MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Year 2001 has been a challenging but exciting year for the Group. Since the existing management took over the Group in late April 2001, it has been reviewing the Group's instant food business operations and identifying ways to improve them. In November 2001, the Group decided to dispose of its instant food business as a result of the fierce competition and its unsatisfactory results over two financial years 2000 and 2001. On the other hand, in March 2001, the Group acquired an 80% equity interest in an oil transportation operation.

The withdrawal from the instant food industry and investment in the oil transportation business have proved to be encouraging. The Group has achieved a solid growth for year 2001. The Group's turnover and profit attributable to shareholders for the year ended 31 December 2001 amounted to approximately RMB203 million and RMB43.7 million, representing a 37% and a 23 time increase respectively compared with the preceding year. This increase is primarily due to the contribution from the oil transportation business which being acquired by the Company in March 2001.

OIL TRANSPORTATION BUSINESS

In March 2001, the Group acquired an 80% equity interest in Xinjiang Xingmei Oil Pipeline Co. Ltd. ("Xingmei"). Xingmei is a Sino-foreign joint venture established in the PRC and is principally engaged in the operation of transportation and storage facilities for crude oil exploited from the Ta He Oil Field in the Xinjiang Autonomous Region, the PRC ("Xinjiang"). The facilities consist of an oil pipeline of approximately 70 kilometers, stretching from Ta He oil field to Lun Tai railway station, eight oil tanks which have a total capacity of 120,000 tonnes and other ancillary facilities including loading bays to facilitate the operation of the oil pipeline. The annual capacity of oil transportation through the existing oil pipeline is 3.5 million tonnes.

The oil field in Xinjiang is operated by Sinopec National Star Petroleum Corporation ("SNSP"), which holds the remaining 20% equity interest of Xingmei. Pursuant to the transportation and storage agreement dated 25 November 1999 made between SNSP and Xingmei, SNSP has agreed to transport crude oil through Xingmei's pipeline as well as its facilities for a term of 20 years. At present, Xingmei's pipeline is the only pipeline being operated in the area.

Upon completion of the acquisition, turnover and profit from operations of Xingmei for the ten month period ended 31 December 2001 were approximately RMB106.7 million and RMB74.2 million

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respectively. With the increasing production of crude oil from Ta He oil field and the national policy of the PRC government to develop the northwestern region of the PRC, the directors believe that the contribution from Xingmei to our Group's profit will increase in the coming years.

ACQUISITION OF INTEREST IN NATURAL GAS PIPELINE NETWORK AND RELATED OPERATION

Korla City of Xinjiang

In early November 2001, the Group entered into an agreement with an independent third party to acquire a 40% equity interest in Oriental Energy Ltd. ("Oriental Energy"), the principal asset of which is its 80% equity interest in Lejion Gas Company Limited ("Lejion"). Lejion is a Sino-foreign equity venture established in the PRC in year 2000 under the PRC joint venture laws for a term of 20 years. Lejion is principally engaged in the construction and operation of a natural gas pipeline network in Korla of Xinjiang and distributes the natural gas to the users in Korla.

The initial stage of natural gas pipeline network has been completed and is ready to supply natural gas to more than 50,000 households in Korla, of which approximately 39,000 households have registered to use natural gas for domestic purpose. Lejion also supplies LPG to approximately 40,000 households in towns surrounding Korla.

Lejion is also engaged in the construction and operation of a refilling station supplying natural gas, LPG and petroleum for vehicle use. The refilling station commenced operation in the second half of 2001. It is envisaged that the demand of cheaper source of energy i.e. natural gas for vehicles has great potential in Korla and the surrounding area. Two more refilling stations of the same kind will commence operation in May 2002.

The acquisition of Lejion was completed in early December 2001. As at 31 December 2001, the Group has an effective 32% equity interest in Lejion.

The Board is optimistic in the coming years that as the economic activities increase, the consumption of energy will increase accordingly. The Company is of the view that the consumption of natural gas in the PRC will increase considerably due to vast reserves that have been found in Tarim Basin in Xinjiang, its lower production cost when compared to petroleum and the environmental benefits in using natural gas. The Board believes that this acquisition will position the Company to take advantage of such growth and boarden the earning stream of the Group in the future.

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In order to consolidate this strategic advantage, subsequent to year end, in late March 2002, the Group entered into an agreement with an independent third party and further increase the shareholding of Oriental Energy from 40% to a controlling stake, 90%. As a result, the Group's effective interest in Lejion has increased from 32% to 72%.

Jilin City of Jilin Province

After the acquisition of Lejion, the Group intended to take a further step to develop its energy related business. Subsequent to year end, on 17 January 2002, the Group entered into an agreement with Mr Sun Tian Gang, the director and controlling shareholder of the Company, to acquire 49% of equity interest in Sky Global Limited ("Sky Global") the principal asset of which is its 63% equity interest in Jilin City Jimei Gas Co Ltd. ("Jimei"). Jimei is a Chinese-foreign equity joint venture established in the PRC in September 1998 which is principally engaged in the operation of a natural gas pipeline network in Jilin City, Jilin Province in the PRC and is the sole operator approved by the Municipal Government of Jilin City to operate the only natural gas network in Jilin City. The natural gas pipeline network extends approximately 470 kilometers and covers the majority of Jilin City. As at end of year 2001 the pipeline network has covered approximately 195,000 households and according to a feasibility study conducted by Jimei in 2001, the coverage is expected to increase to, approximately 310,000 households in seven years.

