

## Chairman's Statement

I am pleased to announce to the shareholders on behalf of the Board that the Group's consolidated profit after taxation and minority interests for the year ended 31st December 2003 is HK\$516,403,000, representing an increase of 46.44% as compared with profit of HK\$352,641,000 for the previous year.

As compared with last year, crude oil sales volume increased by 14.56%, and turnover was up by 26.15%. The weighted average price of crude oil per barrel was approximately US\$24.31, representing an increase of approximately 19.45% compared with last year of US\$20.35. The overall profit attributable to shareholders increased by 46.44% as compared with last year. The increase in profit attributable to shareholders was mainly attributable to the Kursangi and Karabagli ("K&K") oil fields in the Azerbaijan Republic and oil field in the Sultanate of Oman.

### BUSINESS REVIEW

The Group continued to expand its overseas operations in 2003 and acquired partial interest in the Gobustan oil field situated in the Azerbaijan Republic and the Zhanazhol, Kenkyak (pre-salt) and Kenkyak (post-salt) oil fields situated in the Republic of Kazakhstan. The Group was also granted the right to explore oil field in the L21/43 concession area located in central Thailand by the Thailand Government. As at the end of 2003, the Group had ten oil exploration and production projects situated in seven different countries in total. Following the implementation of comprehensive exploration and development program, these oil fields are expected to make contribution to the Group in the future.

#### Liaoheng Jiapu Oil Field in The People's Republic of China ("PRC")

The Liaoheng Jiapu Contract Area sold a total of 1,291,000 tonnes of crude oil. The sales volume remained roughly the same as the previous year. On a 70% share basis, profit after tax attributable to the Group was HK\$296,578,000, or an increase of 20.01% compared with last year.

According to the Liaoheng Jiapu Contract, the Group is responsible for 70% of the development costs and thus a contribution of RMB336,420,000 (approximately HK\$317,198,000) was made by the Group during the year as part of the fund required for the drilling of new wells and construction of ground production facilities.

#### Xinjiang Karamay Oil Field in the PRC

The Xinjiang Karamay Contract Area produced a total of 730,000 tonnes of crude oil, of which 44,000 tonnes were kept for its own use in order to cut cost. In 2003, 680,000 tonnes of crude oil were sold, representing an increase of 8.54% compared with previous year. On a 54% share basis, profit after tax attributable to the Group was HK\$135,590,000, or an increase of approximately 41.23% compared with last year.

According to the Xinjiang Contract, the Group is responsible for 54% of the development costs and thus a contribution of RMB21,082,000 (approximately HK\$19,878,000) was made by the Group during the year as part of the fund required for stabilizing the production.

#### Oil fields in Thailand (Sukhothai and L21/43)

As a result of the relentless effort of the Group in increasing efficiency as well as in reducing costs, the Sukhothai Concession in Thailand recorded a profit of HK\$27,682,000 in 2003, an increase of 58.99% compared with last year. The Company will continue to identify potential of the oil fields to improve efficiency.

In July 2003, the Group was granted the right to explore oil field in the L21/43 concession area located in central Thailand by the Thailand Government. Exploration will commence in 2004 and it is hoped that satisfactory result can be achieved as anticipated.

## Chairman's Statement

### **Talara Oil Field in Peru**

In 2003, the Talara oil field in Peru recorded HK\$21,410,000 profit after tax and minority interests for the Group.

### **Oil field in the Union of Myanmar (Tetma Block IOR-3, Tuyintaung Block RSF-2 and Gwegyo-Ngashandauang Block RSF-3)**

In November 2001, the Group entered into an agreement to acquire 35% interest in the rights to explore an oil field in the Union of Myanmar. The acquisition was approved by the government of the Union of Myanmar in March 2002. TG World Energy (Bahamas) Limited proposed to surrender its 30% interest in the oil field at no consideration in September 2003 and approval of the government has been obtained. After adjustment, the Group's interest in the oil field increased to 50%. Exploration work has commenced in the hope of fruitful results in the near future.

### **Oil field in the Sultanate of Oman (Block 5)**

The Group held 25% interest in an oil field located in the Sultanate of Oman. In 2003, the oil field sold 790,000 barrels of crude oil and recorded a profit of HK\$35,211,000 for the Group. Full Scale development of the oil field will commence in 2004.

