CNOOC LTD
Form 6-K
April 18, 2006

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 OF
THE SECURITIES EXCHANGE ACT OF 1934

For April 18, 2006

CNOOC Limited

(Translation of registrant's name into English)

65th Floor
Bank of China Tower
One Garden Road
Central, Hong Kong
(Address of principal executive offices)

(Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F)

Form 20-F X Form 40-F ____

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes ____ No X

(If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A.)

2005 Hong Kong Annual Report

Company Profile

CNOOC Limited (the "Company", together with its subsidiaries, the "Group" or "we") - Incorporated in Hong Kong in August 1999, was listed on the New York Stock Exchange (code: CEO) and The Stock Exchange of Hong Kong Limited (code: 0883) on 27 and 28 February 2001, respectively. The Company was admitted as a constituent stock of the Hang Seng Index in July 2001.

The Group is China's largest producer of offshore crude oil and natural gas and one of the largest independent oil and gas exploration and production companies in the world. The Group mainly engages in oil and natural gas exploration, development, production and sales.

The Group has four major oil production areas offshore China, which are Bohai Bay, Western South China Sea, Eastern South China Sea and East China Sea. It is one of the largest offshore oil producer in Indonesia. The Group also has certain upstream assets in regions such as Africa and Australia.

As at 31 December 2005, the Group owned net proved reserves of approximately 2.36 billion barrels-of-oil equivalent and its annual average net production was 424,108 barrels-of-oil equivalent per day. The Group had 2,696 employees and total assets of approximately RMB114.7 billion.

Content

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Financial Summary
(Amounts expressed in millions of RMB)

Consolidated Income Statement (Audited)

Year ended 31 December

	2001 (Note 2)	2002 (Restated) (Note 1)	2003 (Restated) (Note 1)	2004 (Restated) (Note 1)
Total revenue	20,820	26,374	40,950	55,222
Total expenses	(10,596)	(13,652)	(25,305)	(32,882
Interest income/(expenses), net	201	(147)	(171)	(235
Exchange gains/(losses), net	235	(114)	(7)	29
Share of profit of associates	90	165	220	344
Investment income	221	193	123	72
Non-operating income/(expenses), net	35	(71)	315	519
Profit before tax	11,006	12,748	16,125	23,070
Tax	(3,048)	(3,541)	(4,628)	(6,931
Net profit	7,958	9,207	11,497	16,139

Consolidated Balance Sheet (Audited)

As at 31 December

	2001 (Note 2)	2002 (Restated) (Note 1)	2003 (Restated) (Note 1)	2004 (Restated) (Note 1)
Current assets	20,030	24,486	29,263	35,293
Property, plant and equipment, net	23,828	35,797	42,849	57,182
Investment in associates	462	537	1,117	1,327
Intangible assets	--	--	--	--

Available-for-sale financial assets	--	--	--	--
Total assets	44,320	60,820	73,229	93,802
Current liabilities	(4,392)	(7,134)	(9,307)	(10,402
Non-current liabilities	(6,617)	(13,393)	(17,461)	(26,957
Total Liabilities	(11,009)	(20,527)	(26,768)	(37,359
Shareholders' Equity	33,311	40,293	46,461	56,443

Note 1: Certain prior year amounts have been restated upon adoption of new/revised accounting policies, details of which are included in note 2 to the financial statements.

Note 2: The 2001 selected consolidated income statement data and consolidated balance sheet data were audited by Arthur Anderson & Co., which voluntarily relinquished its license to practice public accounting in 2002. Our current auditors, Ernst & Young, have not reaudited the financial statements. As such, no restatement was made for 2001 as the impacts on the consolidated financial statements are considered not material.

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Operating Summary

Year ended 31 December

	2001	2002	2003	2004
Production				
Net production of crude and liquids (barrels/day)				
Bohai Bay	99,978	127,756	129,506	134,512
Western South China Sea	41,277	56,910	60,944	55,873
Eastern South China Sea	81,404	73,792	72,981	96,989
East China Sea	3,967	3,223	2,536	2,121
Overseas	2,247	36,944	40,497	29,941
Total	228,873	298,625	306,464	319,436

Net production of natural gas (mmcf/day)				
Bohai Bay	46.2	47.1	47.1	47.7
Western South China Sea	139.0	142.3	127.8	215.2
Eastern South China Sea	0.0	0.0	0.0	0.0
East China Sea	9.8	12.4	14.2	17.1
Overseas	0.0	70.8	101.9	84.1
Total	195.0	272.6	291.0	364.1
Total net production (BOE/day)	261,379	346,639	356,729	382,513
Reserves at year end				
Net proved crude and liquids reserves (mm barrels)				
Bohai Bay	961.3	992.5	990.4	974.6
Western South China Sea	131.6	160.4	173.7	189.7
Eastern South China Sea	132.2	120.3	154.7	168.0
East China Sea	12.4	12.5	13.9	21.5
Overseas	8.4	138.7	103.4	101.9
Total	1,245.9	1,424.4	1,436.1	1,455.6
Net proved natural gas reserves (bcf)				
Bohai Bay	629.1	598.6	566.6	706.2
Western South China Sea	2,421.5	2,511.2	2,564.0	2,484.8
Eastern South China Sea	0.0	42.8	548.2	730.8
East China Sea	197.0	179.4	275.3	403.4
Overseas	0.0	215.9	200.3	321.4
Total	3,247.6	3,547.9	4,154.4	4,646.6
Total net proved reserves (million BOE)				
Bohai Bay	1,066.2	1,092.3	1,084.8	1,092.3
Western South China Sea	535.1	578.9	601.0	603.8
Eastern South China Sea	132.2	127.5	246.1	289.8
East China Sea	45.2	42.4	59.8	88.7
Overseas	8.4	174.7	136.8	155.5
Total	1,787.1	2,015.8	2,128.5	2,230.0
Others				
Reserve life (years)	18.7	15.9	16.3	15.9

Reserve replacement ratio (%)	131	281	187	173
Average realised price				
Crude oil (US$/barrel)	23.34	24.35	28.11	35.41
Natural gas (US$/mcf)	3.08	2.98	2.87	2.75

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Milestones 2005

13 January	o CNOOC signed an agreement with the Shanghai Municipal construct a LNG terminal in Shanghai.
4 February	o CNOOC signed a petroleum contract with Kerr-McGee for block 43/11 in the Eastern South China Sea.
March	o Named the "Best Managed Company in China" by The Assets.
April	o Ranked the top of the "Best Managed Companies in FinanceAsia poll.
12 April	o Announced the acquisition of a 16.69% stake in the Can Energy Corporation for C$150 million.
21 April	o Announced the production of Luda 10-1 in Bohai Bay, which the Company's expectation with a daily output of over 7, well A11.
23 June	o Made an offer for Unocal for a cash consideration of US$ but the offer was finally withdrawn on 2 August.

September	o Announced the commencement of production of Bozhong 25-1/25 Platforms) and Nanbao 35-2 oilfields.
12 October	o Announced the independent discovery of Luda 27-1 in Bohai
15 November	o Standard & Poor's upgraded the Company's credit rating "A-" (Outlook Stable).
21 November	o Announced the commencement of production of Luda 5-2.
29 November	o Announced the independent discovery of Jinxian 1-1 in the part of Bohai.
6 December	o CNOOC signed a petroleum contract with Devon Energy Corpo deepwater block 42/05 in the Eastern South China Sea.
28 December	o Chairman Mr. Fu Chengyu was honoured CCTV 2005 Chinese Bu of the Year.

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Chairman's Report

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We clearly know, for a high-quality public company, the opportunities are abundant when it comes to growth, innovation and the pursuit of excellence. Being mindful of these opportunities, we will exercise prudence and yet at the same time make aggressive efforts to take the company to news height.

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Chairman's Report

Dear Shareholders,

When you get this annual report, we, CNOOC Limited, a

During the year, our basic and diluted ea share were RMB0.62 and RMB0.61 respective our shareholders for their support, the B company listed in New York and Hong Kong, have been in the capital market for five years.

We believe that we have achieved good financial and operational performance over the past five years. Thanks to the satisfactory growth in our assets, revenues and net profits, we have been able to show continuing progress in creating value and delivering good return to our shareholders.

First, let us look at the outstanding performance of CNOOC Limited in 2005. Our growth momentum was successfully maintained in 2005 as evidenced by our annual results. In addition to the detailed financial statements and other information set out hereafter, I am pleased to share with you a few highlights of our performance in 2005:

Our total revenue rose by 25.8% to RMB69,455.7 million, while net profit reached yet another record high of RMB25,323.1 million, the highest ever since our listing in 2001.

There was a steady growth in our oil and gas production. We produced a total of 130.3 million barrels of oil and 142.2 billion cubic feet of natural gas, achieving a total production of 154.8 million barrels of oil equivalent ("BOE"), representing a year-on-year increase of 10.6%.

Our production growth mainly came from the development projects offshore China coming on stream during the year. Seven new projects commenced production, which have contributed significantly to production growth during the year. Additionally, sixteen projects were under way.

The achievements of our exploration initiatives were just as remarkable. Altogether, we made fourteen new oil and gas discoveries and eight structures were successfully appraised offshore China. During the year, we realized a reserve replacement ratio of 186% and our net proved reserves increased by 288 million BOE.

Directors (the "Board") proposed a final
HK$0.10 per share. Together with the inte
of HK$0.05 per share and the special inte
of HK$0.05 per share, we will distribute
HK$0.20 per share to our shareholders for
2005.

Looking back at the year 2005 as well as
four years of listing, we have been commi
deliver, and have delivered, the best ret
shareholders. As a responsible company, w
continue to strive to create and add valu
business to share the fruits of our succe
shareholders, to allow employees and the
grow together and to be responsible to th
community and environment. We also believ
shareholders will continue to be able to
satisfactory return from our business gro
dividend payouts and the excellent perfor
stock price.

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In light of the above, we would like to show you our key initiatives.

As a E&P corporation, our value depends on the scale of our reserve and production. Therefore we have always been seeking more areas for exploration, development and production and to extend our development potentials.

Within China, we intend to further step up our efforts in exploration in offshore China in 2006. We will initiate more exploration activities, acquire more seismic data and drill more exploration wells in various exploration areas. We will also extend the reach of our exploration initiatives to the deep-water areas for more reserves to support the sustainable rapid growth of our business. As far as production is concerned, we plan to bring 10 oil and gas fields on stream this year.

[GRAPHIC OMITTED]

In respect of our overseas business efforts, we made a friendly offer to acquire the US-based Unocal Corporation in 2005. However, the desired outcome did not materialize due to a host of factors. During the process, from bidding to the final voluntary withdrawal, our overriding principles remain focused on the Company's future growth and our commitment to increasing shareholders' value.

As ever, our priority was on shareholders' interests and the Company's future growth, whether at the time of making the C$150 million acquisition of a 16.69% stake in Canadian MEG Energy Corporation, or when we acquired a 45% stake in the license covering the OML 130 in Nigeria for a cash consideration of US$2.268 billion in January 2006.

[GRAPHIC OMITTED]

We are dedicated to develop a path to overseas expansion to sustain the long-term growth of the Company. Our management team has been working hard towards this objective.

Of course, we never forget our social responsibilities in the course of value creation. We are a socially responsible company well aware of the importance of our staff, the environment and our society as a whole. We grow healthily together with our staff. At the same time, we also made determined efforts to undertake responsibilities for the community, the environment and the society. "Win-Win for All" has been one of our essential approaches. Indeed, in pursuit of our corporate development, we constantly seek win-win situation for our staff, the community and the environment. We believe that our long-term viability and success, and our ability to continue to create and deliver value for our shareholders and the communities we serve, very much depend on conducting our business in a socially responsible manner.

[GRAPHIC OMITTED]

In 2005, we continued to enhance our health, safety and environment (HSE) protection system by strengthening the implementation of safety management policies. The safety management standards were also improved further with the development of the HSE system, employees' safety education program and the establishment of its accountability system. Throughout the year, the Company was neither involved in any material spillage or pollution incident, nor subject to any liability claim for loss of over RMB1 million.

Currently, all oil and gas fields of the Company are equipped with anti-pollution facilities and have achieved stable discharge standards. They all have in place environment monitoring system combining both manual and automatic monitors. Besides, contingency plan for safety protection have been established for every offshore oil and gas fields and safety drills are also conducted on regular basis.

[GRAPHIC OMITTED]

As far as staff welfare is concerned, we not only provide a safe and healthy working environment, but also offer our staff reasonable packages and ample training opportunities in order to provide them with sufficient room for career development and added incentives. The section headed "Human Resources" in the annual report will explain more about the initiatives undertaken in fulfilling our responsibilities towards our staff.

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OUR TREASURE,
YOUR ENERGY OF LIFE.

We are happy to take up our social responsibility in different areas and contribute to the advancement of the community and the society. As a responsible corporate citizen, we actively participate in various charity events and have long been involved in poverty relief and education endowments. We also give our whole-hearted support and donations to victims of natural disasters. In 2005, the Company made donations to several Chinese regions affected by Typhoons Talim and Damrey. Besides, donations were also made to the regions wreaked by Hurricane Katrina in the US. These efforts clearly reflect our heightened awareness of our social responsibility as a corporate citizen.

Last but not least, I would like to take this opportunity to welcome on board Mr. Tse Hau Yin, Aloysius and Mr. Lawrence J. Lau joining us as our independent non-executive directors; and Mr. Cao Xinghe, Mr. Wu Zhenfang and Mr. Wu Guangqi and Mr. Yang Hua joining us as our executive directors. Given their extensive experience and valuable insights, I strongly believe that they will make great contributions for the benefit of the Company.

Our success today is the result of dedicated efforts and devotion of our management and staff. Therefore I would also like to express my sincere gratitude for their support and hard work.

We clearly know, for a high-quality public company, the opportunities are abundant when it comes to growth, innovation and the pursuit of excellence. Being mindful of these opportunities, we will exercise prudence and yet at the same time make aggressive efforts to take the company to news height.

Fu Chengyu
Chairman and Chief Executive Officer

Hong Kong, 24 March 2006

Operations Review

The Company continued its stable and robust growth in 2005: Encouraging success was achieved in exploration; Development projects came on stream on schedule; Production and reserves continued to grow. All these progresses combined with our high degree of transparency in corporate governance and prudent financial policies, gave a further boost to the business development of the Company.

[GRAPHIC OMITTED]

Solid Foundation and Unlimited Potential

In 2005, to create value for our shareholders, we continued to pursue active business expansion. Brilliant achievements were made on exploration, project development and overseas acquisitions. Our outstanding business performance is widely recognized by our shareholders and the market alike.

During the year, the Company made a lot of progresses in its active exploration activities, with 14 new oil and gas discoveries and 8 hydrocarbon-bearing structures successfully appraised. Its reserve replacement ratio reached 186%, surpassing that of previous year and continued to stand at the forefront amongst peers. As a result, the Company successfully maintained the growth momentum of its reserves.

Despite heavy workload, the Company's engineering constructions progressed with high efficiency . During the year, a record number of projects were put on stream, and these new projects contributed substantially to the Company's production. In addition, more than 10 projects were under way as scheduled.

In order to fulfill its commitment to future growth and to its shareholders, the Company continued to seek overseas acquisition opportunities. In 2005, it acquired assets and signed co-operation agreements in, among others, Canada and Morocco. The successful implementation of its overseas development strategy helped greatly to improve the Company's reputation around the world.

During the year, the Company continued to maintain its prudent financial policy and its credit rating was upgraded by Standard and Poor's. In respect of health, safety and environmental protection, no material safety nor pollution incident was recorded throughout the year. Meanwhile, the Company actively participated in community charity activities, further reinforcing its positive image as a corporate citizen.

Results Figures

In 2005, the Company followed its business strategies to achieve various targets of the year.

As of 31 December 2005, the Company's oil and gas production reached 154.8 million BOE, representing a year-on-year (YOY) increase of 10.6%. Crude oil production amounted to 356,868 barrels per day, while natural gas production was 389.6 MMCF per day, representing a YOY increase of 11.7% and 7.0% respectively. Total oil and gas production offshore China was 140.6 million BOE, including 121.7 million barrels of crude oil and 108.4 bcf of gas. In Indonesia, oil and gas production was 14.2 million BOE, including 8.6 million barrels of crude oil and 33.8 bcf of gas.

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In 2005, the realized oil price of the Company was US$47.31 per barrel, an increase of 33.6% over the previous year. Realized natural gas price was US$2.82 per thousand cubic feet, a YOY increase of 2.6%.

Benefiting from high oil prices and the increase in its production, the Company's results were outstanding in terms of total revenue and net profits, etc. in 2005.

The Company realized a total revenue of RMB69,455.7 million, a YOY increase of 25.8% , and a net profit of RMB25,323.1 million, a YOY increase of 56.9%, setting yet another record in its history. The earnings per share were RMB0.62 and the return on shareholders' equity reached 38.9%.

Surging prices of raw materials, among other things, leading to higher production costs, represented a tough challenge for the whole industry. In 2005, the Company's production cost per BOE increased by 8.7% over 2004. Still, the figure fared better than those of international peers.

Operation Updates

In 2005, the Company realized a reserve replacement ratio of 186%, continuing its leading position among peers. During the year, 7 new projects commenced production, breaking the record set the previous year. At the same time, 16 projects were under way as scheduled. Below are the Company's activities on exploration, development and engineering constructions:

Exploration

In 2005, the Company was very active in exploration offshore China and made 14 new oil and gas discoveries, including 9 independent discoveries and 5 discoveries under Production Sharing Contracts (PSCs). Moreover, 8 structures were successfully appraised, of which 6 were independent and 2 were under PSCs. These appraisals helped cement a solid base for the subsequent development activities of the Company.

Meanwhile, the Company's overseas exploration activities were also vigorous. In 2005, the Company completed 2 wildcats in Indonesia and acquired 324 kilometers of 2D seismic data in block M in Myanmar.

During the year, the Company's reserves maintained its growth momentum. In 2005, the proved reserves increased by 288 million BOE, comprising 132 million barrels of crude oil and 926 bcf of natural gas. The Company realized a reserve replacement ratio of 186%.

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Construction and Development
In 2005, the Company undertook more engineering projects than in 2004. There were altogether 16 projects under construction. Among these projects, 7 have been completed and have commenced production, namely Luda 10-1, Luda 4-2, Luda 5-2, Nanbao 35-2, Bozhong 25-1/25-1S (C/F platforms), Lufeng 13-2 and Caofeidian 11-3/5. These oil and gas fields made remarkable contributions to the Company's production for the year. The remaining projects are under way as scheduled.

