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MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

For the six months ended 30 June 2004, GeoMaxima Energy Holdings Limited (the "Company") and its subsidiaries (the "Group") recorded a turnover of RMB32.1 million (2003: RMB100.7 million) and loss attributable to shareholders of RMB21.3 million (2003: profit of RMB18.8 million). The turnover, as well as the result attributable to shareholders have substantially decreased as compared with that in 2003.

The oil storage and transportation operation in Xinjiang (the"JV") used to be a major source of income of the Group in previous years. During the period under review, the competition from a new oil-pipeline has affected the performance of the JV. This new oil-pipeline is wholly owned and operated by China Petroleum and Chemical Corporation ("Sinopec"). Sinopec holds the mining rights to the Ta He Oilfield and also indirectly owns 20% equity interest in the JV. Sinopec has effected transportation of oil from Ta He Oilfield via the new pipeline it has constructed since late 2003. In respect of the construction and operation of the new oil-pipeline by Sinopec, the Company is of the view that this has breach of the exclusivity agreement in relation to the oil transportation and storage entered into by both parties in 1999. The breach of agreement not only violates the spirit of the commercial contract, it also constitutes significant injurious affection to the interests of the Company. Sinopec, as a market leader in the oil industry in the PRC, its act of disregarding the spirit of the contract recklessly resulted in the JV Company to institute legal proceeds against Sinopec before Hong Kong High Court seeking damages for breach of the agreement. In order to protect the interest of the Company as well as our shareholders, we are working on our best to resolve this dispute either through legal proceedings or any other possible alternatives as soon as possible.

On the other hand, the performance of the natural gas network in Korla in Xinjiang was also not satisfactory. The gas usage of the commercial and industrial users was behind our expectation and this operation was not able to contribute profit to the Group for the period under review.

In March 2004, the Group has entered into an agreement to acquire effectively 51% equity interest of a joint venture in Ningxia, the PRC (the "Ningxia JV"), which is going to carry out natural gas project in Ningxia. Under such project, Ningxia JV will construct, operate and develop natural gas pipeline running from Qingbian, Shanxi Province to Yinchuan, Ningxia Hui Autonomous Region. The total length of the natural gas pipeline will be 275 kilometres with maximum annual transportation capacity of 2,000 million cubic metres. The Ningxia JV has tenure of 30 years from December 2003. Ningxia JV anticipates that the total natural gas consumption in Ningxia will increase by not less than 1,300 million cubic metres to over 2,000 million cubic metres by 2005. Further, Chang Qing Gas Field will employ the natural gas pipeline for the transportation of natural gas in Ningxia. We consider Ningxia JV to have an optimistic business prospects since the transportation capacity of the natural gas pipeline of Ningxia JV can be fully utilized in view of the significant potential market and reliable gas supply.

FINANCIAL REVIEW

As mentioned above, due to the unsatisfactory result of the oil transportation operation, turnover for the Group for the six months ended 30 June 2004 decreased by 68% to RMB32.1 million (2003: RMB100.7 million). The Group also recorded a loss attributable to shareholders amounts to RMB21.3. Turnover was mainly sourced from two different segments, oil transportation and natural gas pipeline network. Oil transportation operation recorded a turnover of RMB20.2 million for the six months ended 30 June 2004 (2003: RMB72.0 million) while the natural gas pipeline network business in Korla registered a turnover of RMB11.9 million for the six months ended 30 June 2004 (2003: RMB 28.7 million).

As at 30 June 2004, the net assets of the Group have slightly decreased to RMB404.3 million (31 December 2003: RMB425.7 million) while its total assets were RMB979.6 million (31 December 2003: RMB1,024.2 million). As at 30 June 2004, the Group's gross borrowings net of cash and bank balances amounted to RMB455.6 million as compared to RMB403.7 million as at 31 December 2003. Gearing ratio based on total assets was 46.5% (31 December 2003: 39.4%). Details of the Group's pledge of assets and the maturity profile of the Group's borrowings is shown in note 10 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.

OUTLOOK

During the period under review, the Company embarked on an intensive review to cutting costs to an absolutely minimum and placing the Group in best possible shape to meet challenges which lie ahead in these uncertain times. Obvious the objective is to return the Company to profitability. Although it is very difficult to make any predictions as to profitability in the current difficult environment, shareholders may be assured that the Board and management are working hard to achieve this result.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2004, the interests and short positions of the Directors of the Company (the "Directors") in the shares, debentures or underlying shares of the Company or any of its associated corporations (within the meaning of the Part XV of the Securities and Futures Ordinance (the "SFO")) or which were required, pursuant to section 352 of the SFO to be entered in the register referred to therein or which were required to be 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 were as follow:

Name of Director	Capacity/ Nature of interest	Number of shares held	Percentage of holding (%)	Name of Company
Sun Tian Gang	Corporate	1,662,795,650 *(Note)*	54.85	the Company
	Personal	108,363,936	3.57	the Company
Guo Ting	Personal	3,000,000	0.10	the Company

Note: 1,662,795,650 shares were owned by China GeoMaxima Co. Ltd., a company wholly owned by Mr. Sun Tian Gang.

Save as disclosed above, as at 30 June 2004, 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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