### **K&K Oil Field in the Azerbaijan Republic**

The Group held 25% interest in the K&K oil fields in the Azerbaijan Republic, which recorded a profit of HK\$19,858,000 for the Group in 2003.

### **Gobustan Oil Field in the Azerbaijan Republic**

In March 2003, the procedure to acquire 31.41% equity interest in Commonwealth Gobustan Limited ("CGL") was completed. The company owns 80% participating interest in an oil field in the South-West of Gobustan, the Azerbaijan Republic. The Group has started to formulate future plans for exploration, development and operation, and participate in the management of the oil field. Exploration will commence in 2004.

### **Steel pipes manufacturing**

華油鋼管有限公司 ("North China"), which was set up by the Group together with 華北石油管理局 (the "Bureau"), has commenced production in full scale. Leveraging on the experience of the Bureau in the manufacture and sale of oil pipes and gas pipes, and the production of high quality steel pipes, North China can produce high quality steel pipes to satisfy the demand of the project for transportation of natural gas from West to East of the PRC and other pipe projects. In December 2002, the Group agreed to set up a branch factory in the Shanghai Pudong Economic Development Zone, the PRC, to enhance its competitiveness and capture a larger market share in the eastern part of the PRC. Due to market changes, North China decided to relocate the factory to Yangzhou Han Jiang Industrial Park, the PRC. In 2003, North China generated a profit of HK\$15,738,000 for the Group.

### **Biaxially Oriented Polypropylene ("BOPP") project**

The BOPP film factory jointly established with 大慶石油管理局 has completed its trial production with satisfactory results in 2003 and will have commercial production in 2004. With the PRC's accession to the World Trade Organisation, demand for packaging materials will gradually increase and this operation is expected to bring stable revenue to the Group.

### **Oil field in the Republic of Kazakhstan (Zhanazhol, Kenkyak (pre-salt) and Kenkyak (post-salt))**

In December 2003, the Group successfully acquired 40% equity interest in CNPC International (Caspian) Limited ("Caspian"), which owned 25.12% equity interest in CNPC International Aktobe Petroleum Joint-Stock Company ("Aktobe"). As a result of the acquisition, the Group indirectly owns 10.05% interest of Aktobe. The shares of which are listed and traded on the Kazakhstan Securities Exchange, Aktobe also owns the Zhanazhol, Kenkyak (pre-salt) and Kenkyak (post-salt) oil fields.

## Chairman's Statement

### BUSINESS PROSPECTS

The positioning of the Group's future development remains unchanged. It still focuses on investing in petroleum up-stream business as well as other petroleum-related businesses that stabilise income. The Group will continue to explore new business opportunities, increase oil reserves, invest in different regions on projects with lower risk and reasonable return and develop petroleum-related business in the PRC and overseas. With a sound financial position and supplemented with an appropriate level of leverage, the Group aims at expanding into an international petroleum corporation.

The future growth of the Group will rely on strengthening the management of the existing oil exploration and development projects, controlling costs, increasing efficiency, stabilising income and making new acquisitions with an aim to increase crude oil reserve and production, enhance revenue and increase shareholders' return.

### FINAL DIVIDEND

With satisfactory results for the year, the Board of Directors has recommended the payment of a final dividend of HK\$0.020 (2002: HK\$0.035) per share. The proposed dividend will be paid on or about 28th June 2004 to the shareholders whose names appear on the Register on 28th May 2004, following approval at the Annual General Meeting.

### CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 24th May 2004 to 28th May 2004 both days inclusive, during which period no transfers of shares will be registered. All transfer documents accompanied by the relevant share certificates must be lodged with the Company's Branch Registrar in Hong Kong, Secretaries Ltd. at the Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on 21st May 2004 in order to qualify for the proposed final dividend.

### CORPORATE GOVERNANCE

None of the directors of the Company is aware of any information which would indicate that the Group is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Ltd at any time during the twelve months ended 31st December 2003.

### AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and principles adopted by the Group and discussed internal controls and financial reporting matters including a review of the audited accounts for the twelve months ended 31st December 2003.

By Order of the Board

**Wang Mingcai**

*Executive Chairman*

Hong Kong, 14th April 2004