During the year, the Company completed the construction and installation of 19 and 12 jackets respectively, and of 28 and 15 platform modules respectively. It also laid 540 kilometers of subsea pipelines and completed 2 terminals.

It is expected that a number of construction projects will be launched in 2006. Hence the Company's construction schedule will continue to be busy. It is estimated that the number of oil and gas projects under way will maintain at above 16. Besides, Chunxiao, Dongfang 1-1 Phase II, Qikou 17-2 East, Pinghu-BJT, etc. will be completed and commence production in 2006.

Natural Gas Business
Apart from actively finding new reserves, the Company is also aggressively developing its natural gas business. In 2005, its production of natural gas offshore China reached 142 bcf.

In 2005, the development project on Dongfang 1-1 Phase II was completed, and will commence production in the first half of 2006. Besides, in 2006, the North West Shelf Gas Project in Australia will also commence production to supply gas to the LNG Terminal in Guangdong province, marking the beginning of significant gas importing to China.

In the future, the Company will strengthen its exploration efforts in the South China Sea and develop more natural gas fields, in order to consolidate its leading position in the natural gas market along coastal China.

Overseas Development
In 2005, in order to fulfill its commitment to future growth and to its shareholders, the Company continued to seek overseas acquisition opportunities.

On 25 January 2005, a consortium led by the Company, the Singaporean Golden Aaron Pte Limited and the PRC-based HQCEC, signed PSCs with Myanma Oil and Gas Enterprise ("MOGE") on three blocks, C1, C2 and M2. In these blocks the Company is the Operator and owns 81.25% participation interests.

On 21 February 2005, the Company signed a joint study agreement with Office National de Recherches et d'Exploitations Petrolieres ("ONAREP"), a Morocco National Oil Company, to assess the oil potential in the basins of Haha and Missour, Morocco.

On 11 March 2005, the Company reached an agreement with the Canadian MEG

Energy Corporation ("MEG") on the acquisition of a 18.5% (16.69% on a diluted basis) stake in MEG, for a consideration of C$150 million. The Company thereby obtained entry into potential oil sand projects in Canada.

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On 23 June 2005, the Company made an offer to merge with Unocal for US$67 per share, or a total consideration of approximately US$18.5 billion. However, in light of considerable uncertainties and unbearable risks associated with the political environment in the US, the Company finally withdrew its offer on 2 August 2005. During the whole process, from bidding to the final voluntary withdrawal, our overriding principles remained unchanged, with the emphasis on the Company's future growth and our commitment to shareholders.

On 8 January 2006, the Company signed a definitive agreement with South Atlantic Petroleum Limited ("SAPETPO") to acquire a 45% working interest in an offshore oil-mining license "OML 130" in Nigeria for a cash consideration of US$2.268 billion. Conditional upon, among other things, the approval of Nigerian National Petroleum Corporation ("NNPC") and the PRC government, the transaction is expected to be completed in the first half of 2006.

On 27 Jannuary 2006, the Company also acquired a 35% working interest in the contract for OPL229 in Nigeria for a consideration of US$60 million. In addition, the Company signed a PSC for block S in Equatorial Guinea, marking another progress in the Company's overseas business.

Research and Development

The technology research and development are mainly conducted by our research center. Besides, the Company's branches in Tianjin, Zhanjiang, Shenzhen and Shanghai are also engaged in certain research and development programs.

In 2005, we continued to actively pursue technology development in support of our core business of oil exploration and development. Encouraging progress was made in respect of those critical technology development projects on the exploration of offshore oil and gas resources, development of offshore marginal oil fields and enhancement of recovery of offshore heavy oil fields. Pioneer studies were also conducted on the exploration and development in deep water areas.

Certain research and development outcomes are already being applied in the production process of the Company with remarkable benefits. For example, the technology "Maximizing Reservoir Exposure Drilling & Fit-For-Purpose Sand Management" is found to be very effective in increasing the single-well production of offshore oilfields. This technology has been applied to the well A11 in Luda 10-1 field, realizing a production rate of over 7,000 barrels per day.

Health, Safety and Environmental Protection (HSE)

Our first priorities are always health, safety and environmental protection to guarantee the health and safety of employees. Over the years, the Company's staff and management at different levels have realized that "safety is always the weak link in corporate management". As a result, production safety, staff care and environmental protection have become an important part of our corporate culture.

In 2005, the Company made satisfactory progress in respect of safeguarding health, safety and environmental protection. During the year, it was neither involved in any material injury liability case, spillage and pollution incidents, nor subject to any safety-related liability claims for losses over

RMB 1 million. Besides, the Company's OSHA Statistics results continued to be above average among its peers.

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MAJOR PROPERTIES UNDER PRODUCTION AND DEVELOPMENT

Name of Block	Major Oil and Gas Field	Total (BOE/day) Oil (Bbls/day) Gas (Mmcf/day)	Net Re 31 D T
Bohai Bay			
o Production			
Liaoxi	Jinzhou20-2, Jinzhou9-3, Suizhong36-1, Luda4-2, Luda 5-2, Luda 10-1	104,680 Oil 98,065 Gas 40	
09/18	Chengbei	4,229	
Boxi	QK18-1, QK18-2, QK17-2, QK17-3	10,008 Oil 8,951 Gas 6	
05/36	Nanbao35-2, Qinghuangdao32-6	21,914	
11/05	Penglai19-3	7,422	
Bonan	Bozhong34-2/4, Bozhong28-1, Bozhong26-2 Bozhong25-1, Bozhong25-1s	21,797 Oil 21,289 Gas 3	
04/36	Caofeidian11-1, Caofeidian11-2, Caofeidian11-3, Caofeidian11-5	16,970	
o Development			
Liaoxi	Jinzhou21-1/25-1S		
Bozhong	Qinhuangdao33-1, Bozhong3-1, Bozhong3-2		
Boxi	Caofeidian18-1, Caofeidian18-2, QK18-9, Bozhong13-1		
11/05	Penglai25-6		
04/36&05/36	Caofeidian12-1, Caofeidian12-1S		

Bonan	Bozhong34-1, Bozhong34-1S, Bozhong34-3/5	
Liaodong	Luda27-2, Luda32-2	
11/19	Bozhong19-4, Bozhong26-2N	
Bohai Subtotal		187,021 Oil 178,840 Gas 49

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MAJOR PROPERTIES UNDER PRODUCTION AND DEVELOPMENT (continued)

Name of Block	Major Oil and Gas Field	Total (BOE/day) Oil (Bbls/day) Gas (Mmcf/day)	Net Re 31 De T
Eastern South China Sea			
o Production			
Huizhou14	Huizhou Oil Fields	18,117	
16/19	Huizhou19-3, Huizhou19-2, Huizhou19-1	2,782	
15/12	Xijiang24-3	16,576	
Xijiang24	Xijiang30-2	10,788	
Huizhou31	Liuhua11-1	18,699	
16/05	Lufeng13-1, Lufeng13-2	3,513	
Lufeng08	Lufeng22-1	2,382	
15/34	Panyu4-2, Panyu5-1	30,885	
o Development			
Liuhua07	Panyu30-1, Liuhua19-5		
Panyu33	Panyu34-1		

Xijiang04	Xijiang23-1		
15/34	Panyu11-6		
Huizhou 14	Huizhou21-1(G)		
Huizhou 16	Huizhou25-1, Huizhou25-3		
Eastern South China Sea Subtotal		103,741 Oil 103,741 Gas 0	

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MAJOR PROPERTIES UNDER PRODUCTION AND DEVELOPMENT (continued)

Name of Block	Major Oil and Gas Field	Total (BOE/day) Oil (Bbls/day) Gas (Mmcf/day)	Net Re 31 De T
Western South China Sea			
o Production			
Yulin35	Weizhou Oil Fields	25,864 Oil 24,706 Gas 7	
Yangjiang31	Wenchang13-1, Wenchang13-2	23,077	
Ledong01	Yacheng13-1	25,020 Oil 1,027 Gas 130	
Changjiang25	Dongfang1-1	15,622 Oil 208 Gas 92	
o Development			
Yangjiang31/32	Wenchang8-3, Wenchang14-3, Wenchang15-1, Wenchang19-1, Wenchang9-2, Wenchang9-3, Wenchang10-3		

Ledong01	Yacheng13-4, Ledong22-1, Ledong15-1		
Yulin35	Weizhou6-1, Weizhou11-1, Weizhou11-1N, Weizhou11-4N, Weizhou6-10, Weizhou12-8		
Western South China Sea Subtotal		89,583 Oil 49,016 Gas 230	

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MAJOR PROPERTIES UNDER PRODUCTION AND DEVELOPMENT (continued)

Name of Block	Major Oil and Gas Field	Total (BOE/day) Oil (Bbls/day) Gas (Mmcf/day)	Net Re 31 De T
East China Sea			
o Production			
Pinghu	Pinghu Gas Field	4,751 Oil 1,706 Gas 18	
o Development			
Xihu Trough			
Canxue			
Duanqiao			
Chunxiao			
Tianwaitian			

Baoyunting			
Wuyunting			
East China Sea Subtotal		4,751 Oil 1,706 Gas 18	

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MAJOR PROPERTIES UNDER PRODUCTION AND DEVELOPMENT (continued)

Name of Block	Major Oil and Gas Field	Total (BOE/day) Oil (Bbls/day) Gas (Mmcf/day)	Net Re 31 De T
Offshore China Subtotal		385,095 Oil 333,303 Gas 297	
o Production			
Indonesia		39,013 Oil 23,565 Gas 93	
o Development			
Australia			
NWS			
Overseas Subtotal		39,013 Oil 23,565 Gas 93	
Total		424,108 Oil 356,868 Gas 390	

REVIEW BY AREA

In 2005, the Company made 14 oil and gas discoveries offshore China, including 9 independent discoveries and 5 discoveries under PSCs. The 9 independent discoveries were Bozhong 26-2N, Bozhong 34-1N, Luda 27-1, Jinxian 1-1, Jinxian 1-1E and Qikou 17-2S in the Bohai Bay area; Weizhou 6-10, Wenchang 9-3, and Wenchang 10-3 in the Western South China Sea area. The 5 PSC discoveries, included Bozhong 19-4N, Bozhong 19-4S, Wushi 17-1, Huizhou 25-4 and Qinhuangdao 32-6N.

In offshore China, the Company successfully appraised 8 structures, including 6 independent appraisals, namely Bozhong 3-2, Luda 27-2, Weizhou 11-1N, Weizhou 11-4N, Wenchang 9-2 and Liuhua 19-5; and 2 PSC appraisals, including Bozhong 19-4N and Huizhou 25-3 (CACT 16/19 Block). These appraisals greatly accelerated the progress of development and construction of the Company's oil and gas fields.

In 2005, the Company acquired a total of 29,122 kilometers 2D seismic data offshore China, including 14,947 kilometers acquired independently and 14,175 kilometers acquired by PSC partners. Besides, a total of 3,633 square kilometers of 3D seismic data were also acquired, including 3,612 square kilometers acquired independently and 21 square kilometers acquired by PSC partners. Meanwhile, the Company completed 47 exploration wells, including 31 independent wells and 16 wells under PSCs, with total footage of 133,594 meters, including 90,756 meters drilled independently and 42,838 meters by PSC partners. As for overseas operations, the Company acquired 324 kilometers of 2D seismic data, drilled 2 exploration with total footage of 6,778 meters.

Bohai Bay

Bohai Bay is the Company's most important and largest oil and gas production base offshore China. In 2005, the Company's production and reserves in Bohai Bay continued to grow, further strengthening its leadership position. As of 31 December 2005, the net proved reserves in this region amounted to 1,044 million BOE, accounting for 44% of the Company's total. The average daily production in this area amounted to 187,021 BOE, accounting for 44% of the Company's total. Currently, the Company has exploration licenses of 15 blocks in the region, with 6 PSC blocks in cooperation with foreign companies.

In 2005, there were altogether 6 new oil and gas projects that commenced production in Bohai Bay, namely Luda 10-1, Luda 4-2, Luda 5-2, Nanbao 35-2, Caofeidian 11-3/5 and Bozhong 25-1/25-1S (C/F Platforms). The commencement of production of these projects further strengthened the position of Bohai Bay as the most important oil and gas operation base of the Company. They also contributed greatly to the Company's sustainable production growth.

In 2005, the Company continued to invest substantially in seismic data acquisition and drilling. Encouraging results were obtained in exploration.

In Bohai Bay, 22 wells were drilled during the year. 15 wells were drilled independently, including 11 wildcats and 4 appraisal wells. 2,770 kilometers of 2D seismic data and 775 square kilometers of 3D seismic data were acquired independently. 7 wells were drilled by PSC partners, including 4 wildcats and 3 appraisal wells. 21 square kilometers of 3D seismic data were acquired by PSC partners. There were 9 new oil and gas discoveries and 3 structures were successfully appraised in Bohai Bay.

Bozhong Block

In 2005, 3 wells were drilled, including 1 wildcats and 2 appraisal wells. 1 structure (Bozhong 3-2) was successfully appraised in the region. 57.5 square kilometers of 3D seismic data were acquired.

Bonan Block

In 2005, 2 wildcats and 1 appraisal well were drilled. Besides, there was 1 new discovery, namely Bozhong 34-1N.

Liaodong Bay Block

During the year, 1 wildcat was drilled and 407 square kilometers of 3D seismic data were acquired.

Boxi Block

In 2005, 2 wildcats were drilled and there was 1 new discovery, namely Qikou 17-2S.

Block 06/17

In 2005, 1 wildcat was drilled in the area.

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Block 02/31

During the year, 4 wells were drilled in the area, including 3 wildcats and 1 appraisal well. There were 3 new discoveries, including Jinxian 1-1, Jinxian 1-1E and Luda 27-1 and 1 hydrocarbon-bearing structure, namely Luda 27-2, was successfully appraised.

Block 11/19

In 2005, 1 wildcat was drilled in the area. There was 1 new discovery, namely Bozhong 26-2N. 1,061 kilometers of 2D seismic data and 310 square kilometers of 3D seismic data were acquired. In 2005, 3 PSC wells were drilled in the area, including 2 wildcats and 1 appraisal well. There were 2 new discoveries, namely Bozhong 19-4N and Bozhong 19-4S. Besides, the structure of Bozhong 19-4N was successfully appraised.

Qinhuangdao 32-6 Block

In 2005, 1 PSC wildcat was drilled. There was 1 new discovery, namely Qinhuangdao 32-6N.

Block 09/06 & 09/18

In 2005, Kerr-McGee Group drilled 2 appraisal wells on the Caofeidian 14-5 hydrocarbon-bearing structure.

Block 04/36

In 2005, Kerr-McGee Group drilled 1 wildcat on Caofeidian 2-2 in block 04/36.

Other Independent Blocks

During the year, the Company acquired 1,710 kilometers of 2D seismic data in the Bodong Miaoxi Sag.

Western South China Sea

This is the Company's another important natural gas production and exploration base. Two largest natural gas fields, Yacheng 13-1 and Dongfang 1-1 are located in this region. The Company's Dongfang 1-1 Phase II engineering project was completed in 2005 and will commence production in the first half of 2006.

By the end of 2005, a total of 640 million BOE of net proved reserves were confirmed in the region, accounting for 27% of the Company's total. The average daily net production amounted to 89,583 BOE, or 21% of the Company's total.

The major exploration areas in the Western South China Sea include Beibu Gulf, Yinggehai Basin and Qiongdongnan Basin. Currently, the Company has exploration licenses of 34 blocks in the region and with 6 PSC blocks in cooperation with foreign companies. In 2005, the Company drilled 6 wildcats and 3 appraisal wells and made 3 new discoveries appraised. In addition, 5,664 kilometers of 2D seismic data and 787 square kilometers of 3D seismic data were acquired. Meanwhile, the Company's PSC partners drilled 4 wildcats and had 1 new discovery in the region.

Yulin Block 35 of Beibu Gulf
In 2005, 3 wildcats and 2 appraisal wells were drilled. There was 1 new discovery, namely Weizhou 6-10 and 2 hydrocarbon-bearing structures, Weizhou 11-1N and Weizhou 11-4N, were successfully appraised.

Yangjiang Block 32 by the Western Estuary of the Pearl River
During the year, 2 wildcats and 1 appraisal well were drilled in the area. There were 2 new discoveries, Wenchang 10-3 and Wenchang 9-3, and 1 structure, namely Wenchang 9-2, was successfully assessed.

Songtao Block 22 in Qiongdongnan Basin
In 2005, 1 wildcat was drilled.

Other Independent Blocks
In 2005, 787 square kilometers of 3D seismic data were collected from the Southwestern Weixi Region. Besides, 5,664 kilometers of 2D seismic data were also acquired from Beijiao in Qiongdongnan Basin.

PSC Blocks
In 2005, Husky Oil China Limited drilled 1 wildcat and had 1 oil and gas discovery, namely Wushi 17-1 in block 23/15 in Beibu Gulf. Besides, it drilled 1 wildcat in block 23/20 and 2 wildcats in Wenchang 13-1/2 in Qionghai.

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Eastern South China Sea
This is one of the important crude oil production bases of the Company. The crude oil produced in this region is mainly medium or light oil.

By the end of 2005, the Company had a total of 342 million BOE of net proved reserves in the Eastern South China Sea, accounting for 14% of the Company's total. The average daily net production in the area amounted to 103,741 BOE, or 24% of the Company's total.

Currently, the Company made aggressive exploration efforts in the region. The Company has exploration licenses of 38 blocks, with 9 PSC blocks in cooperation with foreign companies. In 2005, the Company drilled 5 wildcats and 2 appraisal well in the region independently. Besides, it acquired 6,512 kilometers of 2D seismic data and 1,111 square kilometers of 3D seismic data. Meanwhile, the Company's PSC partners drilled 4 wildcats and 1 appraisal well. A new discovery, namely Huizhou 25-4 was made and 3,153 kilometers of 2D seismic data were acquired. In the region, 2 structures, including Liuhua 19-5 and Huizhou 25-3, were successfully assessed in 2004. This further helped prove the promising natural gas exploration potential in Baiyun Trough.

Block 27/10
In 2005, 2 wildcats were drilled.

Liuhua Block 07
During the year, 1 wildcat was drilled and 1 appraisal well, namely Liuhau 19-5, was successfully appraised.

Enping Block 15
In 2005, 1 wildcat was drilled.

Huizhou Block 14
In 2005, 1 wildcat was drilled.

Block 16/21
During the year, 1 wildcat was drilled.

