

Management Discussion and Analysis

Business Review

For the six months ended 30 June 2005, GeoMaxima Energy Holdings Limited and its subsidiaries recorded a turnover of RMB29.5 million (2004: RMB32.1 million) and loss attributable to shareholders of RMB22.3 million (2004: loss of RMB21.3 million). The turnover, as well as the result attributable to shareholders have decreased as compared with that in 2004.

As already disclosed in the 2004 Annual 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. In respect of the construction and operation of the new oil-pipeline by Sinopec, the Company is of the view that this is a possible breach of the exclusivity agreement in relation to the oil transportation and storage entered into by both parties in 1999. Upon this issue, Xinjiang Xingmei has instituted legal proceedings against Sinopec before the Supreme People’s Court of China seeking damages for breach of the agreement. As advised by the PRC legal advisers of the Company, the possible outcomes of the litigation will be in the Group’s favour. However, 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. Further, for the sake of prudence, we have also invited independent professional valuer to ascertain the carrying value of the assets in Xinjiang Xingmei so that the asset value of the Group could be properly reflected as at 30 June 2005.

On the other hand, the performance of the natural gas network in Korla in Xinjiang was also not satisfactory. The keen competition from alternative cheaper energy supply, such as coal has led to a loss of many existing commercial and industrial users. Due to our stringent cost control as well as marketing effort, the situation is expected to improve in the second half of 2005.

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. 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 further, Chang Qing Gas Field will employ the natural gas pipeline for the transportation of natural gas in Ningxia. The Company 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.

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 2005 decreased by 8% to RMB29.5 million (2004: RMB32.1 million). The Group also recorded a loss attributable to shareholders amounts to RMB22.3 million. Turnover was mainly sourced from two different segments, oil transportation and natural gas pipeline network. Oil transportation operation recorded a turnover of RMB19.6 million for the six months ended 30 June 2005 (2004: RMB20.2 million) while the natural gas pipeline network business in Korla registered a turnover of RMB9.9 million for the six months ended 30 June 2005 (2004: RMB11.9 million). These approximately represent 66% and 34% of the total turnover respectively.

As at 30 June 2005, the net tangible assets of the Group have also decreased to RMB376.8 million (31 December 2004: RMB401.5 million) while its total assets were RMB876.2 million (31 December 2004: RMB895.1 million). As at 30 June 2005, the Group's gross borrowings net of cash and bank balances amounted to RMB471.2 million as compared to RMB470.0 million as at 31 December 2004. Gearing ratio based on total assets was 53.7% (31 December 2004: 52.5%). Details of the Group's pledge of assets and the maturity profile of the Group's borrowings are 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

We understand that the impending litigation with Sinopec as mentioned above has been placing pressure to the Group's cashflow situation. During the period under review, the Company embarked on an intensive review to cutting costs to an absolutely minimum to prepare these uncertain times lie ahead. At the same time, the Board will work on our best to resolve this dispute either through legal proceedings or any other possible alternatives as soon as possible.

Employee Information

As at 30 June 2005, the Group employed approximately 275 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.

Change of Controlling Shareholder

On 29 August 2005, Hong Chang Group Limited has become the new controlling shareholder of the Group, which own an aggregate of 1,662,795,650 issued shares of the Company, representing approximately 54.85% of total issue share capital of the Company. Details of the transaction have been disclosed in the joint announcement dated 8 September 2005.

Directors' Interests in Shares

As at 30 June 2005, 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 Issuers 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 <i>(Note)</i>	54.85	the Company
	Personal	108,363,936	3.57	the Company
Guo Ting	Personal	3,000,000	0.10	the Company

Note: As at 30 June 2005, 1,662,795,650 shares were owned by China GeoMaxima Co. Ltd., a company wholly owned by Mr. Sun Tian Gang. Subsequently on 29 August 2005, Hong Chang Group Limited, which is wholly and beneficially owned by Ms. Xing Xiao Jing, acquired the entire issued share capital of China GeoMaxima Co. Ltd..

Mr. Sun Tian Gang resigned as Chairman and executive director of the Company on 22 August 2005.

Save as disclosed above, as at 30 June 2005, 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.

Share Option Scheme

The Company's share option scheme (the "Scheme") was adopted pursuant to an ordinary resolution passed by the shareholders of the Company on 6 March 2002. The Scheme is in full compliance with the relevant requirements of Chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). For the six months ended 30 June 2005, no options have been granted under the Scheme.

At 30 June 2005, the Directors and employees of the Company had the following personal interests in options to subscribe for shares of the Company granted at nominal consideration under the Company's share option scheme. Each option gives the holder the right to subscribe for one share.

