





**We made some very sensible acquisitions during the year. Even with a compelling strategic rationale, sound results are the outcome of prudent and shrewd execution. We took advantage of available opportunities in all three situations and were able to maximize value for our shareholders and other stakeholders.**

# Chairman's Statement

Fujian LNG

Guangdong LNG

Tangguh Project, Indonesia

North West Shelf Gas Project, Australia

**We are horizontally expanding the natural gas business and vertically expanding into other E&P basins. Both strategies are meant to lengthen the Company's growth horizon and position the Company for an even brighter future.**



**WEI Liucheng**

Chairman and Chief Executive Officer

The performance of a company depends a great deal on the CEO and his or her executive team. Instead of the usual display of achievements and grand plans, I would like to share with you, our shareholders, my management philosophy and some general principles that guide my decisions and determine the outcomes of the company's operation.

I trust people and believe in the basic decency of most people. But I do not have illusions about the imperfection of humanity. I, therefore, believe that sound governance helps reduce risks.

I have further strengthened my board by introducing two new faces, Dr. Curtis and Dr. Schurtenberger. Whilst the two outgoing board members rendered invaluable services, I am confident that Dr. Curtis's insight into the global economy and Dr. Schurtenberger's insight into global politic dynamics are valuable additions that will enhance the management further. I also propose to maintain and further strengthen my International Advisory Board ("IAB") and I am happy to report that Mr. Peter Sutherland, a non-executive Chairman of BP plc and ex-Director General of WTO organisation and Professor Cornelius Herkstroter, a retired Chairman of Royal Dutch/Shell plc have joined the IAB.

I believe that a good CEO works to ensure his or her company can succeed without him or her, a commonplace CEO is only concerned about current performance and a terrible CEO is prepared to promote good current performance at the expense of future performance. There are three things that I spend most of my time on: people, management system and business opportunities.

### People

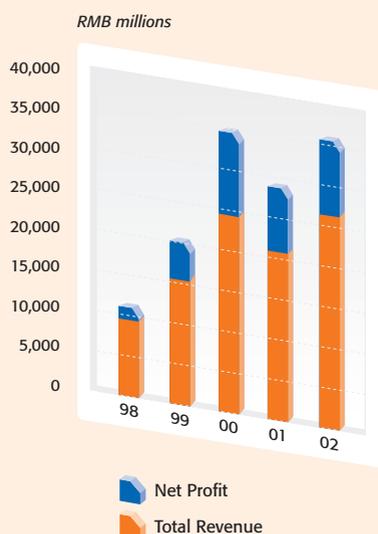
I spend a great deal of time on the issue of people. I am not shy about putting talented people in positions of responsibility and authority. The company continues to sponsor formal and informal training opportunities for high potential executives and managers, including the highly regarded and expensive Sloan Fellows program. Whilst this means my executives and I may have to shoulder extra work and responsibilities, we are all committed to grooming future leaders.

### Management System

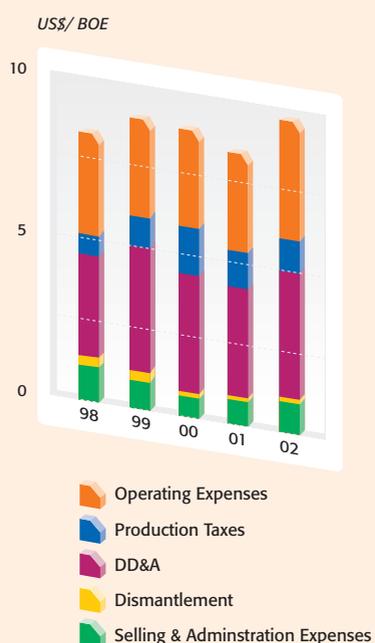
We made significant progress during the year in tightening internal controls and real time management reporting. I want to ensure that a comprehensive management system is in place that will not only provide management with the necessary authority to do their jobs but will also reduce the risks of whimsical decision making. While nobody can fully eliminate moral hazards, a sound control system and a responsive reporting system will minimize the risks.

