

Report of the Directors

The directors submit their annual report together with the audited financial statements for the year ended 31 December 2006, which are set out on pages 30 to 80.

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 2006 (2005: Nil).

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.

PLACEMENT OF NEW SHARES

On 29 August 2006, China GeoMaxima Co., Ltd. ("China GeoMaxima"), a wholly owned subsidiary of Hong Chang Group Limited, the controlling shareholder of the Company, entered into a placing agreement and a top-up subscription agreement with a placing agent and the Company respectively. Pursuant to the placing agreement, 100,000,000 ordinary shares of HK\$0.01 each of the Company held by China GeoMaxima were placed through the placing agent to not less than six independent individual, corporate and/or institutional investors (and not connected person(s) of the Company under the Listing Rules as at the date of the transaction) at a placing price of HK\$0.04 per share. The net proceeds of the issue were approximately HK\$3,880,000, representing a net price of approximately HK\$0.0388 per share. The fund was raised for general working capital and/or possible investment of the Group and has been applied accordingly. The closing price of each share on 29 August 2006 (the trading day on which the terms of the top-up subscription agreement was fixed) was HK\$0.045. Details of the transactions were disclosed in the Company's announcement dated 29 August 2006.

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On 20 November 2006, China GeoMaxima entered into a placing agreement and a top-up subscription agreement with a placing agent and the Company respectively. Pursuant to the placing agreement, 304,250,000 ordinary shares of HK\$0.01 each of the Company held by China GeoMaxima were placed through the placing agent to not less than six independent individual, corporate and/or institutional investors (and not connected person(s) of the Company under the Listing Rules as at the date of the transaction) at a placing price of HK\$0.188 per share. The net proceeds of the issue were approximately HK\$55,000,000, representing a net price of approximately HK\$0.18 per share. The fund was raised for possible investment in future relating to oil and gas and/or general working capital and has been applied accordingly. The closing price of each share on 17 November 2006 (the last trading day prior to the date on which the terms of the top-up subscription agreement was fixed) was HK\$0.209. Details of the transactions were disclosed in the Company's announcements dated 20 and 23 November 2006.

Subsequent to year end, on 14 February 2007, China GeoMaxima entered into a placing and top-up subscription agreement with placing agents and the Company respectively. A total of 374,000,000 shares were issued at a placing price of HK0.325 per share. A total of approximately HK\$120 million, net of related expenses, have been raised for possible investment in energy and up-stream oil and gas projects.

FINANCIAL SUMMARY

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

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers accounted for approximately 65% and the largest customer accounted for approximately 62% of the Group's total turnover for the year. The aggregate purchases attributable to the Group's five largest suppliers accounted for approximately 61% and the largest supplier accounted for approximately 56% 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.

ACQUISITION SUBSEQUENT TO BALANCE SHEET DATE

On 10 January 2007, one of the Company's subsidiaries, Genesis Petroleum US, Inc. entered into an acquisition agreement with an independent third party to acquire the exploitation rights together with ownership title of Grassy Trails Oil and Gas field, located in Utah, the USA, at a total consideration of USD6.6 million. Based on the reserve evaluation report issued by independent professional, the possible recovery of crude oil is expected to be 1.1 million barrel. The transaction is expected to be completed in the first half of year 2007. Details of the transactions were disclosed in the Company's announcement dated 25 January 2007.

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DIRECTORS

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

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 (appointed on 4 April 2006)

Mr. Yu En Guang (resigned on 4 April 2006)

Pursuant to the Company's bye-law 87(1), Mr. Ma Ji and Mr. Yip Ching Shan 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.

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 2006, 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)	48.00	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.

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(ii) Long positions in underlying shares of the Company

(a)

Name of Director	Number of options outstanding as at 1 January 2006	Number of options granted during the year	Number of options exercised during the year	Number of options outstanding as at 31 December 2006	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

(b)

Name of Director	Number of options outstanding as at 1 January 2006	Number of options granted during the year	Number of options exercised during the year	Number of options outstanding as at 31 December 2006	Date of grant	Exercise period	Exercise price per share HK\$
Xing Xiao Jing	Nil	30,000,000	Nil	30,000,000	2 November 2006	2 November 2006 to 1 November 2011	0.053
Ma Ji	Nil	25,000,000	Nil	25,000,000	2 November 2006	2 November 2006 to 1 November 2011	0.053
Kong Siu Tim	Nil	25,000,000	Nil	25,000,000	2 November 2006	2 November 2006 to 1 November 2011	0.053

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.

Save as disclosed above, as at 31 December 2006, 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.

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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.

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

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As at 31 December 2006, 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 2006 are as follows:

(a)

	Number of options			Outstanding at 31 December 2006	Date of grant	Exercise period	Exercise price per share HK\$
	Outstanding at 1 January 2006	Granted during the year	Exercised/ lapsed during the year				
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	157,000,000	Nil	125,000,000	32,000,000	2 November 2005	3 November 2005 to 2 November 2010	0.035
Total	190,000,000	Nil	125,000,000 (Note 1)	65,000,000			

(b)

	Number of options			Outstanding at 31 December 2006	Date of grant	Exercise period	Exercise price per share HK\$
	Outstanding at 1 January 2006	Granted during the year	Exercised/ lapsed during the year				
Directors:							
Xing Xiao Jing	Nil	30,000,000	Nil	30,000,000	2 November 2006	2 November 2006 to 1 November 2011	0.053
Ma Ji	Nil	25,000,000	Nil	25,000,000	2 November 2006	2 November 2006 to 1 November 2011	0.053
Kong Siu Tim	Nil	25,000,000	Nil	25,000,000	2 November 2006	2 November 2006 to 1 November 2011	0.053
Employees	Nil	225,000,000	5,000,000	220,000,000	2 November 2006	2 November 2006 to 1 November 2011	0.053
Total	Nil	305,000,000	5,000,000	300,000,000			

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Notes:

1. During the period, 700,000 options lapsed due to cessation of employment of participant with the Group.
2. 305,000,000 options were granted on 2 November 2006. The closing price of the Company's shares immediately before that date was HK\$0.053 per share.
3. During the year, the weighted average closing price of the Company's shares immediately before the dates on which the options were exercised was HK\$0.0971 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 2006, 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	46.38
Hong Chang Group Limited	Corporate	1,662,795,650	46.38
Hong Chang Group Limited	Beneficial	58,085,000	1.62

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 2006, 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 2006, revenue from the provision of crude oil transportation, storage and unloading services to the minority shareholder amounted to RMB44,710,000 (2005: RMB44,990,000). The amount due from minority shareholder as at 31 December 2006 amounted to RMB7,150,000 (2005: RMB16,946,000).

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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.

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, except for the following:

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 shall be subject to retirement by rotation at least once every three years. The Bye-laws of the Company provided that the chairman of the Board and the managing director of the Company were not subject to retirement by rotation. Amendments were subsequently made to the Bye-laws of the Company to comply with the Code Provision A.4.2 by way of a special resolution passed by shareholders at the Annual General Meeting of the Company held on 26 May 2006.

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, 25 April 2007