MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 30 June 2006, Genesis Energy Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") recorded a turnover of RMB37.1 million (2005: RMB29.5 million). Loss after taxation and loss attributable to shareholders was RMB26.6 million (2005: loss of RMB24.7 million) and RMB6.8 million (2005: loss of RMB22.3 million) respectively.

There has been a remarkable growth of 25.7% in respect of revenue as compared with that in 2005 despite no significant reduction in loss after taxation due to the increased finance cost in the PRC and the reduced gross profit margin. However, this is expected to improve if the Group can maintain or increase the quantity of sales in second half of the year. Further, it is encouraging to see that the loss attributable to shareholders has been substantially decreased by 69% to RMB6.8 million. We must stress that the management and control of both operations, namely, crude oil transportation and natural gas network, have been strengthened. This can be reflected when we compare the annualized result for the six month period under review with that (before impairment loss) of the twelve months of 2005: there would be a growth of 8.7% in turnover while a reduction of 23.9% in loss before taxation and minority interest.

The oil pipeline in Xinjiang is operated by our subsidiary Xinjiang Xingmei Oil-pipeline Co. Ltd. ("Xingmei"), which the Group and China Petroleum and Chemical Corporation ("CPCC") own as to 80% and 20% of its equity interest respectively. As already disclosed in the 2005 annual report, the litigation between Xingmei and CPCC has been satisfactorily settled after entering into a new transportation agreement with CPCC in December 2005. This new transportation agreement has ensured a stable source of revenue and cash flow to the Group. With the support from CPCC, a new board of directors for Xingmei was introduced by end of 2005. The new board has imposed more stringent control over internal management, in particular detailed segregation of duties among different divisions and senior management team. In view of the stable source of cash flow and improved management and control over the operation, Xingmei's board is confident that the high gearing of Xingmei will be contained with a prudent funding and treasury policy.

On the other hand, the performance of the natural gas pipeline network, which is operated by our subsidiary Lejion Gas Co. Ltd. ("Lejion") (which the Group owns as to 72% of its equity interest) has shown improvement. Last year, Lejion 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 which supply natural gas and LPG for vehicle use. This reallocation of resources has proved to be a success. The sales of natural gas at refilling stations for the period under review have already reached approximately 60% of that in the entire year of 2005. A review of the above-mentioned contracting agreement is undergoing and Lejion is very likely to re-commence the operation of sale of piped natural gas before year end of 2006.

BUSINESS REVIEW *(continued)*

In March 2004, the Group entered into an agreement to acquire effectively 51% equity interest in a jointly controlled entity in Ningxia, the PRC ("JCE"). The JCE was to involve in the project of building up of a gas pipeline to supply natural gas for an industrial project. However, during the end of 2005, due to the possible termination of the industrial project, the project of the JCE involved as mentioned above was suspended. Taking into account of the above factors, the Company, with the advice of an independent valuation firm, was of the view that it would be prudent for the Group to make a full impairment on the JCE as at the balance sheet date of 31 December 2005. Currently, the Company is consulting our legal adviser as to the PRC law for recoverability of this investment so as to ensure the interest of the Company is properly safeguarded.

FINANCIAL REVIEW

Turnover for the Group for the six months ended 30 June 2006 increased by 25.7% to RMB37.1 million (2005: RMB29.5 million). The Group recorded a loss attributable to shareholders amounts to RMB6.8 million (2005: loss of RMB22.3 million). Turnover was mainly sourced from two different segments, oil transportation and the business of refilling stations. Oil transportation operation recorded a turnover of RMB24.5 million for the six months ended 30 June 2006 (2005: RMB19.6 million). This represents approximately of an increase of 25% from that in the last corresponding period. On the other hand, the business of refilling stations in Korla registered a turnover of RMB12.6 million for the six months ended 30 June 2006 (2005: RMB 9.9 million). This again represents an increase of approximately 26% from that in the last corresponding period. These two business segments represent approximately 66% and 34% of the Group's total turnover respectively.

As at 30 June 2006, the net assets of the Group were RMB116.6 million (31 December 2005: RMB141.3 million) while its total assets were RMB638.8 million (31 December 2005: RMB656.1 million). As at 30 June 2006, the Group's gross borrowings net of cash and bank balances amounted to RMB459.7 million as compared to RMB466.2 million as at 31 December 2005. Gearing ratio based on total assets was 71.9% (31 December 2005: 71.1%). Details of the Group's pledge of assets and the maturity profile of the Group's borrowings are shown in note 10 to the financial statements. In view of the problem of high gearing faced by the Group, with the full support from our joint venture partners, discussion with bankers on restructuring the facility is undergoing. The Board is also committed to review all possible options to provide future cash flow. Further, the existing controlling shareholder will provide continuing financial support to the Group whenever it is necessary.

In August 2006, the Company, through a share placing exercise, has raised funds of approximately HK$3.88 million. This amount is intended to be used for general working capital and/or possible investment in future. When completion of issue of 100,000,000 shares of the Company ("Subscription Shares") in this placing exercise, the Subscription Shares will represent approximately 3.11% of the enlarged share capital of the Company. Details of this transaction were disclosed in the announcement dated 29 August 2006.

FINANCIAL REVIEW *(continued)*

While both the business transactions and the bank borrowings of the Group are mainly denominated in Renminbi, the Directors consider that foreign exchange exposure does not pose a significant risk given that the exchange rates of these currencies are fairly stable and no hedging measure is currently necessary.

CONTINGENT LIABILITIES

The contingent liability of the Group as at 30 June 2006 amounted to approximately RMB248 million (31 December 2005: RMB248 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. The Group's legal adviser to Hong Kong law concurs to this view. As the legal proceedings of this case are not yet finalized in the PRC, the directors are closely monitoring the status of the case and will seek legal advice whenever it is required.

In April this year, in order to identify internal control weakness and incorporate key elements of sound corporate governance in the management, the independent board of directors has appointed an independent professional firm to perform an overall review of the Group's internal financial control and compliance. The review is still in progress, but up to this moment, there is no material irregularity reported.

OUTLOOK

The existing Board only took over the management of the Company in November 2005. As mentioned in last annual report, there is still a lot of challenge ahead for the Group. With the support from a dedicated management team and joint venture partners, in particular CPCC, we are placing the Group in best possible shape to meet challenges. Although it is not realistic to make any prediction as to profitability in the current environment, we are confident that the Group has already returned to its right track. The Board is committed itself to review all possible options to create future value for its shareholders and will also take advantage of energy shortage in the PRC by exploring different opportunities in the energy sector in the near future.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2006, the Group employed approximately 230 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.