Other Independent Blocks
In 2005, 6,512 kilometers of 2D seismic data were acquired from Panyu 28-1, Baiyun 16-1, Xijiang 35-1, Hanjiang and Zhu I Sag. 1,111 square kilometers of 3D seismic data were acquired from Liuhua 4-1 and Xijiang 23-1.

PSC Blocks
Block 17/22
In 2005, Statoil drilled 1 wildcat.

Block 16/19
In 2005, Eni and Chevron drilled 1 wildcat and had 1 new discovery, namely Huizhou 25-4; it also drilled 1 appraisal well and successfully assessed one, namely Huizhou 25-3.

Block 15/34
During the year, Devon drilled 2 wildcats.

Block 43/11
In 2005, Kerr-McGee Group acquired 3,153 kilometers of 2D seismic data from the area.

East China Sea
This is an area with enormous exploration potential and extensive exploration acreage. By the end of 2005, a total of 88 million BOE of net proved reserves was certified in the East China Sea, accounting for 4% of the Company's total. The average daily net production in the area amounted to 4,751 BOE, or 1% of the Company's total.

Currently, the Company has exploration licenses of 57 blocks, with 3 PSC blocks in cooperation with foreign companies. In joint efforts with Sinopec, the Company is carrying out exploration and development activities in the Xihu area of the East China Sea.

In 2005, the Company acquired 940 square kilometers of 3D seismic data from Xihu Trough 27/05.

Overseas
As of 31 December 2005, the Company had net proved reserves of 249 million BOE in Indonesia and Australia, accounting for 11% of the Company's total. Our overseas average daily net production amounted to 39,013 BOE, or 9% of the Company's total.

During the year, the Company continued to conduct exploration work overseas. 2 wildcats were drilled in Indonesia and 324 kilometers of 2D seismic data were acquired in Block M in Myanmar.

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Table of major exploration blocks

Blocks	Block Area (km2)	Explor (
Middle of Bohai Bay	4,974	26
Southern Bohai Bay	3,679	
Western Bohai Bay	1,895	
Western Liaodong Bay	3,344	3
Eastern Liaodong Bay	2,829	
Eastern Bozhong	1,861	30
Bohai Block 09/11	843	
Bohai Block 06/17	2,586	20
Bohai Block 02/31	4,990	29
Bohai Block 11/19	3,068	
Bohai Block 05/36	2,721	7
Eastern Bohai Block 11/05	3,601	10
Western Bohai Block 11/05	2,897	
Bohai Block 09/18	2,234	
Bohai Block 04/36	1,691	23
Bohai Total	43,213	
North Yellow Sea	6,471	25
Northern Trough (Northen South Yellow Sea)	912	30
Xihu Hangzhou 26 (East China Sea)	3,642	31
Xihu Hangzhou 17 (East China Sea)	4,227	28
Xihu Huangyan 04 (East China Sea)	2,848	28
Xihu Zhenhai 01 (East China Sea)	1,536	28
Lishui 33 (East China Sea)	2,999	05.
Wenzhou 21 (East China Sea)	1,437	05.
East China Sea 25/34	7,017	05.1
Kunshan Block 02 (East China Sea)	2,628	11
Jinhua Block 12 (East China Sea)	6,931	11
Tiantai 32 (East China Sea)	5,400	17
Fuzhou Block 02 (East China Sea)	3,064	11
Taibei Block 27 (East China Sea)	7,379	
Taoyuan 07 (East China Sea)	6,457	
Jilong 25 (East China Sea)	5,692	
East China Sea Total	68,640	
Xijiang 04 (Pearl River Mouth Basin)	7,969	11

Xijiang 33 (Pearl River Mouth Basin)	4,983	12
Lufeng 06 (Pearl River Mouth Basin)	4,457	11
Huizhou 31 (Pearl River Mouth Basin)	3,074	11
Enping 15 (Pearl River Mouth Basin)	5,833	11
Enping 10 (Pearl River Mouth Basin)	6,547	11
Panyu 33 (Pearl River Mouth Basin)	4,830	11
Liuhua 07 (Pearl River Mouth Basin)	4,172	11
Dongsha 04 (Pearl River Mouth Basin)	5,295	11
Kaiping 14 (Pearl River Mouth Basin)	7,753	11
Kaiping 32 (Pearl River Mouth Basin)	8,104	11
Dongsha 32(Pearl River Mouth Basin)	7,350	5.

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Table of major exploration blocks (continued)

Blocks	Block Area (km2)	Explor (
Liwan 14 (Pearl River Mouth Basin)	7,752	11
Zijin 27 (Pearl River Mouth Basin)	5,396	11
15/20 (Pearl River Mouth Basin)	1,895	11.
16/02 (Pearl River Mouth Basin)	3,495	3.
Baiyun 15 (Pearl River Mouth Basin)	6,463	11
Huizhou 30 (Pearl River Mouth Basin)	5,862	11
Lufeng 08 (Pearl River Mouth Basin)	4,684	
16/05 (Pearl River Mouth Basin)	3,007	31
Eastern South China Sea Total	108,921	
Weizhou 12 (Beibu Gulf)	6,980	11
Yulin 35 (Beibu Gulf)	6,050	11
Weizhou 26 (Beibu Gulf)	4,358	5.
Ledong 01 (Yinggehai)	6,543	3.
Lingtou 20 (Yinggehai)	2,692	30
Lingao 11 (Yinggehai)	4,117	11
Songtao 22 (Qiongdongnan)	4,063	11
Songtao 31 (Qiongdongnan)	5,264	11
Lingshui 18 (Qiongdongnan)	7,738	
Yangjiang 31 (Pearl River Mouth Basin)	6,003	3.
Qionghai 28 (Pearl River Mouth Basin)	5,208	11
Wenchang 11 (Pearl River Mouth Basin)	4,901	11
North Wanan-21 A	6,801	30
North Wanan-21 B	6,118	30
North Wanan-21 C	6,372	30

North Wanan-21 D	6,126	30
Western South China Sea	89,334	
Offshore China Subtotal	310,108	
Indonesia		
MALACCA STRAIT	11,865	
SES	8,276	
ONWJ	13,582	
WEST MADURA	1,615	
POLENG TAC	41	
BLORA	3,431	
Myanmar		
M	7,786	19.
C1	16,988	24.
C2	26,506	24.
A4	8,493	13.
M2	9,653	25.
M10	13,379	13.
Morocco		
RAS TAFELNEY	14,000	20
Overseas Subtotal	135,615	
Total	445,723	

As at 31

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Corporate Governance Report

[GRAPHIC OMITTED]

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GOVERNANCE STANDARDS

The Company has always upheld and executed high standard of business ethics, for which its transparency and standard of governance have been recognized by the public and its shareholders. High and strict standard of corporate governance enables the Company to operate steadily and efficiently and is in the long-term interests of the Company and its shareholders.

Since its listing, the Company has endeavoured to maximize its shareholders' value. In 2005, the Company executed its corporate governance policies strictly and sought to comply with relevant provisions of the Code on Corporate Governance Practices (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), ensuring that all decisions were made on principles of trust and fairness and in an open and transparent manner, so as to protect the interests of all shareholders.

KEY CORPORATE GOVERNANCE PRINCIPLES AND THE COMPANY'S PRACTICES

A. DIRECTORS

A.1 The Board

Principle: "An issuer should be headed by an effective board which should assume responsibility for leadership and control of the issuer and be collectively responsible for promoting the success of the issuer by directing and supervising the issuer's affairs. Directors should take decisions objectively in the interests of the issuer."

- The Board consists of twelve members. Five of them are Independent Non-executive Directors.

- The list of Directors, their respective biographies, and their respective roles in the Board committees are set out on pages 52 to 56 and 163 respectively. The relevant information is also disclosed in the Company's website.

- The Board and committee members of the Company are dedicated, professional and accountable. With internationally recognised figures serving on the international advisory board, the Company's corporate governance standards are further enhanced.

- Board meetings have been held 17 times during last year. In addition to the Board meetings, the members of the Board have also actively participated in the discussion on the business and operation of the Company, either in person or through other electronic means of communication such as email, when necessary.

- There exists an open atmosphere for Directors to contribute alternative views. All decisions of the Board are made on the principles of trust and fairness in an open and transparent manner, so as to protect the interests of all shareholders.

Attendance at full Board meetings in 2005

Executive Directors	No. of Meetings attended (17 meetings in total)
Fu Chengyu	17/17
Luo Han	14/17
Zhou Shouwei	17/17

Cao Xinghe (Note 3)	3/3
Wu Zhenfang (Note 3)	2/3
Wu Guangqi (Note 1)	14/15
Yang Hua (Note 3)	2/3
Independent Non-executive Directors	
Chiu Sung Hong	17/17
Kenneth S. Courtis	14/17
Evert Henkes	16/17
Tse Hau Yin, Aloysius (Note 2)	14/14
Lawrence J. Lau (Note 4)	3/3

Note 1: Mr. Wu Guangqi was appointed as Executive Director with effect from 1 June 2005.

Note 2: Mr. Tse Hau Yin, Aloysius was appointed as Independent Non-executive Director with effect from 8 June 2005.

Note 3: Mr. Cao Xinghe, Mr. Wu Zhenfang and Mr. Yang Hua were appointed as Executive Directors with effect from 31 August 2005.

Note 4: Professor Lawrence J. Lau was appointed as Independent Non-executive Director with effect from 31 August 2005.

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- The Company Secretary consulted the Directors on matters to be included in the agenda for regular Board meetings.

- Dates of regular Board meetings are scheduled at least 2 months ahead to provide sufficient notice to give all Directors an opportunity to attend. For non-regular Board meetings, reasonable notice will be given.

- Directors have access to the advice and services of the Company Secretary to ensure that Board procedures as well as all applicable rules and regulations are followed.

- Minutes of meetings of the Board and Board committees are kept by the Company Secretary and open for inspection at any reasonable time on reasonable notice by any Director.

- Minutes of meetings of the Board and Board committees recorded sufficient details the matters considered by the Board and Board committees and decisions reached, including any concerns raised by Directors or dissenting views expressed. Draft and final versions of minutes of Board meetings and Board committee meetings are sent to all Directors and all committee members respectively for their comments and records respectively.

- The committees of the Board are able, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Company's expense.

- If a substantial shareholder or a Director has conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter shall not be dealt with by way of circulation or by a committee (except an appropriate Board committee set up for that purpose pursuant to a resolution passed in a Board meeting) but a Board meeting shall be held. Independent Non-executive Directors who have no material interest in the transaction shall be present at such Board meeting.

A.2 Chairman and Chief Executive Officer

Principle: "There are two key aspects of the management of every issuer - the management of the board and the day-to-day management of the issuer's business. There should be a clear division of these responsibilities at the board level to ensure a balance of power and authority, so that power is not concentrated in any one individual."

- The Board, as representatives of the shareholders of the Company, is committed to the achievement of business success and the enhancement of long-term shareholder value with the highest standards of integrity and ethics. The Board comprises five Independent Non-executive Directors who participate in the decision-making of the Board. Besides, the Audit Committee and the Remuneration Committee comprise solely Independent Non-executive Directors. The Company believes that the high involvement of the Independent Non-executive Directors in the management and decision making of the Board and its committees strengthens the objectivity and independence of the Board.

- The role of the Board is to direct, guide and oversee the conduct of the Company's business and to ensure that the interests of the shareholders are being served.

- On the other hand, the senior management, under the direction of the Chief Executive Officer, is responsible for conducting the Company's business and affairs consistent with the principles and directions established by the Board. The clear division of responsibilities between the Board and the senior management ensures a balance of power and authority, as well as efficient management and operation of the Company, which help to contribute to the success of the Company.

- The Company did not divide the roles of the Chairman and the Chief Executive Officer. The Board believes that this structure contributes to a strong and efficient leadership which is beneficial to the development of the Company. It also enables the Company to make and implement decisions promptly and efficiently. On the other hand, the balance of power and authority is ensured by the operations of the Board and the Board committees. Further explanation on the deviation from the Code Provision is set out on page 38.

A.3 Board composition

Principle: "The board should have a balance of skills and experience appropriate for the requirements of the business of the issuer. The board should ensure that changes to its composition can be managed without undue disruption. The board should include a balanced composition of executive and non-executive directors (including independent non-executive directors) so that there is a strong independent element on the board, which can effectively exercise independent judgement. Non-executive directors should be of sufficient calibre and number for their views to carry weight."

- The Board consists of twelve members. Five of them are Independent Non-executive Directors. All Directors are expressly identified by categories of Executive Directors and Independent Non-executive Directors in all corporate communications that disclose the names of Directors of the Company.

- The Executive Directors of the Company are all individuals with immense experience in the Company's respective fields of operation. They are all engineers who are familiar with the Company's business and have been exposed to dealing with leading global players in the oil and gas industry. Most of them have over 25 years of experience in petroleum exploration and operation.

- The five Independent Non-executive Directors of the Company are all professionals or scholars with backgrounds in the legal, economics, financial and investment fields. They have extensive experience and knowledge of corporate management, making significant contributions to the Company's strategic decisions.

- The appointment of Mr. Tse Hau Yin, Aloysius and Professor Lawrence J. Lau as Independent Non-executive Directors in 2005 strengthened the independence and broadened the expertise of the Board.

- The diverse background of the Board members ensures that they can fully represent the interests of all shareholders of the Company.

- The Company has received annual confirmations from all its Independent Non-executive Directors acknowledging full compliance with the relevant requirements in respect of their independence pursuant to Rule 3.13 of the Listing Rules. The Company therefore considers all Independent Non-executive Directors independent.

A.4 Appointments, re-election and removal

Principle: "There should be a formal, considered and transparent procedure for the appointment of new directors to the board. There should be plans in place for orderly succession for appointments to the board. All directors should be subject to re-election at regular intervals. An issuer must explain the reasons for the resignation or removal of any director."

- The Company has established a Nomination Committee which consists of an Executive Director and three Independent Non-Executive Directors. A list of members of the Nomination Committee is set out under the section headed "Company Information" on page 163 of the annual report.

- The role of the Nomination Committee is to establish proper procedures for the selection of the Company's leadership positions, upgrade the quality of Board members and perfect the Company's corporate governance structure.

- The main authorities and responsibilities of the Nomination Committee are to nominate candidates for approval by the Board, to review the structure and composition of the Board, and to evaluate the leadership abilities of Executive and Non-executive Directors, so as to ensure the competitive position of the Company.

- When nominating a particular candidate, the Nomination Committee will consider (1) the breadth and depth of management and/or leadership experience of the candidate; (2) financial literacy or other professional or business experience of the candidate that are relevant to the Company and its business; and (3) the experience in or knowledge of international operations of the candidate. All candidates must be able to meet the standards set out in Rules 3.08 and 3.09 of the Listing Rules.

- The Nomination Committee is also responsible for evaluating the contributions and independence of incumbent Directors so as to determine whether they should be recommended for re-election. Based on such evaluation, the Nomination Committee will recommend to the Board candidates for re-election at general meetings and appropriate replacements (as necessary). The Board, based on the recommendation of the Nomination Committee, will propose to the shareholders the candidates for re-election at the relevant general meetings.

- A Director appointed by the Board to fill a casual vacancy or as an addition shall hold office until the next extraordinary general meeting and/or annual general meeting (as appropriate).

- During the year ended 31 December 2005, the Nomination Committee recommended the following candidates as Directors:

  (a) the appointment of Mr. Wu Guangqi as Executive Director with effect from 1 June 2005 to replace Mr. Jiang Longsheng, who ceased to be an Executive Director with effect from 1 June 2005;

  (b) the appointment of Mr. Tse Hau Yin, Aloysius with effect from 8 June 2005 to replace Dr. Erwin Schurtenburger, who ceased to be an Independent Non-executive Director with effect from 1 April 2005; and

  (c) the appointment of Mr. Cao Xinghe, Mr. Wu Zhenfang and Mr. Yang Hua as Executive Directors, and Professor Lawrence J. Lau as Independent Non-executive Director with effect from 31 August 2005, to further strengthen the Board and cater for the needs of the expanding business of the Company.

Attendance of individual members at
Nomination Committee meetings in 2005

Directors	No. of Meetings attended (5 meetings in total)
Luo Han (Chairman)	5/5
Chiu Sung Hong	5/5
Tse Hau Yin, Aloysius (Note 1)	1/1
Lawrence J. Lau (Note 2)	0/0

Note 1: Mr. Tse Hau Yin, Aloysius was appointed as a member of the Nomination Committee with effect from 31 August 2005.

Note 2: Professor Lawrence J. Lau was appointed as a member of the Nomination Committee with effect from 20 December 2005.

A.5 Responsibilities of directors

Principle: "Every director is required to keep abreast of his responsibilities as a director of an issuer and of the conduct, business activities and development of that issuer. Given the essential unitary nature of the board, non-executive directors have the same duties of care and skill and fiduciary duties as executive directors."

- o The Company regularly updates its Directors with changes in laws and regulations relevant to their role as Director of the Company.

- o All Directors newly appointed to the Board (whether as Executive or Non-executive Directors) receive appropriate briefing and training from the Company. The senior management and the Company Secretary will also conduct subsequent briefings as and when necessary, to ensure that the Directors are kept appraised of the latest developments relevant to the operations and business of the Company and are able to discharge their responsibilities properly.

- o Each Independent Non-executive Director attended all regularly scheduled meetings of the Board and committees on which such Independent Non-executive Director sat in, and reviewed the meeting materials distributed in advance for such meetings. A number of Executive Directors, together with several Independent Non-executive Directors, attended the annual general meeting and the extraordinary general meetings and answered questions raised by the shareholders.

A.6 Supply of and access to information

Principle: "Directors should be provided in a timely manner with appropriate information in such form and of such quality as will enable them to make an informed decision and to discharge their duties and responsibilities as directors of an issuer."

- o The Company's senior management regularly supplies the Board and its committees with adequate information in a timely manner to enable them to make informed decisions. Senior management also organised presentations to the Board by professional advisers on specific transactions as appropriate.

- o For regular Board meetings and Board committee meetings, the agenda and accompanying Board papers were sent in full to all Directors at least three days before the intended date of the Board meetings or Board committee meetings.

- o The Board and each Director have separate and independent access to the Company's senior management and also the Company Secretary. All Directors are entitled to have access to Board papers, minutes and related materials upon reasonable notice.

B. REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

B.1 The level and make-up of remuneration and disclosure

Principle: "An issuer should disclose information relating to its directors' remuneration policy and other remuneration related matters. There should be a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing the remuneration packages for all directors. Levels of remuneration should be sufficient to attract and retain the directors needed to run the company successfully, but companies should avoid paying more than is necessary for this purpose. No director should be involved in deciding his own remuneration."

