

## President's Review

### Chengyu FU

*Executive Director,  
President and  
Chief Operating Officer*



***“The Company plans to further strengthen day-to-day operational management to boost well efficiency, ensure that new oil fields commence operation on schedule by imposing strict management over development projects, and enhance production output through selective and return-enhancing overseas acquisition of oil and gas assets.”***

I am pleased to report that the Company has lived up to market expectations and has kept its promises by delivering excellent operating results and demonstrating leading management standards during the Company's first year as a listed company.

#### Review of the Year 2001

The Company was listed on the NYSE and the HKSE on February 27 and 28, 2001 respectively, marking its successful entry into the international capital markets.

#### Seven New Discoveries

During 2001, the Company continued to achieve excellent exploration results. We made seven new oil and gas discoveries, including Caofeidian 11-2, Huizhou 9-2, Laihua 19-3 and Wenchang 15-1, as well as successful appraisal results for ten hydrocarbon-bearing structures. With net incremental oil and gas reserves of 125.1 million barrels of oil equivalent, the Company's reserve replacement rate reached 131%, meeting its commitment to investors. In particular, exploration in the Pearl River Mouth Basin resulted in some of the most significant breakthroughs in recent years: for the first time, the Company discovered gas in the shallow layer of the northern slope of Zhu II Sag and oil in the deep layer of Zhu I Sag; it also discovered the first oil field in Shenhu Uplift. Such discoveries opened up a new horizon for future exploration and represented a major breakthrough in exploration know-how and concepts.

#### Oil and Gas Production Increased Steadily

The Company's oil and gas production continued to increase steadily due to

## President's Review (Cont'd)

strengthened measures that increased output, including improvements in daily production management and the successful commencement of operation of new oil and gas fields. Net daily oil and gas production increased from 239,337 per barrel-of-oil equivalent in 2000 to 261,379 per barrel-of-oil equivalent in 2001. In 2001, the Company's net production of oil and natural gas were 83.54 million barrels and 71.19 billion cubic feet respectively. Total production reached 95.4 million per barrel-of-oil equivalent, an 8.9% increase over last year.

### Key Development Projects Completed and Brought On Stream Ahead of Schedule

During the year, the Company managed development projects scientifically by adhering to the principle of strict control over "quality, expenditure and progress". As a result of careful organization by the project teams and the outstanding efforts of the engineering and technical staff, the Company's key development projects were all completed and were brought on stream ahead of schedule while the Company adhered strictly to guidelines to ensure safety. Platform C, G and H of Suizhong 36-1 oil field commenced production 85 days, 74 days and 30 days ahead of schedule respectively, and the Qinhuangdao 32-6 oil field commenced operations 23 days ahead of schedule. The completion and commencement of operation of these new oil and gas fields enabled the Company to achieve its production target for 2001, and also laid a solid foundation for the realization of its medium and long-term targets for production growth.

### Oil and Gas Sales

We explored various domestic and foreign markets for the sale of crude oil and gas in 2001. We improved flexibility on the sale of crude oil in the domestic market and the market for the sale of gas has become more standardized. The sale of crude oil in the domestic market accounted for 80% of the total sales, of which 50%, 12%, 38%, were sold to China Petroleum Chemical Corporation, PetroChina Company Limited and the other customers respectively. Exported crude oil accounted for 20% of the total sales. Meanwhile, the Company has been successful in developing the natural gas market. We successfully maintained a foothold in the Dongfang 1-1 and Bonan gas fields and made breakthroughs in marketing the Huizhou 21-1 gas field and Xihu Trough gas.

### Maintenance of Sound Financial Position

International oil prices declined sharply in 2001, causing the Company's realized average oil price to decrease by US\$4.87 per barrel as compared to the price in 2000. However, the Company's main operating indicators remained at a comparatively high level and its financial position remained strong due to production growth and effective cost control. In 2001, the Company achieved sales income of RMB20.82 billion and realized a net profit of RMB7.96 billion. Earnings per share was RMB1.00, return on equity for the year was 32.2%, and return on average capital employed was 26.7%. Our debt to total capital ratio decreased to 11.9% from 26.3% as at the end of 2000.