	Number of options outstanding as at 1 January 2005	Number of options exercised during the period	Number of options outstanding as at 30 June 2005	Date granted	Exercise period	Exercise price HK\$	Share price*	
							At grant date of options HK\$	At exercise date of options HK\$
Directors								
Sun Tian Gang	28,000,000	Nil	28,000,000	29 July 2002	2 September 2002 to 31 August 2007	0.698	0.680	N/A
Guo Ting	20,000,000	Nil	20,000,000	29 July 2002	2 September 2002 to 31 August 2007	0.698	0.680	N/A
Aggregate total of employees	40,000,000	Nil	40,000,000	29 July 2002	2 September 2002 to 31 August 2007	0.698	0.680	N/A

* *The price of the Company's shares disclosed as at the date of the grant of the share options is the Stock Exchange closing price on the trading day immediately prior to the date of the grant of the share options.*

Save as disclosed above, as at 30 June 2005, none of the Directors nor their spouse or children under 18 years of age were granted or had exercised any rights to subscribe for any securities of the Company or any of its associated corporations. At no time during the six months ended 30 June 2005 was the Company or any of its associated corporations a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Substantial Shareholders' Interests

As at 30 June 2005, the following person, not being a Director or chief executive of the Company, had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholder	Number of shares held	Percentage of holding (%)	Name of Company
China GeoMaxima Co., Ltd.	1,662,795,650	54.85	the Company

Other Persons' Interests

As at 30 June 2005, the following persons, not being a Director or chief executive of the Company, had an interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholder	Number of shares held	Percentage of holding (%)	Name of Company
Hong Kong San Jiu Enterprises Limited	237,500,000 (L) 210,000,000 (S) <i>(Note 1)</i>	7.83 6.93	the Company the Company
Shenzhen Venture Capital (BVI) Company Limited	210,000,000 (L) <i>(Note 2)</i>	6.93	the Company
Mei Jian	210,000,000 (L) <i>(Note 2)</i>	6.93	the Company
Zhang Minlong	210,000,000 (L) <i>(Note 2)</i>	6.93	the Company

L: Long Position
S: Short Position

Notes:

- 237,500,000 shares were owned by Hong Kong San Jiu Enterprises Limited which had granted a security interest over 210,000,000 shares to Shenzhen Venture Capital (BVI) Company Limited.

2. Shenzhen Venture Capital (BVI) Company Limited had a security interest over 210,000,000 shares. The issued share capital of Shenzhen Venture Capital (BVI) Company Limited was owned as to 50% by Mr. Mei Jian and 50% by Mr. Zhang Minlong.

Saved as disclosed above in this section and the previous section headed “Substantial Shareholders’ Interests”, as at 30 June 2005, the Company has not been notified of any other persons (other than the Directors or chief executive of the Company) who had any interest or short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Purchase, Redemption or Sale of Listed Securities

During the six month period ended 30 June 2005, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities.

Audit Committee

The Audit Committee of the Company comprises three Independent Non-executive Directors, namely Messrs. Yu En Guang, Zhang Xue Min and Yip Ching Shan. The primary duties of the Audit Committee are to review and supervise the financial reporting and internal control procedures of the Group. The written term of reference which describes the authorities and duties of the Audit committee was prepared and adopted with reference to “A Guide for Effective Audit Committees” published by the Hong Kong Institute of Certified Public Accountants and in accordance with the Appendix 14 of the Listing Rules.

The Audit Committee reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited interim financial statements of the Company.

Remuneration Committee

The Remuneration Committee was established for the purposes of making recommendations to the Board on the Company’s policy and structure for all remuneration of directors and senior management. The written term of reference which describes the authority and duties of the Remuneration Committee was prepared and adopted. The Remuneration Committee comprises one Executive Director, namely Mr. Guo Ting, and two Independent Non-executive Directors, namely Messrs. Zhang Xue Min and Yip Ching Shan.

Corporate Governance

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2005 except for the deviations as mentioned below.

Under the Code Provision A.4.1, non-executive directors should be appointed for a specific term and subject to re-election. All Non-executive (including Independent Non-executive) Directors of the Company are not appointed for a specific term. This constitutes a deviation from Code Provision A.4.1. However, as all of them are subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the Bye-laws of the Company, the Company considers that sufficient measures have been taken to ensure that the Company’s corporate governance practices are no less exacting than those in the Code.

Under the Code Provision A.4.2, every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. According to the Bye-laws of the Company, one-third of the Directors for the time being shall retire from the office by rotation at each annual general meeting provided that the Chairman of the Board and the Managing Director of the Company shall not be subject to retirement by rotation. As the Chairman of the Board and the Managing Director of the Company are not subject to retirement by rotation under the Bye-laws of the Company, this constitutes a deviation from the Code Provision A.4.2. To comply with this Code Provision, the Directors will review and propose a special resolution for the approval of the Company’s shareholders at a general meeting to amend the existing Bye-laws of the Company.

Code for Securities Transactions by Directors

The Company has adopted the Model Code (the “Model Code”) for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules as the Company’s code of conduct and rules governing dealing by all directors in the securities of the Company.

All directors have complied with the required standard regarding directors’ securities dealings set out in the Model Code during the six month period ended 30 June 2005.

By Order of the Board

Ma Ji

Director

Hong Kong, 22 September 2005

As at the date hereof, the Executive Directors are Messrs. Guo Ting, Ma Ji and Wan Tze Fan Terence; the Non-executive Director is Mr. Kong Siu Tim; and the Independent Non-executive Directors are Messrs. Yu En Guang, Zhang Xue Min and Yip Ching Shan.