- Comprising three Independent Non-executive Directors, the Remuneration Committee is responsible for reviewing and approving all Executive Directors' salaries, bonuses, share option packages, performance appraisal systems and retirement plans. A list of members of the Remuneration Committee is set out in "Company Information" on page 163.

- Details of the remuneration, as well as the share option benefits of Directors for the year ended 31 December 2005, are set out on pages 105 to 106.

- The major responsibilities and authorities of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and the senior management, determine the specific remuneration packages for all Executive Directors and senior management, such as benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board on the remuneration of Independent Non-executive Directors.

- The Company's emolument policy is to maintain fair and competitive packages with reference to perception of industry standards and prevailing market conditions. The Remuneration Committee was mindful that levels of remunerations sufficient to attract and retain the Directors and senior management were needed to run the Company successfully, but at the same time avoid paying more than is necessary for this purpose. The Directors' emolument package comprises Director's fee, basic salaries and allowances, bonuses, share options and others. The following factors are considered when determining the Directors' remuneration package:

  - Business needs and company development;

  - Responsibilities of the Directors and individual contribution;

  - Changes in appropriate markets, e.g. supply/demand fluctuations and changes in competitive conditions; and

  - The desirability of performance-based remuneration.

  No individual Director or senior management of the Company was permitted to determine his/her own remuneration.

  The Company sought to apply similar principles when determining the remuneration packages for senior management and other general staff, and employees are rewarded on a performance-rated basis as well as other fringe benefits such as social insurance, pension fund and medical cover.

  Please refer to note 12 and note 13 to the financial statements on page 105 to 107 for details of Directors' remuneration and the five highest paid individuals in the Company.

- The remuneration of Independent Non-executive Directors recommended by the Remuneration Committee was determined by the Board where the vote of the Directors concerned will not be counted in relation to their remuneration.

- The Remuneration Committee also administered the Company's share option schemes and all other employee equity-based compensation plans, with full authority to make all other determinations in the administration thereof, but subject to the limitations prescribed by laws and the rules of such plans and programs.

- The Remuneration Committee would consult the Chairman and Chief Executive Officer about its proposal relating to the remuneration of other Executive Directors and have access to professional advice if necessary.

Attendance of individual members at Remuneration Committee meetings in 2005

Independent Non-executive Directors	No. of Meetings attended (5 meetings in total)
Chiu Sung Hong (Chairman)	5/5
Evert Henkes	5/5
Tse Hau Yin, Aloysius (Note)	3/3

Note: Mr. Tse Hau Yin, Aloysius was appointed as a member of the Remuneration Committee with effect from 8 June 2005.

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C. ACCOUNTABILITY AND AUDIT

C.1 Financial reporting

Principle: "The board should present a balanced, clear and comprehensible assessment of the company's performance, position and prospects."

- The Company regularly updates investors with progress of development and performance of the Company through formal channels such as annual report, interim report and announcements made through HKEx's website and newspapers, as well as through press releases. The Company also issues quarterly operational statistics and announces its strategy at the beginning of the year to enhance transparency about its performance and to give details of the latest development of the Company in a timely manner.

- The Company provides a comprehensive business review in its interim and annual reports to enable investors to appraise its development over time and its financial position.

- The Company has also engaged an independent technical consultant firm to conduct a review of its oil and gas information and discloses details of its oil and gas properties in its annual report (as set out on pages 146 to 150).

C.2 Internal controls

Principle: "The board should ensure that the issuer maintains sound and effective internal controls to safeguard the shareholders' investment and the issuer's assets."

- The Company has established internal control system and mechanism and will continue to improve such systems to comply with regulatory requirements and to enhance corporate governance of the Company.

- The Audit Committee of the Board is responsible for overseeing the operation of the internal monitoring systems, so as to ensure that the Board is able to monitor the Company's overall financial position, to protect the Company's assets, and to prevent major errors resulting from financial reporting or loss.

- The Audit Committee has reviewed, together with senior management and the external auditors, the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters.

C.3 Audit Committee

Principle: "The board should establish formal and transparent arrangements for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors. The audit committee established by an issuer pursuant to the Exchange Listing Rules should have clear terms of reference."

- The Audit Committee consists of three Independent Non-executive Directors, with Dr. Kenneth Courtis designated as the Audit Committee financial expert for the purposes of U.S. securities laws. A list of members of the Audit Committee is under the section headed "Company Information" on page 163 of the annual report.

- The Audit Committee meets at least twice a year and is responsible for reviewing the completeness, accuracy and fairness of the Company's accounts, evaluating the Company's auditing scope and procedures as well as its internal control systems.

- Full minutes of Audit Committee meetings are kept by the Company Secretary. Draft and final versions of minutes of the Audit Committee meetings are sent to all members of the Audit Committee for their comments and records respectively, in both cases within a reasonable time after the meetings.

- The Audit Committee is also responsible for overseeing the operation of the internal monitoring systems so as to ensure that the Board is able to monitor the Company's overall financial position, to protect the Company's assets, and to prevent major errors resulting from financial reporting or loss.

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- The following is a summary of the work performed by the Audit Committee under its charter during the year:

  -- Reviewed the Company's audited accounts and results announcement before it is tabled before the Board for approval, discussing with senior management and the external auditors;

-- The Audit Committee held formal meetings with the external auditors and senior management of the Company at least twice a year to discuss the following matters:

(i) the external auditor's engagement letter and general scope of their audit work, including planning and staffing of the audit;

(ii) the Company's management discussion and analysis disclosures in the interim report and annual report of the Company;

(iii) the applicable accounting standards relating to the audit of the Company's financial statements, including any recent changes;

-- In addition to formal meetings arrangement by the Company, members of the Audit Committee were also given direct access to the external auditors and have frequent contacts with the external auditors to discuss issues from time to time;

-- Conducted a review of the effectiveness of the system of internal controls of the Company and its subsidiaries, including financial, operational and compliance controls, as well as risk management aspects of internal controls, and made recommendation to the Board based on the review;

-- Discussing with senior management of the Company ways of improving and strengthening the scope, adequacy and effectiveness of the Company's internal controls, including corporate accounting and financial controls, both under the Listing Rules as well as under relevant US requirements;

-- Made recommendation to senior management and the Board on the scope and quality of management's ongoing monitoring of risks and issues relevant to internal controls;

-- Reviewed the work performed by the Company's external auditors and their relationship with the Company's senior management, and recommended to the Board for the re-appointment of Ernst & Young as external auditors, as well as the proposed auditor's fees;

-- Reviewed the Company's audit and non-audit services pre-approval policy to ensure auditor independence;

-- Members of the Audit Committee received materials from the Company's external auditors from time to time in order to keep abreast of changes in financial reporting principles and practices, as well as issues relating to financial reporting and internal controls relevant to the Company.

-- Considered and approved the non-audit services provided by the external auditors during the year;

-- Reviewed the Company's business ethics and compliance policies, related reports and training programs and making recommendation for improvement; and

-- Reported on its findings and suggestions to the Board following its review of different aspects of the Company's financial reporting and internal control systems, and made appropriate recommendations where necessary.

- The Audit Committee is provided with sufficient resources, including independent access to and advice from external auditors.

Attendance of individual members at
Audit Committee meetings in 2005

Independent Non-executive Directors	No. of Meeting attended (3 meetings in total)
Chiu Sung Hong (Chairman)	3/3
Kenneth S. Courtis	3/3
Tse Hau Yin, Aloysius (Note)	2/2

Note: Mr. Tse Hau Yin, Aloysius was appointed as a member of the Audit Committee with effect from 8 June 2005.

D. DELEGATION BY THE BOARD

D.1 Management functions

Principle: "An issuer should have a formal schedule of matters specifically reserved to the board for its decision. The board should give clear directions to management as to the matters that must be approved by the board before decisions are made on behalf of the issuer."

- The Board is the ultimate decision-making body of the Company, other than those matters reserved to shareholders of the Company. The Board oversees and provides strategic guidance to senior management in order to enhance the long-term value of the Company for its shareholders.

- The day-to-day management is conducted by senior management and employees of the Company, under the direction of the Chief Executive Officer and the oversight of the Board. In addition to its general oversight of management, the Board also performs a number of specific functions.

- The primary functions performed by the Board include:

  (i) reviewing and approving long-term strategic plans and annual operating plans, and monitoring the implementation and execution of those plans;

  (ii) reviewing and approving significant financial and business transactions and other major corporate actions; and

  (iii) reviewing and approving financial statements and reports, and overseeing the establishment and maintenance of controls, processes and procedures to ensure accuracy, integrity and clarity in financial and other disclosures.

D.2 Board committees

Principle: "Board committees should be formed with specific written terms of reference which deal clearly with the committees' authority and duties."

- The Company has formed an Audit Committee, a Remuneration Committee and a Nomination Committee of the Board, each committee with its own specific charter.

E. COMMUNICATION WITH SHAREHOLDERS

E.1 Effective communication

Principle: "The board should endeavour to maintain an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation."

- The Board recognises the importance of good and effective communication with all shareholders. With a policy of being transparent, strengthening investor relations, and providing consistent and stable returns to shareholders, the Company seeks to ensure transparency through establishing and maintaining different communication channels with shareholders.

- The Company has a professionally-run investor relations department to serve as an important communication channel between the Company and its shareholders and other investors. In 2005, the Company was selected by sell-side analysts as "the Best Investor Relations in Oil and Gas Industry" according to the Institutional Investor research group and was named No. 1 for Best Corporate Governance in China by FinanceAsia magazine.

- A key element of effective communication with shareholders and investors is prompt and timely dissemination of information in relation to the Company. In addition to announcing its interim and annual results to shareholders and investors, the Company also publicises its major business developments and activities through press releases, announcements and the Company's website in accordance with relevant rules and regulations. Press conferences and analyst briefings are held from time to time on financial performance and major transactions.

- The annual general meeting also provides a useful forum for shareholders to exchange views with the Board. The Chairman of the Board, as well as chairmen of the Audit Committee, Nomination Committee and Remuneration Committee, or in their absence, members of the respective committees, are available to answer questions from shareholders at annual general meetings and extraordinary general meetings of the Company.

E.2 Voting by Poll

Principle: "The issuer should regularly inform shareholders of the procedure for voting by poll and ensure compliance with the requirements about voting by poll contained in the Exchange Listing Rules and the constitutional documents of the issuer."

- Details of the poll voting procedures and the rights of shareholders to demand a poll are set out on page 63 of this annual report, and are included in circulars to shareholders despatched by the Company.

- The results of the poll are published in newspapers as well as on the Stock Exchange and the Company's website.

- The Company has also complied with the requirements concerning voting by poll under the Listing Rules. For example, voting was conducted by poll in respect of the connected transactions at the Company's recent extraordinary general meeting held on 31 December 2005.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the Code Provisions of the CG Code as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December, 2005, except for deviations from Code Provisions A.2.1, A.4.1, A.4.2 and B.1.3 only. The following summaries the Company's deviations from the CG Code and the reasons for such deviations.

Code Provision A.2.1
Under Code Provision A.2.1, the roles of the chairman and chief executive officer are required to be separated and not to be performed by the same individual.

Mr. Fu Chengyu ("Mr. Fu") is the Chairman of the Board. In addition to the role of the Chairman, the role of Chief Executive Officer is also designated to Mr. Fu. This constitutes a deviation from Code Provision A.2.1. The reason for such deviation is set out below.

The Company is engaged in the oil and gas exploration and production business which is different from integrated oil companies engaging in both upstream and downstream operations. In light of this, the Board considers that the interest of the Company's oil and gas exploration and production business is best served when strategic planning decisions are made and implemented by the same person. The Company's Nomination Committee also agreed that it is in the best interest of the Company that the roles of the Chairman of the Board and Chief Executive Officer be performed by the same individual.

In light of the above, the Company does not currently propose to designate another person as the Chief Executive Officer of the Company.

Code Provision A.4.1
Under Code Provision A.4.1, non-executive directors should be appointed for a specific term and be subject to re-election.

None of the existing Independent Non-executive Directors of the Company is appointed for a specific term. This constitutes a deviation from Code Provision A.4.1. However, all the Directors of the Company (executive and non-executive) are subject to the retirement provisions under article 97 of the articles of association of the Company ("Article 97"). According to Article 97, one-third of the Directors for the time being must retire from the office by rotation at each annual general meeting. The Company has observed the need for good corporate governance practices and all the existing Independent Non-executive Directors of the Company have been re-elected in past three years, except Mr. Lawrence J. Lau, who was appointed as an Independent Non-executive Director of the Company with effect from 31 August 2005. Therefore, 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 CG Code.

Code Provision A.4.2
Under 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. Mr. Fu, the Chairman of the Company, was re-elected as a Director on 6 June 2002. Although he did not retire by rotation at the annual general meeting held on 25 May 2005 as under Article 97 a Director who is also a chairman or chief executive officer of the Company is exempted from the requirement to retire by rotation, he was re-elected as a Director at the extraordinary general meeting held on 31 December 2005 to comply with Code Provision A.4.2.

Code Provision B.1.3
Code Provision B.1.3 requires the terms of reference of the remuneration committee of the Company to include, as a minimum, certain specific duties set out in such Code Provision.

Previously, the Company's Remuneration Committee charter did not mirror the exact wording of the terms of reference in Code Provision B.1.3. The Company has therefore revised its Remuneration Committee charter to comply with the provisions in Code Provision B.1.3.

CHANGES IN DIRECTORSHIP

On 1 April 2005, Mr. Erwin Schurtenberger resigned as an Independent Non-executive Director of the Company for personal reasons due to ill health. Mr. Tse Hau Yin, Aloysius ("Mr. Tse") was subsequently appointed as an Independent Non-executive Director of the Company in place of Mr. Erwin Schurtenberger on 8 June 2005. Mr. Tse was also appointed as a member of the Audit Committee, Remuneration Committee and Nomination Committee of the Company.

Mr. Jiang Longsheng, an Executive Director of the Company, retired on 1 June 2005 and Mr. Wu Guangqi was appointed as an Executive Director of the Company in place of Mr. Jiang Longsheng with effect from the same day. Mr. Wu Guangqi was also appointed as the Compliance Officer of the Company.

Based on the recommendation of the Nomination Committee, Mr. Cao Xinghe, Mr. Wu Zhenfang and Mr. Yang Hua were appointed as Executive Directors of the Company, and Mr. Lawrence J. Lau was appointed as an Independent Non-executive Director of the Company, all with effect from 31 August 2005, to further strengthen the Board and cater for the needs of the expanding business of the Company.

During the period between Mr. Erwin Schurtenberger's resignation and Mr. Tse's appointment as an Independent Non-executive Director of the Company, the Audit Committee only comprised of two Independent Non-executive Directors and therefore the Company was not in strict compliance with Rule 3.21 of the Listing Rules, which requires an audit committee to comprise of at least three Independent Non-executive Directors. The Company had informed the Stock Exchange immediately and published an announcement in newspapers containing relevant details in compliance with Rule 3.23 of the Listing Rules. The Company had also, in accordance with Rule 3.23 of the Listing Rules, ensured that an appropriate member was appointed to the Audit Committee within three months of Mr. Erwin Schurtenberger's resignation. After Mr. Tse's appointment with effect from 8 June 2005 as an Independent Non-executive Director and a member of the Audit Committee of the Company, the Audit Committee comprised three Independent Non-executive Directors and the Company is in compliance with Rule 3.21 of the Listing Rules.

CODE OF ETHICS

The Board adopted a code of ethics ("Code of Ethics") on 28 August 2003 to provide guidelines to the senior management and Directors in legal and ethical matters as well as the sensitivities involved in reporting illegal and unethical matters. The Code of Ethics covers such areas as supervisory rules, insider dealing, market malpractices, conflict of interests, company opportunities, protection and proper use of the Company's assets as well as reporting requirements.

All the senior management members and Directors are required to familiarise themselves with and follow the Code of Ethics to ensure that the Company's operations are honest and legal. Violations of the rules will be penalized and serious offences will result in dismissals.

The Company reviewed its Code of Ethics and adopted the revised code of ethics ("New Code of Ethics") in 2005, as part of its continued efforts to improve its corporate governance standards. The Company has provided all its Directors and senior officers with a copy of the New Code of Ethics and require them to comply with the New Code of Ethics, so as to ensure the Company's operation is proper and lawful. The Company will take disciplinary actions towards any act which is in breach of the New Code of Ethics.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company's Code of Ethics and New Code of Ethics both incorporated the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. All Directors have confirmed that they complied, during the year ended 31 December 2005, with the required standards set out in the Model Code.

SERVICES AND REMUNERATION OF AUDITORS

Ernst & Young was appointed and engaged as the Company's auditor ("Auditor") for the financial year ended 31 December 2005. Services provided by the Auditor and fees charged by the Auditor for the services are as follows:

Audit Fees

The aggregate fees billed for professional services rendered by the Auditor for the audit of the Company's annual financial statements or services that are normally provided by the Auditor in connection with statutory and regulatory filings or engagements were RMB6,750,000 (approximately US$815,562) for the financial year ended 31 December 2004 and RMB7,961,006 (approximately US$986,469) for the financial year ended 31 December 2005.

Audit-Related Fees

The aggregate fees billed for assurance and related services by the Auditor that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported under "Audit Fees" were RMB993,180 (approximately US$120,000) for the financial year ended 31 December 2004 and RMB2,098,252 (approximately US$260,000) for the financial year ended 31 December 2005. The audit-related services provided by the Auditor included assistance in the implementation of Section 404 of the Sarbanes-Oxley Act.

Tax Fees

The aggregate fees billed for professional service rendered by the Auditor for tax compliance, tax advice and tax planning were RMB99,318 (approximately US$12,000) for the financial year ended 31 December 2004 and nil for the financial year ended 31 December 2005.

All other fees
There are no other fees payable to the Auditor for products and/or services provided by the Auditor, other than the services reported above, for the financial year ended 31 December 2004 and for the financial year ended 31 December 2005.

