Management Discussion and Analysis

BUSINESS REVIEW

For the year ended 31 December 2004, GeoMaxima Energy Holdings Limited (the "Company") and its subsidiaries (the "Group") recorded a turnover of RMB69.9 million (2003: RMB158.7 million) and loss attributable to shareholders of RMB52.7 million (2003: profit of RMB14.9 million). The turnover, as well as the result attributable to shareholders has substantially decreased as compared with that in 2003.

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. The oil storage and transportation operation in Xinjiang used to be a major source of income of the Group in previous years. As mentioned in the Chairman's Statement, the performance during the year declined due to the competition from a new oil-pipeline which is wholly owned and operated by China Petroleum and Chemical Corporation ("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 and upon this issue, our subsidiary in Xinjiang has instituted legal proceeds against Sinopec in the PRC seeking damages for the breach of the agreement.

Natural Gas Pipeline Network

On the other hand, the performance of the natural gas network in Korla of 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 year. The significant decline was mainly due to the keen competition from alternative cheaper energy supply, such as coal. This led to a loss of many existing commercial and industrial users.

Natural Gas Pipeline

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"). 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 exceed 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 in view of the significant potential market and reliable gas supply. The Ningxia JV is expected to commence operation in 2006.

FINANCIAL REVIEW

Turnover and Loss Attributable to Shareholders

As mentioned above, due to the unsatisfactory result of the oil transportation operation, turnover for the Group for the year ended 31 December 2004 decreased by 56% to RMB69.9 million (2003: RMB158.7 million). The Group also recorded a loss attributable to shareholders amounts to RMB52.7 million. Turnover was mainly sourced from two different segments, oil transportation and natural gas pipeline network. Oil transportation operation recorded a turnover of RMB43.7 million for the year ended 31 December 2004 (2003: RMB112.2 million) while the natural gas pipeline network business in Korla registered a turnover of RMB26.2 million for the year ended 31 December 2004 (2003: RMB46.5 million).

The result has significantly decreased from a profit of RMB14.9 million in 2003 to a loss attributable to shareholders of RMB52.7 million. The losses from the above two operations amounted to RMB12.6 million and RMB6.2 million respectively during the year.

Funding and Financing

As at 31 December 2004, the net assets of the Group have decreased to RMB372.9 million (31 December 2003: RMB425.7 million) while its total assets were RMB895.1 million (31 December 2003: RMB1,024.2 million). As at 31 December 2004, the Group's gross borrowings net of cash and bank balances amounted to RMB470.0 million as compared to RMB403.7 million as at 31 December 2003. Gearing ratio based on total assets was 52.5% (31 December 2003: 39.4%). Details of the Group's pledge of assets, the maturity profile of the Group's borrowings are shown in note 20 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 consider 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.

EMPLOYEE INFORMATION

As at 31 December 2004, the Group employed approximately 281 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.