### HSE Objectives Achieved

In 2001, through the establishment of a series of safety measures, the Company achieved the HSE objectives which had been set at the beginning of the year. During the year, there were no fatalities, incidents of material oil spillage or incidents resulting in direct economic losses of over US\$120,000 for a single accident. The OSHA index for occupational injuries and diseases decreased significantly compared to the year before. The incident rate dropped from 0.24 times per 200,000 man hours to 0.20 times per 200,000 man hours, representing a 16.5% decrease. The number of days away decreased from 4.37 days per 200,000 man hours to 1.77 days per 200,000 man hours, representing a drop of 59.5%. Both the incident rate and number of days away exceeded the average levels achieved by our international peers.

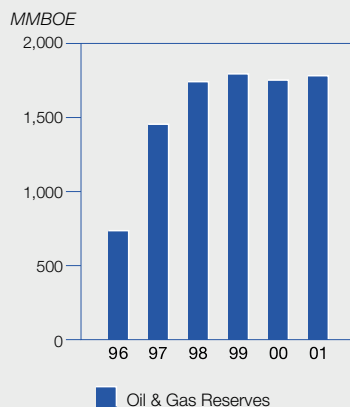
### Management and Development Strategy for 2002

2002 is a very important year for the Company's development and is a crucial year for laying the foundation for realizing the rapid development of the Company.

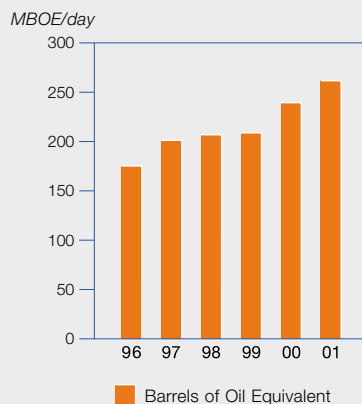
During this year, the Company will aim to achieve large-scale increases in production, partly from the oil fields situated offshore China and partly from the Indonesian oil fields the Company is acquiring from Repsol YPF. To achieve production increases, the Company plans to:

- further strengthen day-to-day operational management to boost well efficiency;

### Historical Reserve Growth



### Historical Production Growth



- ensure that new oil fields commence operation on schedule by imposing strict management over development projects; and
- enhance production output through selective and return-enhancing overseas acquisition of oil and gas assets.

The Company will rigorously implement strategies to lower costs by:

- enhancing efficiency of resource allocation, organization and management through restructuring operational flows throughout the Company; and
- implementing production and financial management improvement schemes and boosting operational and management standards through accelerating the use of modern management methodologies and information technology in order to maintain the Company's cost per barrel in the top ranks of international oil and gas exploration and production companies, thus boosting the Company's core competitiveness and its ability to withstand risks.

The Company will strengthen and expedite the pace of exploration activities to establish stronger reserves as the foundation for its medium- and long-term development. At the same time, it will study and develop policies for international cooperation under changing circumstances and will introduce critical technologies and new management methodologies to expedite the exploration and development of oil fields

in production sharing contract blocks and boost management standards.

In addition, the Company will continue to reform its employment and compensation system. It will intensify staff training and implement a human resources development strategy to establish an integrated employment and compensation system suited to the Company's high-growth, high-efficiency development in an internationally competitive environment, thus enhancing the competitiveness of its human resources. The Company further intends to cultivate a new corporate culture which it will capitalize on to boost its core competitiveness and ensure that its corporate culture filters down from the conceptual level to the organisational level and creates a new management ethos leading to more effective management.

Reviewing our past performance will aid us in planning for the future. Our achievements in 2001 established a solid platform for the Company's development in 2002. In the current year, the Company's management will guide our staff to continue to work in a diligent and motivated manner to accomplish our strategic business plans and production objectives for 2002 and, through improved operating performance, to further increase returns to our shareholders.

**Chengyu FU**

*Executive Director,  
President and Chief Operating Officer  
Hong Kong, March 27, 2002*