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STATEMENT ON CORPORATE GOVERNANCE AS REQUIRED BY SECTION 303A.11 OF THE NEW YORK STOCK EXCHANGE LISTED COMPANY MANUAL

The Company is incorporated under the laws of Hong Kong and the principal trading market for the ordinary shares of the Company is the Stock Exchange of Hong Kong Limited. In addition, because the Company's ordinary shares are registered with the United Sates Securities and Exchange Commission and are listed on the New York Stock Exchange (the "NYSE"), the Company is subject to certain corporate governance requirements. However, many of the corporate governance rules in the NYSE Listed Company Manual (the "NYSE Standards") do not apply to the Company as a "foreign private issuer" and the Company is permitted to follow its home country corporate governance practices in lieu of most corporate governance standards contained in the NYSE Standards. Section 303A.11 of the NYSE Listed Company Manual requires NYSE-listed foreign private issuers to describe the significant differences between their corporate governance practices and the corporate governance standards applicable to U.S. companies listed on the NYSE. The Company has posted a brief summary of such significant differences on its website, which may be accessed through the following web page:

http://www.cnoocltd.com/investor/channel/investor1851.asp

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Health, Safety and Environment

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The Company is committed to the promotion of the concept and culture of health, safety and environmental protection among all the staff. Employees are encouraged and urged to put these ideas into practice. Hence, we are making every effort to develop the HSE system and structure, and to organize the related training for all the management and staff members of the Company.

At CNOOC Limited, health, safety and environmental protection (HSE) are always the priority in various operating activities.

The culture of improving and reinforcing HSE has already become a consensus among our management and staff members at all levels. The emphasis on strict implementation has become part of the routine of HSE management. The priority on environmental protection and employees' health has also been acted on. In addition, there is an increasing awareness of social responsibility during the project implementation.

In 2005, the Company made sustained progress in respect of HSE management. During the year, it was neither involved in any material injury liability case, spillage or pollution incidents, nor subject to any safety-related liability claims for losses of over RMB1 million. Besides, the Company's OSHA Statistics results continued to be above average when compared with international peers.

Strict HSE Management

As an environment-friendly company, the Company is committed to preserving health and safety of its staff, as well as maintaining the harmony with environment, when pursuing its development and profit growth.

The oil and gas field development projects of the Company that were started during the year all underwent simultaneous reviews on health, safety and environmental protection in accordance with the laws of the PRC. These projects had been endorsed by the competent government departments. Relevant government approvals had been obtained.

During the year, our focus in HSE management was also placed on contractors. Through organizing case study seminars and issuing the HSE management standards for contractors, the Company further strengthened our HSE management toward contractors.

In 2005, we also placed considerable emphasis on safety in helicopter, diving and vehicle operations. Professional auditors were hired to conduct safety checks on 11 leased helicopters. In 2006, we plan to carry out special audits on diving operations.

The Company introduced the system of occupation health profiles to all branches in order to strengthen the health management of offshore operating staff.

Besides, we continued to require offshore operating staff to submit health certificates. We also analyze their health data, so as to offer proactive and constructive advices to them on health improvement.

In 2005, we enhanced our information exchange on HSE. As an OGP (International Association of Oil and Gas Producer) member, the Company assisted the Group in organizing the "Workshop on Safety Management of Offshore Accidents" in 2005.

Improvement on HSE Crisis Management

In 2005, the Company organized a large-scale offshore emergency drill. There were over 300 participants, including our offshore service contractors and transportation service contractors. This exercise was very successful in training the involved parties, including our offshore units, branches, contractors and the relevant public authorities, on working together to tackle emergency situations.

The Company continued to work with other entities to set up Oil Spill Response Base in Tangguh, Longkou, Weizhou and Zhuhai. Such initiatives strengthened our capability in handling offshore oil spill emergencies.

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Cultivation of HSE Culture

To reinforce its work on health, safety and environmental protection, the Company kept on organizing various training sessions to further promote the HSE culture among its employees.

In 2005, nearly all the staff from the management to the operational level participated in our HSE training sessions. The topics covered HSE regulations, corporate values and policies, risk management and control, offshore rescue and special operations.

In addition, the scope of our HSE training has been extended to the employees of contractors. The training requirement have also been further embedded in performance appraisals in order to enhance HSE practices during operations. More than 10,000 employees of our contractors participated in our training sessions in 2005.

CNOOC LTD'S osha Occupational Injury & Occupation Disease Statistics of 2005

Scope	Gross man-hours	Recordable cases	Rate of recordable cases	Number of cases away	Rate of cases away	Number of days away & working shifts	Number of days away & working bounds
Company staff	7,196,936	5	0.139	1	0	3	0.028
Company staff & direct contractors	31,558,087	50	0.317	15	0.095	138	0.875

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Corporate Citizen

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As a socially responsible corporate citizen, the Company not only devotes to good causes in the form of Tibet-aid, poverty relief and education subsidies, but also gives whole-hearted support and donations to help victims of natural disasters.

Support the Community and Contribute to the Society
The Company-considers social responsibility as one of the essential prerequisites for corporate development. While emphasizing the creation of economic value to satisfy the high expectations of our shareholders, we are also eager to take up our social responsibility as a corporate citizen to generate social benefit for the advancement of the community and the whole society.

In 2005, the Company undertook a number of initiatives to give back to society.

In respect of education and culture, the Company established various endowment funds and education funds to support the education and living of poverty-stricken children. Besides, the Company also set up several free-education primary schools and made substantial donations in Hainan and other places to the construction of school buildings and dormitories.

In 2005, the Company made further contributions to the Western Australia Symphony Orchestra as part of a 3-year sponsorship campaign. Besides, together with its seven partners in the North West Shelf Gas Project in Australia, the Company jointly sponsored the visit of the Western Australia Symphony Orchestra to China to promote cultural exchange between the two countries.

The Company also sustained its oil aid activities to help relieve poverty by providing community support to different places in the form of provisions and volunteer labour.

Meanwhile, the Company and its branches and subsidiaries in various provinces and cities continued to actively participate in a charity project to support mothers in poverty, the donation of money and provisions to the Children's Village in Beijing, blood donations, charity tree planting and other charity events.

Apart from the corporate level, the employees of the Company also actively took part in volunteer work, relief support and other charity activities.

The Company, as an active supporter of humanitarian causes and a socially responsible corporate citizen, is eager to help the victims of natural disasters with forthcoming and speedy responses through donations of money and provisions.

In September 2005, we donated US$100,000 to the areas in the US where Hurricane Katrina wreaked havoc.

In the same month, we also made substantial donations of money and provisions to several Chinese regions which were affected by Typhoon Talim.

In December 2005, we donated HK$1 million to support student exchange at the Chinese University of Hong Kong.

In February 2006, the Company donated US$50,000 to Southern Leyte, Philippines in support of the relief work for a landslide disaster, which caused massive deaths and injuries.

Human Resources

[Graphic omitted]

Bringing Together Talents to Create Win-win Situation

In 2005, the Company successfully speeded up its progress in aligning the standards of its human resources management system and corporate management system with those of international energy groups. This effectively created a solid platform to secure the abundant supply of high quality talents to support the Company down the road to globalization by enhancing its competitiveness in the international market.

During the year, the Company continued to offer reasonable salary packages and ample training opportunities to provide the staff with sufficient room for career development and added incentives.

Innovating Ideas and Optimizing Management Model

To further enhance its competitiveness in respect of human resources, the Company started to work out its corporate competence models in a systematic manner under the human-oriented management principle. Various competence models, including core strengths leadership, professional and technical personnel and front line competence models, were designed for different ranks.

The establishment of these competence models served to provide guidance on our human resources management with a revolutionary mindset. It also helps to ensure that those who are recruited, selected and promoted are competent for the relevant positions in the Company. Besides, it facilitates the development of a more focused training system so as to nurture and develop our staff more strategically in a target-oriented manner. Moreover, we keep improving our performance review system so that the emphasis on positions will be gradually replaced by the emphasis on career development.

Management Transparency and Professional Ethics

During the year, the Company continued to emphasize that all employees should be respected and treated equally and fairly.

During the year under review, the Company issued a series of policy documents, including the "Management Authority Manual", "Disciplinary Action Policy and Associated Regulations", "Code of Business Conduct and Ethics" and "Conflict of Interest Policy". By doing so, we managed to further improve the standards and increase transparency of the relevant management systems and their information disclosures, and to raise the professional standards of our employees.

Comprehensive System and Reasonable Rewards

In the course of its pursuit of corporate growth, the Company keeps on improving its salary structure and incentive schemes to reward its staff in recognition of their performance.

During the year, we completed the "Compensation Administration and Adjustment Plan" and concluded the reform on our staff remuneration structure. Besides, we also introduced various incentive schemes, such as, among others, the "Project Team Incentive Scheme" and the "New discovery Incentive Scheme". Such efforts help not only further regulate the existing system of staff remuneration and benefits, but also effectively motivate our employees at all levels to contribute more to the business development of the Company.

With respect to overseas staff, we continued to improve our remuneration policy to make it competitive in the international market. Besides, we also started to build up international recruitment database to support our overseas business expansion.

Staff Training and Long-term Development

The Company places great importance to the long-term personal growth of the employees. Therefore, we keep on designing versatile, practical and target-oriented training courses to develop the capabilities of the employees in a systematic and progressive manner.

During the year, apart from being active in recruiting external talents, we continued to strengthen internal training and personnel development. We constantly improved our training management system to upgrade our standards in this area. Besides, we took steps to build and develop various online training channels, including the E-learning online platform and other initiatives. Various management and other training programs were provided to our employees for the benefit of their career development, as well as the business development of the Company in order to create a win-win situation.

In 2005, the Company organized a number of professional and general management training programs in a strategic manner. During the year, 818 training classes were organized with 12,215 participants, amounting to a total of 95,295 training hours or 50 training hours per person.

Directors and Senior Management

[Graphic omitted]

Executive Directors

Fu Chengyu

Born in 1951, Mr. Fu received a B.S. degree in geology from the Northeast Petroleum Institute in China and a Master's degree in petroleum engineering from the University of Southern California in the United States. He has over 30 years of experience in the oil industry in the PRC. He previously worked in China's Daqing, Liaohe and Huabei oil fields. He joined China National

Offshore Oil Corporation ("CNOOC"), the controlling shareholder of the Company, in 1982 and has since been appointed as the Chairman of the Management Committee formed through a joint venture between CNOOC, BP Amoco, Chevron, Texaco, Phillips Petroleum, Shell and Agip. From 1994 to 1995, Mr. Fu was the Deputy General Manager of China Offshore Oil Eastern South China Sea Corporation, a subsidiary of CNOOC. In December 1995, he was appointed as the Vice President of Phillips China Inc. and the General Manager of the Xijiang Development Project. In 1999, Mr. Fu was appointed as the General Manager of China Offshore Oil Eastern South China Sea Corporation, a subsidiary of CNOOC. In 2000, Mr. Fu was appointed as the Vice President of CNOOC. Subsequently, he was appointed as the Executive Vice President, President and Chief Operating Officer of the Company in 2001. In August 2002 he became the Chairman and Chief Executive Officer of China Oilfield Services Limited ("COSL"), a company listed on The Stock Exchange of Hong Kong Limited and a subsidiary of CNOOC. In October 2003, Mr. Fu was appointed as the President of CNOOC. He was also appointed as the Chairman of the Board of Directors and Chief Executive Officer of the Company with effect from 16 October 2003. In November 2003, Mr. Fu resigned from his Chief Executive Officer position in COSL. He also serves as the Chairman of the Board of Directors of CNOOC Finance Corporation Limited, a subsidiary of CNOOC, as well as CNOOC China Limited and CNOOC International Limited, both being the subsidiaries of the Company. Mr. Fu was appointed as an Executive Director of the Company with effect from 23 August 1999.

Luo Han

Born in 1953, Mr. Luo received a doctorate degree from the Petroleum University in China. He has over 30 years of experience in the oil industry in the PRC. He joined CNOOC in 1982. From 1993 to 1999, Mr. Luo served as the Vice President of China Offshore Oil Eastern South China Sea Corporation and concurrently as the Chairman of the CACT (CNOOC-AGIP-Chevron-Texaco) operators group, and the Executive Vice President of China Offshore Oil East China Sea Corporation, a subsidiary of CNOOC. In 1999, he served as the General Manager of CNOOC China Limited's Shanghai Branch. Mr. Luo is a Vice President of CNOOC, a position he has held since 2000. He also serves as the Chairman of the Board of Directors of Zhonghai Trust & Investment Co., Ltd., a subsidiary of CNOOC, and the Director of CNOOC China Limited, a subsidiary of the Company. Mr. Luo was appointed as an Executive Director of the Company with effect from 20 December 2000.

Zhou Shouwei

Born in 1950, Mr. Zhou received a doctorate degree from the Southwest Petroleum Institute in China and is a senior engineer. He joined CNOOC in 1982. Mr. Zhou served as the Deputy General Manager of China Offshore Oil Bohai Corporation, a subsidiary of CNOOC and the General Manager of CNOOC China Limited Tianjin Branch. He was appointed as the Executive Vice President of the Company in September 1999 and the President of the Company in July 2002. Since 2000, Mr. Zhou has been the Vice President of CNOOC. Mr. Zhou serves as the Director and the President of CNOOC China Limited and the Director of CNOOC International Limited, both subsidiaries of the Company. He also serves as the Chairman of CNOOC Southeast Asia Limited, a wholly-owned subsidiary of the Company since April 2003. Mr. Zhou became the chairman of CNOOC Engineering Company Limited, a listed company in Shanghai Stock Exchange and a subsidiary of CNOOC, on 6 December 2003. Mr. Zhou was appointed as an Executive Director of the Company with effect from 23 August 1999.

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Cao Xinghe

Born in 1949, Mr. Cao graduated from Tianjin Politics and Law Management College majoring in Economic Laws and later studied for MBA in Capital University of Economics and Business. Mr. Cao has forty years of experience in the petroleum industry since he started work in 1965. He worked for Shengli oilfield and Dagang oilfield before he joined CNOOC in 1982. From 1985 to 1996, Mr. Cao worked as Manager of Bohai Oil Commercial Company and later as the Manager of Bohai Oil Transportation Company, both being the subsidiaries of CNOOC. From 1996 to 2003, he worked as Deputy General Manager and General Manager of CNOOC Bohai Corporation successively. From April 2003 to July 2004, Mr. Cao worked as Assistant President of CNOOC. He became Vice President of CNOOC in August 2004. Mr. Cao also serves as the Chairman of the Board of Directors of CNOOC Base Group Limited, a subsidiary of CNOOC. Mr. Cao was appointed as an Executive Director of the Company with effect from 31 August 2005.

Wu Zhenfang
Born in 1952, Mr. Wu is a senior engineer and graduated with a bachelor's degree from Dalian University of Technology, majoring in Offshore Petroleum Engineering and Construction. He later studied for EMBA in Shanghai Jiao Tong University. Mr. Wu joined the petroleum industry in 1971. He joined CNOOC in 1982. From 1993 to 1997, he was Deputy General Manager of CNOOC Nanhai West Corporation. He became the President of CNOOC Chemical Limited in 2000. He was also the Chairman of the Board of Directors of Fudao Fertilizer Limited and CNOOC Chemical Limited from 2001 to 2003 and 2003 to 2005 respectively. From 2003 to 2004, Mr. Wu was Assistant President of CNOOC. In August 2004, he became Vice President of CNOOC. Mr. Wu also serves as the Chairman of a number of subsidiaries of CNOOC (including Guangdong Dapeng LNG Company Limited, CNOOC Fujian Natural Gas Limited, CNOOC Oil & Petrochemicals Co., Ltd. and CNOOC Zhejiang Ningbo LNG Co., Ltd.), the Chairman and President of CNOOC Gas and Power Limited and the Vice Chairman of Shanghai Petroleum and Natural Gas Company Limited. Mr. Wu was appointed as an Executive Director of the Company with effect from 31 August 2005.

Wu Guangqi
Born in 1957, Mr. Wu is a geologist and graduated with a Bachelor of Science degree from the Ocean University of China, majoring in Marine Geology. He also holds a master's degree in Management from the China Petroleum University. Mr. Wu joined CNOOC in 1982. He became the Deputy General Manager of CNOOC Oil Technical Services Company, a subsidiary of CNOOC, in 1994. Mr. Wu was appointed as Director of the Administration Department of CNOOC in 1995 and became the Director of the Ideology Affairs Department of CNOOC in 2001. Mr. Wu was appointed Assistant President in 2003, and has been Vice President of CNOOC since 2004. Mr. Wu has also served as an Independent Non-executive Director of China Yangtze Power Limited, a company listed on the Shanghai Stock Exchange, since May 2003, and the Compliance Officer of the Company since 1 June 2005. Mr. Wu was appointed as an Executive Director of the Company with effect from 1 June 2005.

Yang Hua
Born in 1961, Mr. Yang is an engineer and graduated from Petroleum University with a B.S. degree in Petroleum Engineering. He also received a MBA degree from the Sloan School of Management at MIT as a Sloan Fellow. Mr. Yang joined CNOOC in 1982 and has over 23 years' experience in petroleum exploration and production. Mr. Yang spent the first-eleven year of his career with CNOOC Research Center to serve as a number of positions including the Director of Field Development Department, the Manager for Reservoir Engineering Department, the Project Manager and Team Leaders. Mr. Yang spent his second-twelve year with international business, corporate finance and capital market in the Company and its subsidiaries. From 1993 to 1999, he served as the Deputy Chief Geologist, the Deputy Director and the Acting Director for Overseas Development Department of the Company and the Vice President of CNOOC

International Limited, a wholly-owned subsidiary of the Company. In 1999, he became a Senior Vice President of the Company and then became an Executive Vice President in December 2005. From 2002 to 2003, Mr. Yang was the Director and President of CNOOC Southeast Asia Limited, a wholly-owned subsidiary of the Company. He was appointed as the Chief Financial Officer of the Company with effect from 1 January 2005. He also serves as the Director of CNOOC International Limited. Mr. Yang was appointed as an Executive Director with effect from 31 August 2005.

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Independent Non-executive Directors

Chiu Sung Hong
Born in 1947, Mr. Chiu received an LL.B. degree from the University of Sydney. He is admitted as a solicitor of the Supreme Court of New South Wales and the High Court of Australia. He has over 30 years' experience in legal practice and is a director of a listed company in Australia. Mr. Chiu is the founding member of the Board of Trustees of Australian Nursing Home Foundation and served as the General Secretary of the Australian Chinese Community Association of New South Wales. Mr. Chiu was appointed as an Independent Non-executive Director of the Company with effect from 7 September 1999.

Kenneth S. Courtis
Born in 1946, Dr. Courtis was the Managing Director of Goldman Sachs and Vice Chairman of Goldman Sachs Asia and retired in March 2006. He specializes in economics and strategy throughout the Asia-Pacific region as well as in Europe and North America. After graduating with honors from Glendon College in Toronto, Dr. Courtis received an M.A. in international economics from Sussex University, England, an M.B.A. in finance and strategy from the European Institute of Business Administration and a Ph.D. from the Institute of Economic and Political Studies in Paris. Prior to joining Goldman Sachs, he served as Chief Asia Economist and Strategist for Deutsche Bank. Dr. Courtis was appointed as an Independent Non-executive Director of the Company with effect from 11 November 2002.

