

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 2005.

RESULTS

For the year ended 31 December 2005, the Group incurred an audited consolidated net loss attributable to shareholders of RMB262.9 million, as compared with a loss of RMB52.7 million recorded for the 2004 financial year.

When the new Board took over the management of the Company in November 2005, it was faced with the task of rectifying a situation whereby the high gearing ratio of the existing business was besieged with declining operation resulting from ever increasing competitive environment. The focus of managerial action and resources were devoted to rationalise the inefficient operations and investments.

By end of the year, Xinjiang Xingmei Oil-pipeline Company Limited ("Xingmei") has been in operation for 2155 days without any casualty and major incidence. Safety is always on top of its agenda. Although transportation volume of Xingmei's pipeline was adversely affected by the litigation between its shareholders, unit cost of transportation has been reduced remarkably by 20% as compared with that of 2004 while rate of wastage was merely 0.064% against the 2005 industrial average of 0.35%. These were mainly attributable to Xingmei's dedicated management and staff.

With the support from China Petroleum and Chemical Corporation ("CPCC"), a new board of directors for Xingmei has been introduced by end of 2005. The new board has met several times and decided to impose more stringent control over internal control, in particular segregation of duties among different divisions and senior management team. Xingmei's board is of the opinion that Xingmei is a well managed enterprise, however, the consecutive losses in the last few years were result of poor debt and cash flow management. With the restored relationship and support from CPCC, the high gearing of Xingmei will be contained with extra caution.

Lejion Gas Company Limited ("Lejion") has recorded satisfactory growth in its vehicle gas refill stations during the period. Thanks to the rocketing price of coal and crude oil in the international market last year, sales of natural gas in gas refill stations had recorded 100% increase. Completion of a new gas refill station in Korla in 2005 was also contributing to increase in sales and keen demand for natural gas in the past was being accommodated. Further, with the anticipating significant growth in the sales of natural gas from commercial users in the coming years, we are cautiously optimistic in its performance in 2006.

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DIVIDEND

The Board has resolved not to recommend any payment of dividend for the year ended 31 December 2005.

OUTLOOK

In the last quarter of 2005, the Group had withdrawn all its litigation against CPCC and was able to enter into a new transportation agreement with CPCC. Oil transportation volume of Xingmei in the first few months of 2006 has already exhibited encouraging signs. The peak of oil exploitation in Tahe Oil Field usually happens in the third quarter every year and the state policy to exploit more oil to save foreign exchange from imports of crude oil, it is very likely that the annual transportation volume will escape from its slump experienced in the last two years.

Contribution from Lejion was insignificant to the Group in the last few years, the Board intends to reduce Lejion's capital expenditure by containing development of new gas refill station in Korla. Not until the Board is convinced that sales of natural gas in the prevailing gas refill stations have reached their maximum capacity, capital expenditure will be suppressed to improve earning structure of Lejion. On the other hand, the surging crude oil and coal prices will induce more demand for natural gas and accelerate conversion of petroleum-based vehicle to vehicle with engine that burns natural gas in Korla, earnings from Lejion remains to be optimistic in 2006.

Looking ahead, there is still a lot of challenge ahead for the Group, nevertheless, with the support from CPCC, a team of dedicated staff, and seasoned investment banks and financial institutions, we have confidence that the Group will return to its right track in the near future. 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.

APPRECIATION

Taking this opportunity, I wish to extend my sincere gratitude to all management and staff members as well as my fellow Directors for their tremendous commitment, determination and dedication to enable us to maintain a positive momentum. I would also like to thank Mr. Zhu Jia Zhen who resigned as Chairman of the Company in March 2005 for all his past valuable contribution to the Group.

Xing Xiao Jing

Chairman

Hong Kong, 26 April 2006