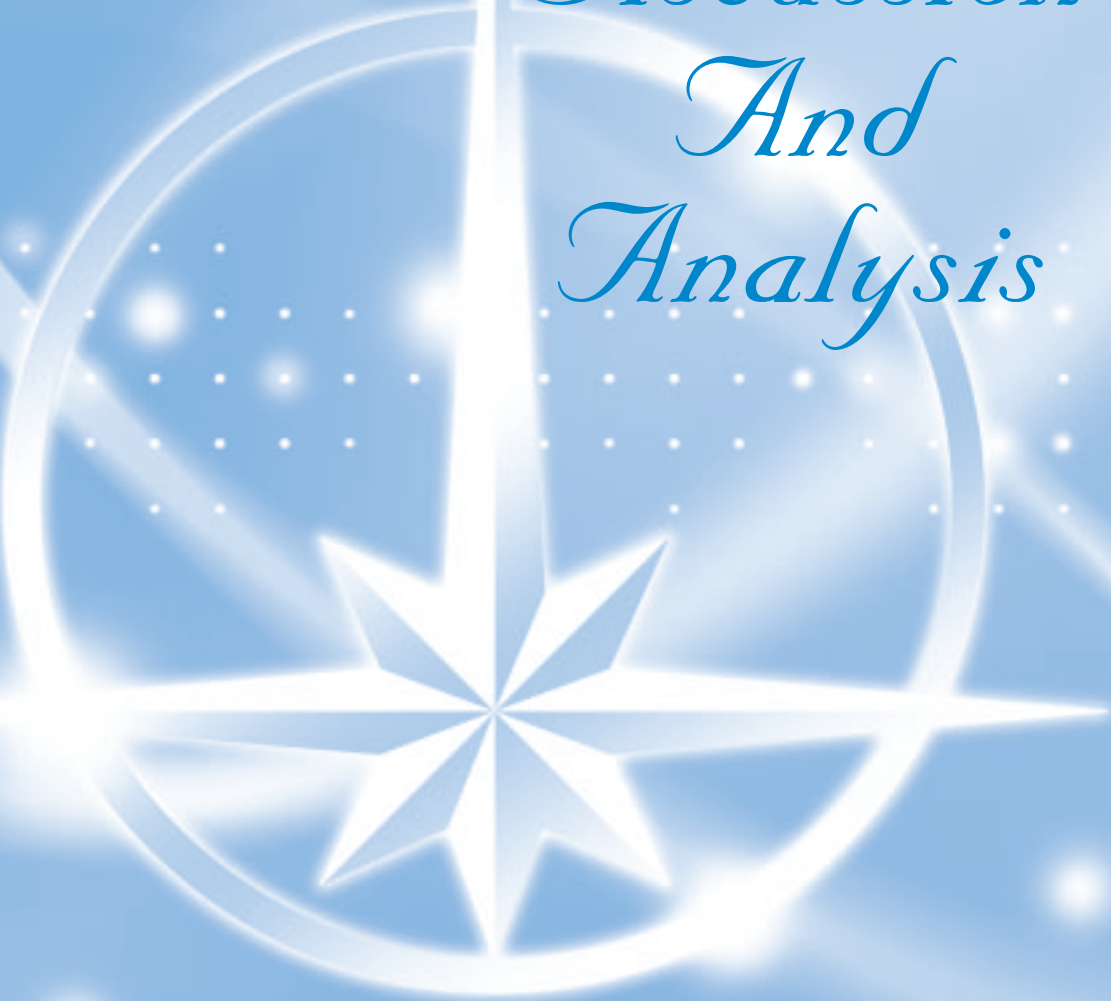


*Management
Discussion
And
Analysis*





MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the year ended 2003, GeoMaxima Energy Holdings Limited (the “Company”) and its subsidiaries (the “Group”) recorded a turnover of RMB158.7 million (2002: RMB180.3 million) and profit attributable to shareholders of RMB14.9 million (2002: RMB57.9 million). The turnover has decreased by 11.9% while the profit attributable to shareholders has decreased by 74.2% respectively, as compared with that in 2002.

Oil Transportation Business

The oil pipeline in Xinjiang stretches from Tahe Oilfield to Lun Tai railway station with total length of 70 km and a maximum annual transportation capacity of 3.5 million tones. Oil and storage transportation operation, like previous years, still remains as the major source of income of the Group in 2003, however, both revenue and profit from operation declined due to the competition from a new oil pipeline which commenced operation in second half of 2003. In spite of the competition, we are still cautiously optimistic about the performance of the oil pipeline as the Tahe Oilfield is gradually developed and more proven reserves are found, we believe that the oil transportation operation in Tahe region will continue to play a major role in the Group in coming years.