Evert Henkes
Born in 1943, Mr. Henkes served as the CEO of Shell global chemical business from 1998 to 2003. Since joining Shell in 1973, he held various executive positions worldwide, including Managing Director of Shell Chemicals UK Ltd., Managing Director of Shell UK, President of Billiton Metals, Shell's Metals Coordinator, Shell's Chemical Coordinator, and Director of Strategy & Business Services of Shell International Chemicals Ltd. He also served as directors in regional and global industrial bodies, including CEFIC and ICCA. He is also a director of Tate & Lyle Plc, SembCorp Industries Ltd. and Outokumpu Oy. Mr. Henkes was appointed as an Independent Non-executive Director of the Company with effect from 16 September 2003.

Tse Hau Yin, Aloysius
Born in 1948, Mr. Tse is a fellow of The Institute of Chartered Accountants in England and Wales, and the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Mr. Tse is a past president of the HKICPA. He joined KPMG in 1976 and became a partner in 1984 and retired in March 2003. Mr. Tse was a non-executive Chairman of KPMG's operations in the PRC and a member of the KPMG China advisory board from 1997 to 2000. Mr. Tse is currently an independent non-executive director of China Construction Bank

Corporation, China Telecom Corporation Limited, Wing Hang Bank, Limited and Linmark Group Limited, companies listed on The Stock Exchange of Hong Kong Limited. Mr. Tse is also the chairman of the International Advisory Council of the People's Municipal Government of Wuhan. Mr. Tse was appointed as an Independent Non-executive Director of the Company with effect from 8 June 2005.

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Lawrence J. Lau
Born in 1944, Professor Lau is an economist and graduated with a B.S. degree (with Great Distinction) in Physics and Economics from Stanford University in 1964, and received his M.A. and Ph.D. degrees in Economics from the University of California at Berkeley in 1966 and 1969 respectively. Professor Lau joined the faculty of the Department of Economics at Stanford University in 1966, becoming Professor of Economics in 1976 and the first Kwoh-Ting Li Professor of Economic Development at Stanford University in 1992. From 1992 to 1996, he served as a Co-Director of the Asia-Pacific Research Center at Stanford University, and from 1997 to 1999, as the Director of the Stanford Institute for Economic Policy Research. He was also awarded the honorary degree of Doctor of Social Sciences by the Hong Kong University of Science and Technology in 1999. Professor Lau has authored or edited five books and published more than one hundred and sixty articles and notes in professional journals. Professor Lau is an Honorary Professor of a large number of universities and institutions in mainland China such as the Institute of Systems Science at the Chinese Academy of Sciences, Jilin University, Nanjing University, Renmin University of China, Shantou University, Southeast University and the School of Economics and Management, Tsinghua University. In July 2004, Professor Lau assumed office as Vice-Chancellor of The Chinese University of Hong Kong. He currently provides useful public service to the local community in his capacity as member of the Executive Committee of the HKSAR Government's Commission on Strategic Development, the Advisory Committee of the Independent Commission Against Corruption, and the Steering Committee on Innovation and Technology. He also serves on the Board of Directors of the Hong Kong Science and Technology Park Corporation as an independent non-executive director, as well as the Far EasTone Corporation as an independent director and the Shin Kong Financial Holdings Corporation as an independent supervisor, both listed companies in Taiwan. Professor Lau was appointed as an Independent Non-executive Director of the Company with effect from 31 August 2005.

Company Secretary
Cao Yunshi
Born in 1945, Mr. Cao is the Company Secretary, General Counsel and a Senior Vice President of the Company. He received a B.S. degree from the Beijing Petroleum Institute and studied law at the Law School of Columbia University. He joined CNOOC in 1982. From 1992 to 1999, Mr. Cao was the General Manager of the Legal Department of CNOOC. He has been the General Counsel of CNOOC since 1999. Mr. Cao is a senior economist and licensed lawyer in the PRC. He has extensive experience in production sharing contracts.

Other Members of Senior Management
Liu Jian
Born in 1958, Mr. Liu is the Executive Vice President of the Company. He graduated from Huazhong University of Science and Technology with a B.S. degree and received his MBA degree from Tianjin University in 2000. He is responsible for the management of oil/gas field development and production. Mr. Liu joined CNOOC in 1982. He served as the manager of CNOOC Bohai

Corporation, the Deputy General Manager of the Tianjin Branch, the General Manager of the Zhanjiang Branch, the Senior Vice President and General Manager of the Department of Development and Production at CNOOC.

Chen Wei
Born in 1958, Mr. Chen is a Senior Vice President of the Company and General Director of the CNOOC China Limited Research Center. He received his B.S. degree from Petroleum University and holds an MBA degree from Tsinghua University. He has over 23 years of experience in petroleum exploration and production. Mr. Chen joined CNOOC in 1984 and previously served as the Deputy Manager for the Exploration and Development Department of CNOOC Research Center, the Deputy Manager of the Overseas Research Department, the Manager of the Information Department, the Deputy Director of CNOOC Research Center and the General Manager of the Human Resources Department of CNOOC, and the Senior Deputy General Manager & General Manager of our Administration Department of CNOOC Limited.

Zhang Guohua
Born in 1960, Mr. Zhang is a Senior Vice President of the company and General Manager of CNOOC China limited-Shanghai. He graduated from Qingdao Oceanographic Institute with a B.S. degree. He studied in the Business Institute of University of Alberta in Canada in 2001. He joined CNOOC in 1982 and served as Manager of the Exploration Department of China Offshore Oil Naihai West Corporation, Chief Geologist of CNOOC Research Center, Assistant to General Manager of CNOOC China Limited and General Manager of CNOOC limited Exploration Department.

Li Ning
Born in 1963, Mr. Li is a Senior Vice President of the Company and General Manager of CNOOC Limited Shenzhen Branch. He received his B.S. degree from Petroleum University of China and holds a MBA degree from Tianjin University. Mr. Li joined CNOOC in 1983 and served as Vice President of Design & Engineering Corporation of CNOOC, Vice General Manager of Engineering Department of CNOOC, General manager of DongFang 1-1 project, Vice General Manager of CNOOC Limited Zhanjiang Branch and General Manager of Engineering Department. Mr. Li was appointed as Senior Vice President of CNOOC Limited in 2003.

Chen Bi
Born in 1961, Mr. Chen is a Vice President of CNOOC Limited and General Manager of CNOOC China Limited-Tianjin. He graduated from the Development Department of Southwest Petroleum Institute, and acquired the Bachelor of Engineering. He received a Master's degree in Petroleum Engineering Department of Edinburgh Heriot-Watt University in 1988. He has received a degree of Master of Business Administration from Tsinghua University in 2000. Mr. Chen joined CNOOC in 1982. He served as the Deputy Manager of CNOOC Nanhai West Corporation Oil Production Company, Director of Production Section of the Development and Production Department of CNOOC Limited Deputy Manager and then General Manager of Development and Production Department of CNOOC Limited.

Zhu Weilin
Born in 1956, Mr. Zhu is a Vice President and General Manager of Exploration Department. He graduated from Tongji University with a Ph.D degree. Mr. Zhu joined CNOOC in 1982. He served as the General Geologist of CNOOC Research Center, the Deputy Manager and Chief Manager of Exploration Department. of CNOOC Limited, and the General Manager of the Zhanjiang Branch.

Zhu Mingcai
Born in 1956, Mr. Zhu is a Vice President of CNOOC Limited and General Manager of CNOOC International Limited. He graduated from South West Petroleum Institute with B.S. degree and received a MBA degree from the Management School of Lancaster University in UK. Mr. Zhu joined CNOOC in 1985. He served as the Vice President of CNOOC Bohai Corporation, the General Manager of Tianjin Branch and the President of Shenzhen Branch.

Fang Zhi
Born in 1962, Mr. Fang is a Vice President of CNOOC Limited and the President of CNOOC Southeast Asia Ltd. and is responsible for the company's businesses in Indonesia. He graduated from Zhejiang University with a B.S. degree and was conferred a MBA degree by the University of Birmingham in 1995. Mr. Fang joined CNOOC in 1982. He served as Deputy Director of the Research Center and Manager of Exploration and Development Department in China National Offshore Oil Nanhai East Corporation, Deputy General Manager of CNOOC-AMOCO Liuhua Joint Operating Group, Deputy General Manager and General Manager of CNOOC China Limited Shenzhen Branch during his career in the domestic operations.

Changes in Director and Senior Management of the Company
In April 2005, Mr. Erwin Schurtenberger resigned from the post of Independent Non-executive Director due to health reason.

In June 2005, Mr. Jiang Longsheng was no longer an Executive Director of the Company due to retirement. Mr. Wu Guangqi was appointed as Executive Director to replace Mr. Jiang Longsheng. He was also appointed as the compliance officer. Mr. Tse Hau Yin, Aloysius was appointed as Independent Non-executive Director.

In August 2005, Mr. Cao Xinghe, Mr. Wu Zhenfang and Mr. Yang Hua was appointed as Executive Directors of the Company and Professor Lawerence J. Lau was appointed as Independent Non-executive Director.

In December 2005, Mr. Yang Hua and Mr. Liu Jian was appointed as Executive Vice President of the Company.

Report of the Directors

The directors (the "Directors") of the Company are pleased to present their report together with the audited financial statements of the Company for the year ended 31 December 2005.

PRINCIPAL ACTIVITIES
The principal activity of the Company is investment holding of its subsidiaries, (together with the Company collectively referred to as the "Group"). These subsidiaries are principally engaged in the exploration, development, production and sales of crude oil and natural gas and other petroleum products.

SUMMARY OF FINANCIAL INFORMATION AND OPERATING RESULTS
Please refer to the financial summary on page 2 for a summary of the assets and liabilities of the Group as at 31 December 2005 and the operating results for the year then ended.

LOANS

Please refer to note 27 to the financial statements on pages 118 to 119, for details of the long-term bank loans of the Group for the year ended 31 December 2005.

PROPERTY, PLANT AND EQUIPMENT
Please refer to note 18 to the financial statements on pages 112 to 113 for net movements in property, plant and equipment of the Group for the year ended 31 December 2005.

RESERVES
The distributable reserves of the Company as at 31 December 2005, as calculated under section 79B of the Companies Ordinance (Cap. 32 of the Laws of Hong Kong), amounted to RMB7,762,096,000.

Please refer to the statement of changes in equity on pages 74 to 75 and note 33 to the financial statements on page 133 to 134 for movements in the reserves of the Group and the Company, respectively, for the year ended 31 December 2005.

SUBSIDIARIES AND ASSOCIATED COMPANIES
Particulars of the Company's subsidiaries and associated companies as at 31 December 2005 are set out in notes 20 and 21 to the financial statements on pages 113 to 116.

DIVIDENDS
An interim dividend of HK$0.05 per share and a special interim dividend of HK$0.05 per share was declared on 30 August 2005 and paid to the shareholders of the Company on 29 September 2005.

The Directors recommend the payment of a final dividend of HK$0.10 per share for the year ended 31 December 2005 payable on 7 June 2006 to all shareholders on the register of members of the Company on 24 May 2006 subject to shareholders' approval.

RETIREMENT BENEFITS
Please refer to note 34 to the financial statements on page 135 for details of the retirement benefits of the Group for the year ended 31 December 2005.

MAJOR SUPPLIERS AND CUSTOMERS
Purchases from the largest supplier of the Group for the year ended 31 December 2005 represented approximately 17.4% of the Group's total purchases. The total purchases attributable to the five largest suppliers of the Group accounted for approximately 41.4% of the total purchases of the Group for the year then ended.

Sales to the largest customer for the year ended 31 December 2005 represented approximately 11.3% of the Group's total revenue. The total sales attributable to the five largest customers of the Group accounted for approximately 35.8% of the total oil and gas sales of the Group for the year ended 31 December 2005.

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For the year ended 31 December 2005, except for the continuing connected transactions with its indirect controlling shareholder China National Offshore Oil Corporation ("CNOOC") and its associates, as disclosed in the section headed "Connected Transactions" below, none of the Directors or their respective associates or any shareholder of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interests in the five largest suppliers or customers of the Group.

CONNECTED TRANSACTIONS

The Independent Non-executive Directors have confirmed that the following connected transactions for the year ended 31 December 2005 to which any member of the Group was a party were entered into by the Group:

1. in the ordinary and usual course of its business;

2. either (a) on normal commercial terms, or (b) where there was no available comparison, on terms no less favourable to the Group than those available to or from independent third parties; and

3. in accordance with the relevant agreement governing them on terms that were fair and reasonable so far as the shareholders of the Company were concerned and in the interests of the shareholders of the Company as a whole.

The Independent Non-executive Directors have further confirmed that for the year ended 31 December 2005:

1. the aggregate annual volume of transactions under the materials, utilities and ancillary services supply agreements did not exceed 10% of the audited consolidated total revenues of the Company for the year ended 31 December 2004;

2. the aggregate annual volume of transactions in relation to technical services did not exceed RMB 7,218 million (being the revised cap for the year ended 31 December 2005, as approved by the independent shareholders of the Company on 31 December 2005);

3. the aggregate annual volume of transactions in relation to research and development services for particular projects did not exceed RMB 153 million;

4. the aggregate annual volume of transactions in relation to sales of crude oil, condensate oil and liquefied petroleum gas did not exceed 82% of the audited consolidated total revenues of the Group in the year ended 31 December 2004;

5. the amount paid under the general research and development services agreement did not exceed RMB 110 million;

6. the aggregate amounts paid under the lease and management agreements did not exceed RMB 78 million; and

7. the maximum outstanding balance of deposits (including interest received in respect of these deposits) placed with CNOOC Finance Corporation Limited did not exceed RMB 6,800 million.

The auditors of the Group have reviewed the connected transactions referred to in paragraphs 1 to 7 above and confirmed to the Directors that:

1. the transactions have received the approval of the Directors;

2. the transactions were in accordance with the pricing policies as stated in the Company's financial statements;

3. the transactions were entered into in accordance with the terms of the agreements governing the transactions; and

4. the amount of the transactions has not exceeded the cap for which waiver was granted.

Please also refer to note 30 to the financial statements on pages 121 to 123 for a summary of the related party transactions which include the Group's connected transactions.

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In order to present a more coherent, logical and understandable picture to shareholders, and also to enable the Company to monitor the status of connected transactions following each category more effectively going forward, the Company has adopted a new categorisation for continuing connected transactions. On 8 December 2005, the Company entered into three comprehensive framework agreements with each of CNOOC, China Oilfield Services Limited and Offshore Oil Engineering Co., Ltd respectively for the provision (1) by the Group to CNOOC and/or its associates and (2) by CNOOC and/or its associates to the Group, of a range of products and services which may be required and requested from time to time by either party and/or its associates in respect of the new categories of continuing connected transactions. The term of each of the comprehensive framework agreements is for a period of two years from 1 January 2006. The new categorisation and caps for each category of continuing connected transactions as approved by the independent shareholders of the Company on 31 December 2005 which will apply to the Company for the period from 1 January 2006 to 31 December 2007 are as follows:

Categories of continuing connected transactions	Annual caps
Provision of exploration, oil and gas development, oil and gas production as well as marketing, management and ancillary services by CNOOC and/or its associates to the Group	
(a) Exploration and support services	For the two years ending 31 RMB2,117 million and RMB2,293 million, respectively
(b) Oil and gas field development and support services	For the two years ending 31 December 2007, RMB7,628 million and RMB10,458 million, respectively
(c) Oil and gas field production and support services	For the two years ending 31 December 2007, RMB3,935 million and RMB4,132 million, respectively
(d) Marketing, management ancillary services	For the two years ending 31 and December 2007, RMB478 million and RMB504 million, respectively
(e) FPSO vessel leases	For the two years ending 31 December 2007, RMB453 million and RMB463 million, respectively
Provision of management, technical, facilities and ancillary services, including the supply of materials from the Group to CNOOC and/or its associates	
Provision of management, technical, facilities and ancillary services, including the supply of	For the two years ending 31 December 2007, RMB50 million and RMB100 million, respectively

materials to CNOOC and/or
its associates

Sales of petroleum and natural gas products by the Group to CNOOC and/or its associates

(a)	Sales of petroleum and natural gas products	For the two years ending 31 December 2007, RMB33,469 million and RMB44,199 million, respectively
(b)	Long term sales of natural gas and liquefied natural gas	For the two years ending 31 December 2007, RMB1,960 million and RMB3,599 million, respectively

SHARE CAPITAL

Please refer to note 32 to the financial statements on pages 124 to 132 for details of movements in the Company's share capital for the year ended 31 December 2005.

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SHARE OPTION SCHEMES

The Company has adopted the following share option schemes for the grant of options to the Company's Directors, senior management and other eligible grantees:

1. Pre-Global Offering Share Option Scheme;
2. 2001 Share Option Scheme;
3. 2002 Share Option Scheme; and
4. 2005 Share Option Scheme.

Under these share option schemes, the Remuneration Committee of the Company's Board of Directors will from time to time propose for the Board's approval for the recipient of and the number of shares underlying each option. The maximum aggregate number of shares (including those that could be substituted for under the Pre-Global Offering Share Option Scheme, the 2001 Share Option Scheme, the 2002 Share Option Scheme and the 2005 Share Option Scheme) which may be granted shall not exceed 10% of the total issued share capital of the Company as at 31 December 2005, being the date on which the shareholders of the Company approved a new share option scheme, excluding shares issued upon exercise of options granted under these schemes from time to time.

Please refer to note 32 to the financial statements on pages 124 to 132 for details regarding each of the share option scheme of the Company and options granted by the Company pursuant to each of the Pre-Global Offering Share Option Scheme, the 2001 Share Option Scheme, the 2002 Share Option Scheme and the 2005 Share Option Scheme.

During the year ended 31 December 2005, 2,300,100 options granted under the share option schemes of the Company had been exercised. Save as those disclosed in note 32 to the financial statements on pages 124 to 132, no right to subscribe for equity or debt securities of the Company has been granted by the Company to, nor have any such rights been exercised by, any other person during the year ended 31 December 2005.