The annual supply of natural gas in Jilin City in 2001 was approximately 62 million m^3, Jimei is actively promoting the benefit of using natural gas for industrial and transportation uses in Jilin City and surrounding areas. According to the Jilin City Planning Committee, the total usage of natural gas inclusive of domestic, industrial and transportation will reach approximately 300 million m^3 to 500 million m^3 in 2010. The Board is of the view that this acquisition would position the Group to take advantage and benefit from the potential growth in the natural gas industry and also creates synergy with the Group's existing investment in natural gas pipeline operation in the Xinjiang in terms of management and administration.

This acquisition is expected to complete by the end of April 2002.

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DISPOSAL OF FOOD BUSINESS

As disclosed in the last year annual report and the interim report of 2001, the competition of the instant food market had been fierce. The turnover of the food business had been negatively affected by the adverse market conditions and had decreased from RMB201.9 million in 1999, RMB147.8 million in 2000 and subsequently to RMB96.4 million in 2001. Despite various marketing measures and cost control program taken by the Board to contain the situation, there has been no significant improvement in its performance. In response to this, on 27 November 2001 after the acquisition of Lejion, the Company entered into an agreement with an independent third party to dispose of the food business for an aggregate cash consideration of RMB160 million.

Apart from the gain on the disposal amounting approximately RMB18,404,000, the Group would further benefit by reallocating resources from the instant food operation to oil transportation and other energy related business that would yield a higher return. The disposal of instant food business heralds the Group's first but yet successful step towards the goal of strategic transformation.

FINANCIAL REVIEW

Turnover

Turnover for the Group for the year ended 31 December 2001 increased by 37% to RMB203 million (2000: RMB147.8 million). Turnover was mainly sourced from two different segments, oil transportation and instant food business. Oil transportation operation recorded a turnover of RMB106.7 million for the ten months ended 31 December 2001 while the instant food business registered a 34% decrease to RMB96.4 million during the year (2000: RMB147.8 million).

Profit Attributable to Shareholders

Profit attributable to shareholders significantly increased by 23 time to RMB43.7 million compared with RMB1.7 million in 2000. This increase in the Group's earnings in 2001 is mainly contributed by the oil transportation operation which being acquired in March 2001. The profit from this operation amounted to RMB74.2 million during the year. On the other hand, the Group also recorded a gain on disposal of the instant food business in December 2001 of approximately RMB18.4 million.

Funding and Financing

As at 31 December 2001, the net assets of the Group have increased to approximately RMB303.7 million (2000: RMB141.8 million) while its total assets were RMB763.9 million (2000: RMB242.8 million). The Group's borrowings were RMB378 million, of which 28.5%, 37%, 26.5% and 8% were due within one year, in the second year, from the third to fifth years and after the fifth year, respectively. As at balance sheet date, the total borrowings of the Group comprised fixed interest loans in Renminbi and unsecured debts accounted for 45% of the total borrowings. The secured portion of bank loans is pledged by certain fixed assets and fixed deposits of the Group with a total carrying value of approximately RMB303 million (2000: RMB25.6 million). The Group's gearing ratio based on shareholders' equity was 124.4%. Although it is 4.3 times higher than the gearing ratio of 23.4% in the previous corresponding period, there has been significant improvement compared

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to 202% which was disclosed in the interim report as at 30 June 2001. This high gearing during the year is due to acquisition of Xingmei, of which fixed assets, including pipelines, oil tanks, other ancillary facilities, and construction in progress are being financed by bank borrowing. Notwithstanding the increase in gearing ratio, the board considers given the reliable cash flow from Xingmei and low cost of financing, which is approximately 6% per annum, the gearing ratio is acceptable.

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.

Cash Position

During the year, the Group raised proceeds of approximately RMB96 million and RMB5.8 million from placement of 23,750,000 new shares at HK$3.8 per share in March and from issue of 548,000,000 non-listed warrants at HK$0.01 per share in October respectively. The net proceeds have been utilized to finance acquisition of the oil transportation operation and general working capital purpose. Furthermore, the cash consideration of RMB160 million for the disposal of instant food business in December 2001 provided an additional cashflow for the Group.

As at 31 December 2001, the Group's cash and bank balances were RMB85 million. These available cash resources together with the strong recurring cashflows from the energy related businesses will not only enable the Group to fund its debt repayments without difficulties, but also place the Group in a strong financial position to take advantage of new attractive investment opportunities that may arise.

PROSPECTS

In view of the national policy of the PRC government to develop the northwestern region of the PRC, the Directors believe that there will be immense market potential for the energy related business in the region. On one hand, the Board will study the feasibility of increase the oil transporting capacity by Xingmei so as to match the development of Te He oil field and increase the revenue generated in the coming years. Further, the operation of natural pipeline networks in Korla and Jilin City have to be further consolidated and expanded which will provide the Group a steady source of income with satisfactory yield. On the other hand, the Board will continuously search for suitable opportunities to strengthen the Company's investment in energy related industries in order to enhance its earning base. As stated by China GeoMaxima Co., Ltd. in the offer document dated 28 March 2001, shareholders should rest assured that our ambitions for the Company do not only lie on the instant food business and the disposal of food business has represented the determination as well as confidence of the Board that the Company's investments in energy related businesses will produce additional and sustained growth for the Company in the future.