then cancelled.

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On 2 November 2005, 210,000,000 options have been granted under the Scheme. As at 31 December 2005, the total number of shares of the Company that may be issued upon exercise of all share options granted and yet to be exercised under the Scheme was 190,000,000, which represented 6.23% of the issued share capital of the Company as at that date.

Some further disclosures relating to the Scheme are set out in note 29 to the financial statements.

As at 31 December 2005, 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 year ended 31 December 2005 are as follows:

	Date of grant	Number of options outstanding as at 1 January 2005	Number of options granted during the year	Number of options exercised during the year	Number of options outstanding as at 31 December 2005	Exercise period	Exercise price per share HK\$
<b>Former Directors:</b>							
Zhu Jia Zhen	29 July 2002	28,000,000	Nil	Nil	Nil	2 September 2002 to 31 August 2007	0.698
Sun Tian Gang	29 July 2002	28,000,000	Nil	Nil	Nil	2 September 2002 to 31 August 2007	0.698
Guo Ting	29 July 2002	20,000,000	Nil	Nil	Nil	2 September 2002 to 31 August 2007	0.698
<b>Directors:</b>							
Xing Xiao Jing	2 November 2005	Nil	3,000,000	Nil	3,000,000	3 November 2005 to 2 November 2010	0.035
Ma Ji	2 November 2005	Nil	15,000,000	Nil	15,000,000	3 November 2005 to 2 November 2010	0.035
Kong Siu Tim	2 November 2005	Nil	15,000,000	Nil	15,000,000	3 November 2005 to 2 November 2010	0.035
Employees	29 July 2002	40,000,000	Nil	Nil	Nil	2 September 2002 to 31 August 2007	0.698
Employees	2 November 2005	Nil	177,000,000	20,000,000	157,000,000	3 November 2005 to 2 November 2010	0.035

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## Notes:

1. Mr. Zhu Jia Zhen resigned as director of the Company on 8 March 2005 and his 28,000,000 options lapsed accordingly.
2. The options granted to Messrs. Sun Tian Gang and Guo Ting and employees of the Group on 29 July 2002 totaling 88,000,000 options were cancelled under the Option Offer. The exercise price of the cancelled options was HK\$0.698 per share. Messrs. Sun Tian Gang and Guo Ting resigned from the Board on 22 August 2005 and 1 November 2005 respectively.
3. 210,000,000 options were granted on 2 November 2005. The closing price of the Company's shares immediately before that date was HK\$0.035 per share.
4. During the year, on 9 December 2005, 20,000,000 options were exercised at the exercise price of HK\$0.035 per share. The weighted average closing price of the Company's shares immediately before the date of exercise was HK\$0.043 per share.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the sections "Directors' Interests in Shares and Underlying Shares" and "Share Option Scheme", at no time during the year was the Company or any of its associated corporations a party to any arrangement to enable the directors of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2005, 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:

### Long position in shares of the Company

Name of shareholder	Capacity/ Nature of interest	Number of shares held	Percentage of holding (%)
China GeoMaxima Co., Ltd.	Beneficial	1,662,795,650	54.49
Hong Chang Group Limited	Corporate	1,662,795,650	54.49
Hong Chang Group Limited	Beneficial	58,085,000	1.90

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 31 December 2005, 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.

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## RETIREMENT SCHEMES

The employees of the Group's subsidiaries in the PRC are members of retirement schemes operated by local authorities in the PRC. The Group also operates a defined contribution scheme covering full time employees in Hong Kong. Details of employee retirement benefits are set out in note 28 to the financial statements.

## DIRECTORS' REMUNERATION AND HIGHEST PAID INDIVIDUALS' EMOLUMENTS

Particulars of the directors' remuneration and highest paid individuals' emoluments are set out in note 10 and note 11 to the financial statements respectively.

## CONTINUING CONNECTED TRANSACTIONS

In November 1999, the Company's subsidiary, Xinjiang Xingmei, entered into an agreement (the "Agreement") with its minority shareholder, for the provision of crude oil transportation, storage and unloading services for a period of 20 years. On 5 December 2005, a new agreement (the "New Agreement") was entered into between Xinjiang Xingmei and the holding company of its minority shareholder to replace and terminate the Agreement. Pursuant to the New Agreement, (i) the services to be provided by Xinjiang Xingmei under the New Agreement is identical but the period of the services to be provided by Xinjiang Xingmei will be expired and subject to review on 30 November 2008 instead of 24 November 2019; (ii) both parties agreed that the Agreement be terminated immediately and cease to have any effect on the parties thereto; (iii) the payment terms as contemplated under the Agreement be replaced by the terms set out in the New Agreement; and (iv) the services to be provided by Xinjiang Xingmei under the New Agreement are non-exclusive.

As mentioned in the circular dated 25 January 2006, the annual cap in respect of the continuing connected transactions for the year ending 31 December 2006 shall not exceed approximately RMB85 million.

During the year ended 31 December 2005, revenue from the provision of crude oil transportation, storage and unloading services to the minority shareholder amounted to RMB44,990,000 (2004: RMB40,978,000). The amount due from minority shareholder as at 31 December 2005 amounted to RMB16,946,000 (2004: RMB40,110,000).

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With respect to the above continuing connected transactions entered into by the Group, the Stock Exchange on application by the Company, granted to the Company a waiver from strict compliance with the connected transaction requirements as set out in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). In the opinion of the independent non-executive directors, the continuing connected transactions were:

- (i) conducted in the ordinary and usual course of the Group's business;
- (ii) on normal commercial terms or on terms no less favourable than terms available to or from independent third parties;
- (iii) in accordance with relevant agreement on terms that are fair and reasonable so far as the shareholders of the Company are concerned and in the interest of the Company as a whole; and
- (iv) within the relevant annual cap amounts as agreed by the Stock Exchange.

## **DIRECTORS' INTERESTS IN CONTRACTS**

Save as disclosed in note 37 to the financial statements, no contracts of significance subsisted at any time during the year to which the Company or any of its subsidiaries was a party and in which a director of the Company had material interest, whether directly or indirectly.

## **LEGAL PROCEEDINGS**

During the year, a subsidiary of the Group was involved in litigation against a third party for breach of contract. Subsequently, the pending litigation has been withdrawn and the approval of withdrawal was issued by the Supreme Court of China in December 2005. Details are set out in note 36 to the financial statements.

Save as disclosed above, as at 31 December 2005, the Company was not involved in any material litigation or arbitration and no material litigation or claims was pending or threatened or made against the Company so far as the Company is aware.

## **PUBLIC FLOAT**

Based on information that is publicly available to the Company and within the knowledge of its directors, as of the date of this report, there is sufficient public float of the shares with not less than 25% of the total issued shares of the Company as required under the Listing Rules.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES**

During the year, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

## **PRE-EMPTIVE RIGHTS**

There is no provision for pre-emptive rights under the Company's bye-laws or the laws in Bermuda which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

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## 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 year, with the deviations from Code Provisions A.4.1 and A.4.2.

Under the Code Provision A.4.1, 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 under 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.

Under the Code Provision A.4.2, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Under the Bye-laws of the Company, the chairman of the Board and the managing director of the Company shall not be subject to retirement by rotation. The Company proposes to put forward to its shareholders for approval at the forthcoming annual general meeting a special resolution to amend the Bye-laws to comply with this Code Provision.

## AUDITORS

The financial statements for the year have been audited by CCIF CPA Limited who retire and, being eligible, offer themselves for re-appointment.

By order of the Board

**Ma Ji**

*Executive Director*

Hong Kong, 26 April 2006