PURCHASE, SALE OR REDEMPTION OF SHARES

There was no purchase, sale or redemption of the Company's shares by the Company, or any of its subsidiaries during the year ended 31 December 2005.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARE CAPITAL
As at 31 December 2005, the following persons (other than the Directors and chief executives of the Company) had interests in the shares of the Company as recorded in the register required to be kept by the Company under section 336 of the Securities and Futures Ordinance ("SFO"):

	Ordinary Shares Directly held	Ordinary Shares Indirectly held
(i) CNOOC (BVI) Limited ("CNOOC (BVI)")	28,999,999,995	--
(ii) Overseas Oil & Gas Corporation, Limited ("OOGC")	5	28,999,999,995
(iii) CNOOC	--	29,000,000,000

Note: CNOOC (BVI) is a wholly-owned subsidiary of OOGC, which is in turn a wholly-owned subsid
Accordingly, CNOOC (BVI)'s interests are recorded as the interests of OOGC and CNOOC.

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All the interests stated above represent long positions. Save as disclosed above, as at 31 December 2005, the Company is not aware of any other person having interests or short positions (other than the Directors and chief executives of the Company) in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

DIRECTORS AND SENIOR MANAGEMENT OF THE COMPANY
Please refer to pages 52 to 57 for information concerning the Directors and senior management of the Company.

DIRECTORS' INTERESTS
Apart from holding personal interests in options to subscribe for shares in the Company granted under the share option schemes of the Company (as set out in note 32 to the financial statements on pages 124 to 132), as at 31 December 2005, none of the Directors and chief executives of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), or as being recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the HKSE pursuant to the Model Code. All the interests held by the Company's directors and chief executive represent long positions.

DIRECTORS' SERVICE CONTRACTS AND INTERESTS IN CONTRACTS
No re-electing Director has an unexpired service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than normal statutory obligations).

Save as disclosed in this annual report, as at 31 December 2005 or during the year, none of the Directors had a material interest, whether directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party.

EMOLUMENTS OF THE DIRECTORS AND THE FIVE HIGHEST PAID INDIVIDUALS

Please refer to notes 12 and 13 to the financial statements on pages 105 to 107 for details of the emoluments of the Directors and the five highest paid individuals of the Company.

MATERIAL LEGAL PROCEEDINGS

As at 31 December 2005, the Company was not involved in any material litigation or arbitration and no material litigation or claims was pending or threatened or made against the Company so far as the Company is aware.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company is committed to high standards of corporate governance through the establishment of an efficient framework of policies, procedures and systems. Except for deviations from the code provisions A.2.1, A.4.1, A.4.2 and B.1.3, the Company has complied with the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2005.

Please refer to the Corporate Governance Report on pages 28 to 41 for details.

AUDITORS

Ernst & Young was appointed as the auditors of the Company for the year ended 31 December 2005 and has audited the accompanying financial statements. A resolution to re-appoint Ernst & Young as auditors of the Company will be proposed at the forthcoming annual general meeting to be held on 24 May 2006.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this report, the Directors confirmed that based on information that is publicly available to the Company and within the knowledge of the Directors, the Company had maintained sufficient amount of public float as required under the Listing Rules.

PROCEDURES FOR DEMANDING A POLL

Pursuant to Article 69(a) of the articles of association of the Company, a resolution put to the vote of a general meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by:

(i) the Chairman of such meeting; or

(ii) at least three members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote at the meeting; or

(iii) any member or members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and representing the aggregate not less than one-tenth of the total voting rights of all members having the right to attend and vote at the meeting; or

(iv) any member or members present in person (or in the case of a member being a corporation, by its duly authorised representative) or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

By Order of the Board
Fu Chengyu
Chairman

Hong Kong, 24 March 2006

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Management Discussion and Analysis

BUSINESS REVIEW AND PROSPECTS

As at 31 December 2005, our total revenue amounted to RMB69,455.7 million (US$8,470.4 million), representing a year-on-year increase of 25.8%. Net profit amounted to RMB25,323.1 million (US$3,088.3 million), representing a year-on-year increase of 56.9%. The profit growth was attributable to the following reasons: due to the increased oil price and high market demand, we seized favorable opportunities from such optimism and strengthened our exploration and development to actively expand our production capacity of oil and gas. We continued to implement effective cost control measures and maintained our leadership position in production cost per barrel among our peers.

As at 31 December 2005, the Company's basic and diluted earnings per share were RMB0.62 and RMB0.61 respectively.

Looking ahead, it is expected that the global economy will maintain positive development and the demand for energy will continue to rise. It apparently appears that oil price will likely stay at high level. We will increase our capital expenditure and strengthen exploration activities. More work will be done on the acquisitions of seismic data as well as exploration drilling. The development projects will also be conducted in a continual and highly efficient manner. There will be sixteen new projects in progress in 2006, of which ten of them are expected to commence operation during the year. The large number of oil and gas fields put into development are also expected to contribute positively to achieve the Company's production target.

In 2006, we will consistently maintain a healthy financial position and continue to expand our overseas development and pursuit of opportunities for acquisition. At the same time, our exploration work will be extended to deepwater area.

The management remains confident in the development potential of the Company.

CONSOLIDATED NET PROFIT

Our consolidated net income after tax was RMB25,323.1 million (US$3,088.3 million) in 2005, an increase of RMB9,184.0 million (US$1,120.0 million), or 56.9% from RMB16,139.1 million in 2004.

REVENUE

Income from our oil and gas sales for 2005 was RMB53,417.7 million (US$6,514.5 million), respesenting an increase of RMB16,531.7 million (US$2,016.1 million), or 44.8% from RMB 36,886.0 million in 2004. The increase was attributable to the high oil price, whilst growth in production also attributed to higher profits in the Company. The average realised price for our crude oil was US$47.31 per barrel in 2005, respesenting an increase of US$11.9, or 33.6% from US$35.41 per barrel in 2004. Sale of crude oil amounted to 129.8 million barrels, respesenting an increase of 11.6% over 2004. The average realised price for our natural gas was US$2.82 per thousand cubic feet in 2005, respesenting an increase of US$0.07, or 2.6% from US$2.75 per thousand cubic feet in 2004. At the same time, sales volume of our natural gas increased by 6.8% from 21.9 million BOE in 2004 to 23.4 million BOE in 2005.

In 2005, our net marketing profit, which was derived from marketing revenue less purchase cost of crude oil and oil products, was RMB197.2 million (US$24.1 million), respesenting a decrease of RMB30.7 million (US$3.7 million), or 13.5%, from RMB227.9 million in 2004. Marketing revenue from the Company's wholly-owned subsidiary, CNOOC China Limited, was RMB9,430.8 million (US$1,150.1 million), respesenting an increase of RMB1,688.2 million (US$205.9 million) from RMB 7,742.6 million in 2004. The net marketing profit was RMB85.0 million (US$10.4 million), however, 45.7% decreased from the same period last year due to the significant reduction in sales margin which was mainly influenced by market price in local market. Marketing revenue from the Company's wholly-owned subsidiary, China Offshore Oil (Singapore) International Pte Ltd., was RMB6,470.5 million (US$789.1 million). Netting off purchase cost of crude oil and oil production, the net marketing profit was RMB112.2 million (US$13.7 million), or 57.4% increased from the same period last year.

Our other income, reported on a net basis, was derived from our other income less corresponding costs. In 2005, our other net income was RMB59.7 million (US$7.3 million), respesenting a decrease of RMB39.1 million (US$4.8 million) from RMB98.8 million in 2004. The decrease mainly came from the fluctuation of income from service fee relating to PSC projects.

EXPENSES

Operating expenses

Our operating expenses in 2005 were RMB5,934.6 million (US$723.7 million), respesenting an increase of RMB864.3 million (US$105.4 million), or 17.0% from RMB 5,070.3 million in 2004. The increase was mainly attributable to the commencement of production of seven new oil and gas fields in China in the year. Operating expenses in 2005 were RMB38.8 (US$4.73) per BOE, an increase of 5.7% from RMB36.7 (US$4.43) per BOE in 2004. Operating expenses offshore China in 2005 were RMB32.5 (US$3.96) per BOE, respesenting an increase of 8.7% from 2004. The increase was mainly attributable to the higher service fees, supply vessels, equipment lease, maintenance materials, chemicals and fuel, resulting from the higher international crude oil price. Operating expenses offshore Indonesia in 2005 were RMB100.2 (US$12.22) per BOE, respesenting an increase of 13.0% from 2004. The increase in operating expenses per barrel for our Indonesian oil fields was due to lower net production volume based on their production sharing models. Based on working interest production, operating expenses in offshore Indonesia in 2005 were RMB48.7 (US$5.94) per BOE.

Production taxes

Our production taxes for 2005 were RMB2,596.5 million (US$316.7 million), respesenting an increase of RMB870.8 million (US$106.2 million), or 50.5% from RMB1,725.7 million in 2004. The increase was mainly due to the increased income from oil and gas sales.

Exploration costs
Our exploration costs for 2005 were RMB1,293.7 million (US$157.8 million), a slight decrease of RMB22.5 million (US$2.7 million), or 1.7% from RMB1,316.2 million in 2004, as a result of increase in capitalisation of investment in exploration.

Depreciation, depletion and amortisation
Our depreciation, depletion and amortisation were RMB5,964.7 million (US$727.4 million) for 2005, respesenting an increase of RMB509.6 million (US$62.1 million), or 9.3% from RMB 5,455.1 million in 2004. Our average depreciation, depletion and amortisation per barrel were RMB39.0 (US$4.75) per BOE which were more or less the same as those in 2004.

Dismantlement
Our dismantling costs for 2005 were RMB252.9 million (US$30.8 million), an increase of RMB51.3 million (US$6.3 million) from RMB201.6 million in 2004. The increase was primarily due to the increased dismantling costs resulting from the commencement of production at new oil and gas fields and a revision of the dismantlement liabilities for certain existing oil and gas fields. Our average dismantling costs were RMB1.7 (US$0.20) per BOE, a corresponding increase from RMB1.5 (US$0.18) per BOE in 2004.

Impairment losses related to property, plant and equipment
Our impairment losses for 2005 were RMB90.2 million (US$11.0 million). The impairment was due to the downward revision of the reserve of BZ34-2/4 and HZ19-3 oil and gas fields. The average impairment costs were RMB0.6 (US$0.07) per BOE.

Selling and administrative expenses
Our selling and administrative expenses for 2005 were RMB1,370.4 million (US$167.1 million), respesenting an increase of RMB266.1 million (US$32.5 million), or 24.1% from RMB1,104.3 million in 2004. Of which, the selling and administrative expenses of companies in China were RMB6.3 (US$0.77) per BOE, respesenting an increase of 14.5% from the previous year. Compared with last year, the increase was mainly attributable to the increase in management fees related to more PSC projects in production, labor costs and general research expenditures occurred in 2005.

Finance costs, net of interest income
Our net finance costs for 2005 were RMB741.2 million (US$90.4 million), an increase of 215.5% from the net interest expenses of RMB235.0 million in 2004. On one hand, our interest income increased RMB152.4 million from RMB206.9 million in 2004 to RMB359.3 million in 2005. On the other hand, the finance costs increased significantly mainly due to the interest expenses on our US$1 billion bonds issued in December 2004, the losses on fair value changes of the embedded derivative component of the convertible bonds and the effect of increased amount of provision of dismantlement arising from the passage of time. The increases due to the factors mentioned above were RMB164.4 million (US$20.1 million), RMB373.1 million (US$45.5) and RMB79.2 million (US$9.7 million) respectively.

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Exchange gains/losses, net
Our net exchange gains incurred in 2005 were RMB287.0 million (US$35.0 million), an increase of RMB257.7 million (US$31.4 million) from net exchange gains of RMB29.3 million in 2004. Compared with 2004, the increased exchange gains mainly came from the Chinese government's efforts on the improvement of

rate-forming mechanism and the following appreciation of RMB in the second half of the year.

Investment income

Our investment income for 2005 was RMB247.9 million (US$30.2 million), a significant increase of RMB175.5 million (US$21.4 million), or 242.4% from RMB72.4 million in 2004. For the purpose of improving performance of current assets portfolio, we increased the investment in financial instruments such as money market funds. Benefiting from the structural changes in the investment portfolio and the influence from the market, we obtained a favorable return in this year.

Share of profits of associates

In 2005, there were gains from our investments in Shanghai Petroleum and Natural Gas Company Limited and CNOOC Finance Corporation Limited. Of them, share of profit from Shanghai Petroleum and Natural Gas Company Limited was RMB261.8 million (US$31.9 million), respesenting a decrease of 12.1% from 2004, which was mainly due to the change in tax rate from favorable rate of 16.5% to normal rate of 33.0% and resulting from the increased income tax payment of 2005. Share of profit from CNOOC Finance Corporation Limited was RMB45.3 million (US$5.5 million) during the period, relatively comparable to that from 2004.

Non-operating income/expenses, net

Our net non-operating income for 2005 was RMB28.6 million (US$3.5 million), and our net non-operating income for 2004 was RMB 519.2 million. The non-operating income in 2004 represented the tax refund from re-investment in China.

Income tax

Our income tax for the year 2005 was RMB10,977.8 million (US$1,338.8 million), respesenting an increase of RMB4,047.0 million (US$493.5 million), or 58.4% from RMB6,930.8 million in 2004. The primary reason for the increase was the increase in profit before tax. The effective tax rate for 2005 was 30.2%, slightly higher than the effective rate of 30.0% in 2004.

Cash generated from operating activities

Net cash generated from operating activities in 2005 amounted to RMB32,153.8 million (US$3,921.3 million), respesenting an increase of RMB9,825.9 million (US$1,198.3 million), or 44.0% from RMB22,327.9 million in 2004.

The increase in cash was mainly due to an increase in profit before tax of RMB13,231.0 million (US$1,613.6 million), an increase in depreciation, depletion and amortization expenses of RMB509.7 million (US$62.2 million), an increase in finance costs of RMB658.7 million (US$80.3 million), an increase in provision for inventory of RMB35.8 million (US$4.4 million), an increase in dismantlement costs of RMB51.2 million (US$6.2 million), a decrease in share of profits of associates of RMB37.4 million (US$4.6 million), an increase in amortisation of discount of long term guaranteed notes of RMB26.3 million (US$3.2 million), and an increase in impairment losses related to property, plant and equipment of RMB90.2 million (US$11.0 million).

Increase of cash flow was also partially offset by an increase of income tax paid of RMB2,447.2 million (US$298.4 million), an increase in our finance exchange gain and loss of RMB257.8 million (US$31.4 million), an increase in investment income received of RMB175.5 million (US$21.4 million), a decrease in the loss on disposal and write off of property, plant and equipment of RMB14.3 million (US$1.7 million), an increase in interest income of RMB152.4 million (US$18.6 million) and a decrease in compensation cost for share based payment of RMB17.5 million (US$2.1 million).

In another aspect, compared with 2004, the increase in operating cash flow was partially attributable to the increase in changes of working capital, mainly due to the increase in changes of current assets from operating activities excluding cash and bank balances of RMB2,103.9 million (US$256.6 million), and a simultaneous increase in changes of current liabilities from operating activities of RMB71.0 million (US$8.7 million).

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Capital expenditures and investments
Net cash outflow from investing activities in 2005 was RMB29,349.2 million (US$3,579.3 million), representing an increase of RMB4,742.0 million (US$578.3 million) from RMB24,607.2 million in 2004.

In line with our use of "successful efforts" method of accounting, total capital expenditures and investments primarily include successful exploration and development expenditures and purchases of oil and gas properties. Total capital expenditures were RMB17,469.5 million (US$2,130.5 million) in 2005, representing a decrease of RMB1,152.5 million (US$140.6 million), or 6.2%, from RMB18,622.0 million in 2004. Capital expenditures in 2005 mainly comprised of RMB875.8 million (US$106.7 million) for capitalised exploration activities, RMB15,729.7 million (US$1,918.4 million) for development investments, and RMB1,017.0 million (US$124.0 million) for acquisition of 16.69% equity interest of MEG, netting off a tax refund of RMB153.0 million (US$18.7 million) from NWS Project. Our development expenditures in 2005 related principally to the development of PanYu 30-1, Bozhong 25-1/25-1S, PL19-3 phase II, NanPu 35-2 oil and gas fields.

In addition, cash outflow was attributable to the increase in time deposits with maturities over three months of RMB3,597.0 million (US$438.7 million), and the net purchase of available-for-sale financial assets of RMB8,282.7 million (US$1,010.1 million).

Financing activities
The net cash flow arising from financing activities in 2005 was an outflow of RMB7,786.4 million (US$ 949.6 million) while that in 2004 was an inflow of RMB1,970.5 million. Compared with 2004, there was no issuance of debt financing instruments or bank loan increase in 2005. The distribution of dividends of RMB7,772.2 million (US$947.9 million) and the repayment of bank loans of RMB18.7 million (US$2.3 million) by the Company generated a total cash outflow of RMB 7,790.9 million (US$950.1 million). Some cash inflow was generated by the proceeds from the exercise of share options of RMB4.5 million (US$0.5 million) in 2005.

Repayment arrangements of our total debts as at 31 December 2005 were as follows:

Debt maturities principal only
Original currency

Total

Due by 31 December	US$	JPY	RMB	RMB equivalent
	(in millions, except percentages)			
2006	100.0	271.5	--	825.7
2007-2009	1,000.0	271.4	--	8,088.9
2010-2011	--	--	--	--
2011 and beyond	1,000.0	--	--	8,070.2
Total	2,100.0	542.9	--	16,984.8
Percentage of total debt	99.8%	0.2%	--	100.0%

The gearing ratio of the Company was 19.1%. Gearing ratio is (Total Debt)/(Total Debt + Equity).

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Market risks
Our market risk exposures primarily consist of fluctuations in oil and gas prices, exchange rates and interest rates.

Oil and gas price risk
As our oil and gas prices are mainly determined by reference to the oil and gas prices in international markets, changes in international oil and gas prices have a large impact on us. International oil and gas prices are volatile, and this volatility has a significant effect on our net sales and net profits.

Currency risk
Substantially all of the Group's oil and gas sales are denominated in Renminbi and US dollars. In the past decade, the PRC government's policies of maintaining a stable exchange rate and China's ample foreign reserves have contributed to the stability of the Renminbi. Starting from 21 July 2005, China reformed the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies. Renminbi would no longer be pegged to US dollar. From that day to 31 December 2005, Renminbi has appreciated by approximately 2.5% against US dollars.

The appreciation of Renminbi against US dollars may have certain impact on the Group. On one hand, since the benchmark oil and gas prices are usually in US dollars, the Group's oil and gas sales may decrease due to the depreciation of US dollars against Renminbi. On the other hand, the depreciation of US dollars against Remminbi will also decrease the Group's costs for imported equipment and materials. In addition, the debt repayment by the Group will decrease since more than 99% of the Group's debts are also denominated in U.S. dollars.

