

# Chairman's Statement

On behalf of the Board of Directors (the "Board") of GeoMaxima 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 2004.

## RESULTS

For the year ended 31 December 2004, the Group incurred an audited consolidated net loss attributable to shareholders of RMB52.7 million, as compared with a net profit of RMB14.9 million recorded for the 2003 financial year.

During the year, the overall performance of the Group was unsatisfactory. The oil transportation business was being adversely affected by the litigation in progress while the natural gas network was facing keen competition from alternative energy supply.

As already referred to in the 2004 Interim Report, the competition from a new oil-pipeline, which is wholly owned and operated by China Petroleum and Chemical Corporation ("Sinopec"), has affected the performance of the oil transportation business operated by Xinjiang Xingmei Oil-pipeline Co. Ltd. ("Xinjiang Xingmei"). Sinopec holds the mining rights to the Tahe Oilfield and also indirectly owns 20% equity interest in Xinjiang Xingmei. Sinopec has effected transportation of oil from Tahe 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 of the oil transportation and storage entered into by both parties in 1999. Upon this issue, Xinjiang Xingmei has instituted legal proceeds against Sinopec before the Supreme People's Court of China seeking damages for breach of the agreement. In order to protect the interest of the Company, we are working on our best to resolve this dispute either through legal proceedings or any other possible alternatives as soon as possible. For the sake of prudence, we have invited independent professional valuer to assess the carrying value of the assets in Xinjiang Xingmei as at 31 December 2004 so as to ascertain the current market assessments of time value of money and the risks specific to the assets. The Board believes this is not only for the purpose of compliance with the requirement of accounting principles, but also it is our responsibility to protect the interests of the shareholders and investors.

## DIVIDEND

The Board has resolved not to recommend the payment of a dividend for the year ended 31 December 2004.

## OUTLOOK

In March 2004, the Group entered into an agreement to acquire effectively 51% equity interest of a joint venture in Ningxia, the PRC (the "Ningxia JV"). The Ningxia JV has already been approved by Yinchuan Economic and Technological Development Zone Commission (銀川經濟技術開發區管理委員會) to carry out natural gas project in Ningxia. The total length of the natural gas pipeline will be 275 kilometres and such natural gas pipeline will pass through Shanxi Province, Mongolia Autonomous Region and Ningxia Hui Autonomous Region.

This natural gas pipeline to be constructed will have a maximum annual transportation capacity of 2,000 million cubic metres. Ningxia JV has tenure of 30 years from December 2003 and it 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 therefore still maintains an optimistic outlook as the transportation capacity of the natural gas pipeline of the Ningxia JV can be fully utilized in view of the significant potential market and reliable gas supply. Ningxia JV is expected to commence operation in 2006.

As mentioned above, year 2004 has been a difficult year to the Group. During the year, 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 not realistic to make any prediction as to profitability in the current difficult environment, shareholders may be assured that the Board and management are working hard to achieve this result.

### APPRECIATION

Taking this opportunity, I wish to extend my sincere gratitude to all management and staff members for their hard work and to my fellow Directors for their valuable support. 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.

**Sun Tian Gang**

*Chairman*

Hong Kong, 21 April 2005