

# 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 2004 was HK\$775,244,000, representing an increase of 50.12% to a record high as compared with profit of HK\$516,403,000 for the previous year.

As compared with last year, crude oil sales volume increased by 4.45%, and turnover was up by 20.72%. The weighted average price of crude oil per barrel was approximately US\$28.88, representing an increase of approximately 18.82% compared with last year's US\$24.31. The overall profit attributable to shareholders increased by 50.12% as compared with last year. The increase in profit attributable to shareholders was mainly attributable to the upsurge in oil price, the growth in production volume of the Oman oil field and the contribution from newly acquired project in the Republic of Kazakhstan.

## BUSINESS REVIEW

The Group focused on consolidating its operation in existing oil fields in 2004, during which no material acquisition or investment projects were made, except for the increase of investment in the steel pipe factory and the CPP film factory. Currently, the Group has ten oil exploration and production projects in seven different countries. Each oil field is accelerating its pace of comprehensive exploration and development to generate returns for shareholders by speeding up production in light of the high oil price environment.

## PETROLEUM BUSINESSES

### The People's Republic of China (the "PRC")

#### *Liaohe Leng Jiapu Oil Field*

With the effective implementation of various measures by our staff in stabilizing production, a total of 1,292,000 tonnes of crude oil from the Liaohe Leng Jiapu Contract Area were sold, roughly the same as the previous year. On a 70% share basis, profit after tax attributable to the Group was RMB444,579,000 (approximately HK\$419,177,000), or an increase of 41.34% compared with last year.

According to the Leng Jiapu Contract, the Group is responsible for 70% of the development costs and thus an aggregate contribution of RMB336,000,000 (approximately HK\$316,802,000) (2003: RMB336,420,000 (approximately HK\$317,198,000)) was made 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*

The Xinjiang Karamay Contract Area produced a total of 725,000 tonnes of crude oil in 2004, 699,000 tonnes of crude oil were sold, representing an increase of 2.71% compared with previous year. On a 54% share basis, profit after tax attributable to the Group was RMB220,022,000 (approximately HK\$207,451,000), or an increase of approximately 53% compared with last year.

According to the Xinjiang Contract, the Group is responsible for 54% of the development costs and thus a contribution of RMB55,887,000 (approximately HK\$52,694,000) (2003: RMB21,082,000 (approximately HK\$19,878,000)) was made by the Group during the year as part of the fund required for stabilizing production.

## The Kingdom of Thailand

### *Sukhothai Concession*

As a result of the relentless effort of the staff in increasing efficiency as well as in reducing costs, the Sukhothai Concession recorded sales volume of 291,000 barrels, an increase 13.02% in 2004 over last year, and a profit of HK\$36,192,000, an increase of 36.47% compared with last year. The Group will continue to identify the potential of the oil field to improve efficiency.

### *Onshore Exploration Block No. L21/43 (the "L21/43")*

In July 2003, the Group was granted the right to carry out exploration in the L21/43 concession located in central Thailand by the Thailand Government. The first phase of the exploration commenced in 2004, and it is hoped that satisfactory result can be achieved as anticipated.

## Peru

### *Talara Oil Field*

The production volume of Talara oil field in Peru in 2004 was 1,323,000 barrels, representing a growth of 10%, which generated a profit of HK\$35,344,000 (after tax and minority interests) for the Group, representing a growth of 65.08% over that of last year.

## The Union of Myanmar

### *Tetma Block IOR-3, Tuyintaung Block RSF-2 and Gwegyo-Ngashandaung Block RSF-3*

The Group held 50% interest in the exploration rights of the oil field. Exploration work has commenced in full scale in 2004, the oil reserves statistical work is expected to be completed in short term.

## The Sultanate of Oman

### *Block 5*

The Group held 25% interest in the oil field. In 2004, the oil field sold 4,128,000 barrels of crude oil, representing a growth of 30.07%, which generated a profit of HK\$63,314,000 for the Group, an increase of 79.81% over the previous year. The results were satisfactory as anticipated.

### The Azerbaijan Republic

#### *Kursangi and Karabagli Oil Field ("K&K")*

The Group held 25% interest in the K&K, which recorded a profit of HK\$47,785,000, an increase of 140.63% compared with last year. In 2004, the sale of the oil field was 2,387,000 barrels of crude oil, representing a growth of 4.48%.

#### *Gobustan Oil Field*

In March 2003, the Group acquired 31.41% interest in Commonwealth Gobustan Limited. The company owned 80% participating interest in an oil field in the South-West of Gobustan, the Azerbaijan Republic. The Group has started to plan for its future exploration, development and operation, and participate in the management of the oil field. According to the results of the initial analysis, the oil field has potential for development of gas production.

### 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. Aktobe owns the Zhanazhol, Kenkyak (pre-salt) and Kenkyak (post-salt) oil fields, and its shares are listed and traded on the Kazakhstan Stock Exchange. Pursuant to the accounting standards, Aktobe's interest is accounted for using the long-term investment method. During the year, Caspian received dividend of US\$33,004,000 (approximately HK\$257,428,000) from Aktobe and generated a profit of HK\$66,133,000 (net of expenses) for the Group.

## MANUFACTURING BUSINESS

### **Steel pipes factory in the PRC**

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, has commenced production in full scale. North China is famous for the production of high quality steel pipes, providing high quality steel pipes to satisfy the demand for transportation of natural gas from Western China to the eastern part and earned high reputation for its pipes used in other pipe projects. The Group increased its investment in December, in which North China set up a branch factory in the Yangzhou Han Jiang Industrial Park ("Branch Factory"), the PRC, to enhance its competitiveness and capture a larger market share in the eastern part of the PRC. In 2004, North China had a total output of 115,000 tonnes (2003: 67,000 tonnes) steel pipe and 125,000 tonnes (2003: 76,000 tonnes) of steel pipes were processed, generating a profit of HK\$26,324,000 for the Group which represented a growth of 67.27% as compared with last year.

### Film factory in the PRC

The BOPP film factory jointly established by the Group with Daqing Petroleum Administrative Bureau (the "Daqing Bureau") has begun commercial production in 2004 and the results were satisfactory as anticipated. Profit after tax attributable to the Group for the year was HK\$1,905,000 (2003: HK\$165,000). With the PRC's accession to the World Trade Organisation, demand for packaging materials will gradually increase. In this connection, the Group once again worked with the Daqing Bureau to invest in the construction of a CPP film production line in November. This operation is temporarily affected by high cost, high supply and low demand in the short run, and is suffering a hard time with low profits. Once these factors are stabilized, this operation is expected to bring stable revenue to the Group.

### 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 business with stable 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 strong financial position and prudent approach, the Group aims at expanding into an international oil corporation.

The future crude oil price is expected to maintain at a relatively high level. The Group will accelerate on the exploration and development of the existing oil projects, increase production volume, strengthen the management, control costs, increase efficiency and stabilise income, and for the sake of the shareholders, make new acquisitions with an aim to increasing crude oil reserves 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\$0.035 (2003: HK\$0.02) per share. The proposed dividend will be paid on or about 28th June 2005 to the shareholders whose names appear on the Register on 27th May 2005, 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 2005 to 27th May 2005 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 23rd May 2005 in order to qualify for the proposed final dividend.

By Order of the Board

**Wang Mingcai**

*Executive Chairman*

Hong Kong, 25th April 2005