Natural Gas Pipeline Networks

Korla City of Xinjiang

As mentioned in the interim report, the significant decrease of profit in the natural gas network in Korla in Xinjiang was mainly due to the lack of contribution of gas connection fee income from the business of natural gas pipeline network. Due to the downturn of the property market in Korla, there had been no growth in number of residential subscribers in the region since late 2002 and as a result, the gas connection fee income, which used to account for a significant portion of revenue contribution, has reduced substantially. In 2004, we are still hesitate about the growth in connection fee income from residential subscribers and we will therefore focus our resources on the existing users, and in particular, absorb those industrial and commercial users with high level of usage.



Jilin City of Jilin Province

In April 2003, the Group entered into an agreement for disposal of its entire interest in the associate (that is the business of natural gas pipeline network in Jilin City in Jilin Province) and a shareholder's loan advanced by the Group to the associate to Mr Sun Tian Gang, the controlling shareholder of the Group, at a total consideration of RMB135 million. The disposal was subsequent completed in July 2003 and the consideration was also fully settled by Mr Sun in July 2003. As mentioned by Mr Zhu in his statement above, the proceeds of the disposal has allowed the Group to benefit from reallocating resources to a natural gas pipeline project in Ningxia. In March 2004, the group entered into an agreement to acquire effectively 51% of a joint venture company which will carry out a natural gas project in Ningxia. Under such a project, the joint venture company will construct, operate and develop natural gas pipeline pass through, Shanxi Province, Mongolia Autonomous Region an Ningxia Hui Autonomous Region. Details of this acquisition were disclosed in a circular dated 15 April 2004.

FINANCIAL REVIEW

Turnover

As mentioned above, due to the unsatisfactory result of the natural gas network operation, turnover for the Group for the year ended 31 December 2003 decreased by 11.9% to RMB158.7 million (2002: RMB180.3 million). Turnover was mainly sourced from two different segments, oil transportation and natural gas pipeline network. Oil transportation operation recorded a turnover of RMB112.2 million for the year ended 31 December 2003 (2002: RMB131.6 million) while the natural gas pipeline network business in Korla registered a turnover of RMB46.5 million for the year ended 31 December 2003 (2002: RMB48.7 million for the eight months ended 31 December 2002).

Profit Attributable to Shareholders

Profit attributable to shareholders significantly decreased by 74.2% to RMB14.9 million compared with RMB57.9 million in 2002. The Group's earnings in 2003 are mainly contributed by the oil transportation operation and natural gas network business in Korla. The profits from these operation amounted to RMB61.0 million and RMB4.8 million respectively during the year. On the other hand, the Group also shared profits from an associate in the natural gas network business in Jilin of RMB2.1 million and the disposal of this natural gas network business in Jilin has recorded a loss of RMB0.8 million.



MANAGEMENT DISCUSSION AND ANALYSIS

Funding and Financing

As at 31 December 2003, the net assets of the Group have slightly increased to RMB425.7 million (2002: RMB410.7 million) while its total assets were RMB1,024.2 million (2002: RMB990.7 million). As at 31 December 2003, the Group's gross borrowings net of cash and bank balances amounted to RMB403.7 million as compared to RMB410.3 million as at 31 December 2002. Gearing ratio based on total assets was 39.4% (31 December 2002: 41.4%). Details of the Group's pledge of assets, the maturity profile of the Group's borrowings and contingent liabilities are shown in notes 20, 22 and 31, respectively, to the financial statements. In view of the Group's gearing ratio, the Group will continue to adopt a prudent funding and treasury policy with regard to its overall business operations. The existing projects are financed partly by internal resources and partly by bank financing, with interest calculated by reference to prevailing market rate of Renminbi loan in the PRC.

As the business transactions as well as the bank borrowings of the Group are mainly denominated in Renminbi, the Directors considers 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.

As at 31 December 2003, the Group's cash and bank balances were RMB123.1 million (31 December 2002: RMB56.5 million). This increase was mainly attributable to the proceed derived from the disposal of the operation of natural gas pipeline network in Jilin City and recovery of some other receivables. These available cash resources together with the recurring cashflows from the energy related businesses will place the Group in a good financial position to take advantage of investment opportunities with confidence.

EMPLOYEE INFORMATION

As at 31 December 2003, the Group employed approximately 269 employees. They were remunerated according to the nature of their job and market condition. The Group also provides to eligible employees other benefits such as share options, housing allowances, discretionary bonus and medical scheme.