**We have to be able to find and extract oil and gas from more basins. Producing in offshore China is highly profitable and we certainly have an advantage there.**

## Net Profit and Total Revenue



## Total Production Cost



## Business Opportunities

We are horizontally expanding the natural gas business and vertically expanding into other E&P basins. Both strategies are meant to lengthen the company's growth horizon and position the company for an even brighter future.

We have to be able to find and extract oil and gas from more basins. Producing in offshore China is highly profitable and we certainly have an advantage there. Some suggest we should focus exclusively on where we are. Whilst I graciously welcome suggestions, I can only agree to the first half. "Focus" is something that affords us the current yield, for offshore China productions are profitable, and its exploration risk is low. However, "exclusive focus" is a curse to the company's future. Nature places a finite amount of oil and gas reserves in any one place. We, therefore, have to explore more than one place to garnish a chance to overcome nature's constrain. We cannot afford to give up this valuable strategic option.

This is an area where I do not agree with those who propose the "single focus" approach. Risk here is asymmetrical to investors and managers. Investors looking for current yield have market liquidity as the last defense so if a strategy maximizing the current yield at the expense of future gain begins to show its inevitable results they can leave. Other stakeholders do not have this luxury nor have such a short term outlook. We have to ensure the sustainability of the company and the best time to start is now, when we don't have to.

We made some very sensible acquisitions during the year. Even with a compelling strategic rationale, sound results are the outcome of prudent and shrewd execution. We took advantage of available opportunities in all three situations and were able to maximize value for our shareholders and other stakeholders.

China's natural gas demand is projected to grow substantially over the next decade. We have regulatory, market access and resource advantages in tapping this emerging business. It makes business sense to expand this part of the business. The expansion is expected to generate sustainable, incremental and sound returns. A combination of government support and business acumen has allowed us to establish a leadership position in China's coastal LNG market. We will leverage on this hard earned position to further enhance value to the company and its shareholders.

I am not a futurist so I have to report the current state of the business. While this report will give you details on operating results, I am highlighting some notable achievements during the year. The Company recorded the highest production growth in its history. Firm oil prices and well-controlled costs have resulted in very strong earnings. The Board has authorised a special dividend to shareholders given the spectacular results and expected strong oil prices near term. It is my belief that shareholders of exploration and production companies, such as ours, should benefit from oil price rises and this special dividend is to reward our shareholders who have already earned a good equity return during the year.

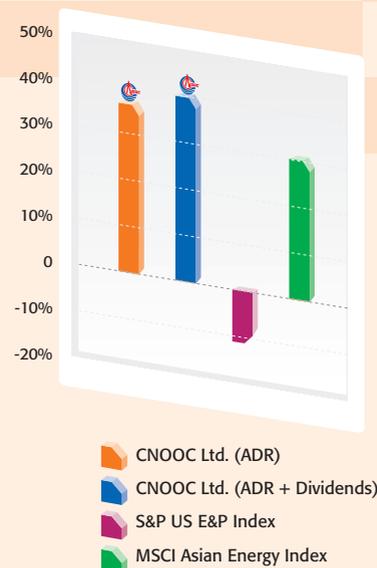
I am both confident and humble. I am confident because I am convinced that the Company is on the right track, because we have managed to create a sound exploration and production platform, because we have a solid team, because we have the support of our staff, partners and advisors, and last but not the least because we have the continued support of our shareholders. I am humble because the future always takes its own course and that requires constant vigilance and a willingness to change, because a conviction and a sound idea alone do not guarantee success in a competitive world.

May we plan for the best but be prepared for the worst.

**WEI Liucheng**

*Chairman and Chief Executive Officer*  
 Hong Kong, 27 March 2003

**Total Return  
 (From 01/01/02 to 31/12/02)**



**Total Return  
 (From 01/01/02 to 31/12/02)**