As of the end of 2005, the balance of our yen-denominated loans was only RMB37.3 million. Since the Group has hedged our yen loans against foreign currency swaps, the Group does not expect any exchange risk relating to Japanese yen in the future.

Interest rate risk
As of the end of 2005, the interest rates for all balance of our debts were fixed. The term of the weighted average balance was approximately 8 years. The average interest rate payable by the Group is favorable under the environment

of interest rate hike.

Significant investments and material acquisitions

i) On 11 March 2005, CNOOC reached agreement with Canadian MEG Energy Corporation, on the acquisition of 18.5% (16.69% on a diluted basis) of the issued shares of MEG Energy Corp., for a consideration of C$150 million. The Company thereby acquired an interest in the oil sand project in Canada, which has a huge development potential.

ii) On 23 June 2005, the Company made a merger proposal to Unocal Corporation to acquire all the shares of Unocal Corporation at US$67 per share, or a total consideration of approximately US$18.5 billion. However, in light of huge uncertainties and unbearable risks associated with the political environment in the US, the Company finally withdrew its offer on 2 August 2005.

iii) On 8 January 2006, the Company signed a definitive agreement with South Atlantic Petroleum Limited ("SAPETRO") to acquire a 45% working interest in an offshore oil mining license 130 "OML 130" in Nigeria for a cash consideration of US$2.268 billion. Conditional on, among other things, the approval of the Nigerian National Petroleum Corporation ("NNPC") and the PRC government, the transaction is expected to be completed in the first half of 2006.

iv) On 27 January 2006, the Company acquired a 35% working interest in the Nigeria OPL229 for a consideration of US$60 million.

EMPLOYEES

We had 2,696 employees as at 31 December 2005.

We have adopted share option schemes for directors, senior management officers and other eligible grantees of the Company since 4 February 2001. The Board has granted options to eligible grantees pursuant to the terms of the relevant schemes in effect from time to time.

In 2005, we further improved the implementation and utilization of performance-based assessment system and continued implementing the "target management" and "Balance Score Card" effectively. We also upgraded our remuneration systems and various incentive systems and formulated "Proposal for employees' remuneration and its adjustments". At the same time, we accomplished the task of standardising our internal remuneration and awarded a number of prizes and awards. We effectively awarded employees who made contribution to our development while further standardised the existing remuneration and benefits system.

We put great emphasis on the cultivation and development of our staff and increased our efforts and strength on training. By continuously improving the training and management system of the Company, formulating the standard for training as well as establishing and amending on-line training, we provide our staff with all kinds of management and business training, which is beneficial to both our staff and the development of the enterprise.We strive to create a win-win situation for our staff and the enterprise.

Furthermore, we continue implementing and refining our competitive remuneration and benefits packages for overseas employees. We have also started establishing a pool of talented staff which will guarantee the provision of the necessary resources to cater for our strategic opportunities for continuous fast growth.

CHARGES ON ASSETS
Except for the change on the interest of the Group in the NWS Project as discussed in note 4 to the financial statements, the Group had no charge on assets as at 31 December 2005.

CONTINGENT LIABILITIES
The Group had no contingent liabilities as at 31 December 2005.

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Report of the Auditors

[GRAPHIC OMITTED] Ernst & Young

To the shareholders of
CNOOC Limited
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of CNOOC Limited (the "Company") and its subsidiaries (the "Group") on pages 71 to 145 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors
The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently. It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with Section 141 of the Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion
We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion
In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Ordinance.

Ernst & Young
Certified Public Accountants

Hong Kong
24 March 2006

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Consolidated Income Statement
Year ended 31 December 2005
(All amounts expressed in thousands of Renminbi, except per share data)

	Notes	2005
REVENUE		
Oil and gas sales	7, 30	53,417,669
Marketing revenues	8	15,901,325
Other income		136,749
		69,455,743
EXPENSES		
Operating expenses		(5,934,598)
Production taxes		(2,596,543)
Exploration expenses		(1,293,687)
Depreciation, depletion and amortisation		(5,964,740)
Dismantlement	31	(252,857)
Impairment losses related to property, plant and equipment	(90,190)	--
Crude oil and product purchases	8	(15,704,100)
Selling and administrative expenses	10	(1,370,368)
Others		(77,062)
		(33,284,145)
PROFIT FROM OPERATING ACTIVITIES		36,171,598
Interest income		359,294
Finance costs	11	(1,100,532)
Exchange gains, net		287,027
Investment income	9	247,893

Share of profits of associates		307,075
Non-operating income/(expenses), net		28,579
PROFIT BEFORE TAX	9	36,300,934
Tax	14	(10,977,812)
NET PROFIT	15	25,323,122

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	Notes	2005
DIVIDENDS		
Special interim dividend declared in place of 2003 final dividend	16	--
Interim dividend	16	2,138,128
Special interim dividend	16	2,138,128
Proposed final dividend	16	4,250,391
Proposed special final dividend	16	--
		8,526,647
EARNINGS PER SHARE		
Basic	17	RMB 0.62
Diluted	17	RMB 0.61
DIVIDEND PER SHARE		
Special interim dividend declared in place of 2003 final dividend	16	RMB --
Interim dividend	16	RMB 0.05
Special interim dividend	16	RMB 0.05
Proposed final dividend	16	RMB 0.10
Proposed special final dividend	16	RMB --

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Consolidated Balance Sheet
31 December 2005
(All amounts expressed in thousands of Renminbi)

	Notes	2005	Group
NON-CURRENT ASSETS			
Property, plant and equipment, net	18	66,625,167	
Intangible assets	19	1,299,643	
Investments in associates	21	1,401,839	
Available-for-sale financial assets		1,017,000	
Total non-current assets		70,343,649	
CURRENT ASSETS			
Accounts receivable, net	22	5,277,784	
Inventories and supplies	23	1,199,626	
Due from related companies	30	2,099,197	
Other current assets		806,115	
Available-for-sale financial assets/short term investments	24	13,846,935	
Time deposits with maturities over three months		12,200,000	
Cash and cash equivalents	30	8,991,758	
Total current assets		44,421,415	
CURRENT LIABILITIES			
Accounts payable	25	2,867,678	
Other payables and accrued liabilities	26	5,206,943	
Current portion of long term bank loans	27	825,674	
Due to the parent company	29, 30	488,482	
Due to related companies	30	759,934	
Tax payable	14	3,467,505	
Total current liabilities		13,616,216	
NET CURRENT ASSETS		30,805,199	
TOTAL ASSETS LESS CURRENT LIABILITIES		101,148,848	
NON-CURRENT LIABILITIES			
Long term bank loans	27	24,392	
Long term guaranteed notes	28	16,531,780	
Provision for dismantlement	31	4,161,663	
Deferred tax liabilities	14	6,827,916	

Total non-current liabilities		27,545,751
Net assets		73,603,097
CAPITAL AND RESERVES		
Issued capital	32	876,635
Reserves	33	72,726,462
Total equity		73,603,097

Zhou Shouwei
Director

Yang Hua
Director

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Consolidated Statement of Changes in Equity
Year ended 31 December 2005
(All amounts expressed in thousands of Renminbi)

	Issued share capital	Share premium and capital redemption reserve	Asset revaluation reserve	Cumulative translation reserve	Statutory and non-distributive reserve
Balances at 1 January 2004 as previously reported	876,978	20,761,205	274,671	22,647	8,050,489
Cumulative adjustment for the adoption of HKFRS 2 (note 2.2)	--	--	--	--	--
Cumulative adjustment for the adoption of HKAS 16 (note 2.2)	--	--	(274,671)	--	--
Balances at 1 January 2004 as restated	876,978	20,761,205	--	22,647	8,050,489

Exchange realignment	--	--	--	(42,301)	--
Total income and expenses for the year recognised directly in equity	--	--	--	(42,301)	--
Net profit for the year (as restated)	--	--	--	--	--
Total income and expenses for the year	--	--	--	(42,301)	--
Repurchases of shares	(392)	--	--	--	--
Transfer of reserve upon share repurchases	--	392	--	--	--
2004 special interim dividend declared in place of 2003 final dividends	--	--	--	--	--
2004 interim dividends	--	--	--	--	--
2004 special interim dividends	--	--	--	--	--
Appropriation to statutory reserve	--	--	--	--	1,363,121
Equity-settled share option expenses	--	--	--	--	--
Balances at 31 December 2004 as restated	876,586	20,761,597	--	(19,654)	9,413,610
Balances at 1 January 2005 as previously reported	876,586	20,761,597	274,671	(19,654)	9,413,610
Cumulative adjustment for the adoption of HKFRS 2 (note 2.2)	--	--	--	--	--
Cumulative adjustment for the adoption of HKAS 16 (note 2.2)	--	--	(274,671)	--	--
Balances at 1 January 2005 as restated	876,586	20,761,597	--	(19,654)	9,413,610

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	Issued share capital	Share premium and capital redemption reserve	Asset revaluation reserve	Cumulative translation reserve	Statutory and non-distributive reserve
Changes in fair value of available-for-sale investments	--	--	--	--	--
Exchange realignment	--	--	--	(493,289)	--
Total income and expenses for the year recognised directly in equity	--	--	--	(493,289)	--
Net profit for the year	--	--	--	--	--
Total income and expenses for the year	--	--	--	(4 93,289)	--
2004 final dividends	--	--	--	--	--
2005 interim dividends	--	--	--	--	--
Exercise of share options	49	4,451	--	--	--
Appropriation to statutory reserve	--	--	--	--	2,268,364
Equity-settled share option expenses	--	--	--	--	--
Balances at 31 December 2005	876,635	20,766,048	--	(512,943)	11,681,974

*These reserve accounts comprise the consolidated reserves of RMB72,726,462,000 (2004: RMB55,566,204,000 (restated)) in the consolidated balance sheet.

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Consolidated Cash Flow Statement
Year ended 31 December 2005
(All amounts expressed in thousands of Renminbi)

	Notes	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash generated from operations	35(a)	41,695,648
Income taxes paid		(9,849,454)
Interest received		359,294
Dividends received		232,346
Short term investment income received		45,785
Interest paid		(329,797)
Net cash inflow from operating activities		32,153,822
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of and prepayment for oil and gas properties 35(b)		(864,007)
Additions of property, plant and equipment		(16,605,548)
Increase in time deposits with maturities over three months		(3,597,000)
Purchase of available-for-sale financial assets/ short term investments		(21,487,478)
Disposals of available-for-sale financial assets/ short term investments		13,204,817
Net cash outflow from investing activities		(29,349,216)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of long term guaranteed notes		--
Repayment of bank loans		(18,654)
Dividends paid		(7,772,218)
Share repurchases		--
Proceeds from exercise of share options		4,500
Net cash (outflow)/inflow from financing activities		(7,786,372)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(4,981,766)
Cash and cash equivalents at beginning of year		14,091,524
Effect of foreign exchange rate changes, net		(118,000)
CASH AND CASH EQUIVALENTS AT END OF YEAR		8,991,758

ANALYSIS OF BALANCES OF CASH AND

CASH EQUIVALENTS		
Cash and cash equivalents balances		8,991,758

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Balance Sheet
31 December 2005
(All amounts expressed in thousands of Renminbi)

	Notes	Company 2005
NON-CURRENT ASSETS		
Property, plant and equipment, net	18	1,074
Investment in subsidiaries	20	7,766,971
Loans to a subsidiary	20	4,138,290
Total non-current assets		11,906,335
CURRENT ASSETS		
Other current assets		1,848
Due from the parent company	29	34
Due from subsidiaries	20	22,213,478
Available-for-sale financial assets	24	9,086,576
Cash and cash equivalents		572,792
Total current assets		31,874,728
CURRENT LIABILITIES		
Other payables and accrued liabilities		52,532
Due to subsidiaries	20	14,468,726
Total current liabilities		14,521,258
NET CURRENT ASSETS		17,353,470

NET ASSETS		29,259,805
CAPITAL AND RESERVES		
Issued capital	32	876,635
Reserves	33	28,383,170
Total equity		29,259,805

Zhou Shouwei
Director

Yang Hua
Director

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Notes to Financial Statements
31 December 2005
(All amounts expressed in Renminbi unless otherwise stated)

1. CORPORATE INFORMATION

CNOOC Limited (the "Company") was incorporated in the Hong Kong Special Administrative Region ("Hong Kong"), the People's Republic of China (the "PRC") on 20 August 1999 to hold the interests in certain entities whereby creating a group comprising the Company and its subsidiaries. During the year, the Company and its subsidiaries (hereinafter collectively referred to as the "Group") were principally engaged in the exploration, development, production and sale of crude oil, natural gas and other petroleum products.

The registered office address is 65/F, Bank of China Tower, 1 Garden Road, Hong Kong.

In the opinion of the directors, the parent and the ultimate holding company is China National Offshore Oil Corporation ("CNOOC"), a company established in the PRC.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong ("Hong Kong GAAP") and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention except for available-for-sale investments and derivative financial instruments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2005. The results of subsidiaries are consolidated from the date of acquisition being the date on which the Group obtains control and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries or an interest in a joint venture or associate during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued (if any) and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

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2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") The Hong Kong Institute of Certified Public Accountants has issued a number of new Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and interpretations, herein collectively referred to as the new HKFRSs, which are generally effective for accounting periods beginning on or after 1 January 2005. The following new and revised HKFRSs affect the Group and are adopted for the first time for the current year's financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 39 Amendment	Transition and Initial Recognition of Financial Assets and Financial
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued) The adoption of HKASs 1, 2, 7, 8, 10, 12, 14, 17, 18, 19, 21, 23, 24, 27, 28, 31, 33, 36, 37, 38 and HKFRS 3 has no material impact on the accounting policies of the Group and the methods of computation in the Group's financial statements. The impacts of adopting other HKFRSs are detailed as follows:

(a) HKAS 16 - Property, Plant and Equipment
In prior years, the Group's property, plant and equipment were classified into three categories: oil and gas properties, land and buildings (representing the onshore terminals for oil and gas processing), and vehicles and office equipment. Land and buildings were stated at valuation less accumulated depreciation. Depreciation for land and buildings is calculated on the straight-line basis at an annual rate estimated to write off the valuation of each asset over its expected useful life, ranging from 30 to 50 years.

According to HKAS 16, property, plant and equipment are required to be categorised by major component and different useful lives, if any, should be applied in calculating the depreciation.

Upon the adoption of HKAS 16, the Group has classified its property, plant and equipment into two categories: oil and gas properties and vehicles and office equipment. The Group has reclassified the onshore terminals previously classified as land and buildings to oil and gas properties as they will be used in similar operations and are expected to have similar economic useful lives.

The Group has also decided to change its accounting policy to state the onshore terminals at cost instead of valuation and to amortise those terminals by the unit-of-production method on a property-by-property basis computed based on the total estimated units of proved developed reserves instead of the straight line method. Management believes the new policy will provide more relevant information and consistent accounting approach for oil and gas related assets.

The effect of this change in accounting policy is to decrease both property, plant and equipment and the revaluation reserve as at 1 January 2005 and 2004 by RMB 274,671,000. No adjustment was made to the prior years' amounts as the impact on the prior years' consolidated income statements was not material. The effects of the above changes are summarized in note 2.4 to the financial statements.

(b) HKASs 32 and 39 - Financial Instruments

(i) Investments in equity and debt securities
In prior periods, the Group classified its investments in short term debt and equity securities as short term investments which were not intended to be held on a continuing basis and those investments were stated at fair value at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of such securities were credited or charged to the income statement in the period in which they arose.

Upon the adoption of HKAS 39, these securities held by the Group at 1 January 2005 in the amount of RMB 5,444,113,000 were designated as available-for-sale investments under the transitional provisions of HKAS 39 and accordingly are stated at fair value with gains or losses being recognised as a separate component of equity until subsequent derecognition or impairment.

(ii) Convertible bonds
In prior periods, convertible bonds were stated at amortised cost.

Upon the adoption of HKAS 32 and HKAS 39, the Group's convertible bonds issued with a cash settlement option and other derivative features are split into liability and derivative components based on their fair values for measurement purposes. The effects of the above changes are summarised in note 2.4 to the financial statements. In accordance with HKAS 32, comparative amounts have been restated.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

(c) HKFRS 2 - Share-based Payment
In prior periods, no recognition and measurement of share-based transactions in which employees (including directors) were granted share options over shares in the Company were required until such options were exercised by employees, at which time the share capital and share premium were credited with the proceeds received.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which the instruments are granted.

The main impact of HKFRS 2 on the Group is the recognition of the cost of these transactions and a corresponding entry to equity for employee share options. The revised accounting policy for share-based payment transactions is described in more detail in note 3 "Summary of significant Accounting Policies" below.

The Group has adopted the provisions of HKFRS 2 retrospectively to all stock options granted from the date of its incorporation. The effects of adopting HKFRS 2 are summarized in note 2.4 to the financial statements.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The HKICPA has issued a number of new and revised HKFRSs that are not mandatory for these financial statements. The Group has not early applied these HKFRSs in these financial statements. The following new and revised HKFRSs, although not early adopted by the Group, will have impact on the Group's financial statements in the period of initial application. Unless otherwise stated, the following HKFRSs are effective for accounting periods beginning on or after 1 January 2006:

HKAS 1 Amendment	Capital Disclosures
HKAS 21 Amendment	The effects of Changes in Foreign Exchange Rate - Net Investme a Foreign Operation
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The Fair Value Option
HKFRSs 1 & 6 Amendments	First-time Adoption of Hong Kong Financial Reporting Standard Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 5	Rights to Interests arising from Decommissioning, Restoration Environmental Rehabilitation Funds

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

The HKAS 1 Amendment shall be applied for accounting periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

HKFRS 6 deals with the accounting for exploration for and evaluation of mineral resources, including oil and gas. This HKFRS should be applied for accounting periods beginning on or after 1 January 2006. The Group expects that the adoption of HKFRS 6 will not have any significant impact on its results of operations and financial position.

HKFRS 7 will replace HKAS 32 and has modified the disclosure requirements of HKAS 32 relating to financial instruments. This HKFRS shall be applied for accounting periods beginning on or after 1 January 2007.

Except as stated above, the Group expects that the adoption of the other pronouncements listed above will not have any significant impact on the Group's financial statements in the period of initial application.

2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES

(a) Effect on the consolidated balance sheet

	Effect of adopting	
At 1 January 2005 Effect of new policies Increase/(decrease)	HKAS 16# Property, plant and equipment RMB'000	HKFRS 2# Recognition of share-based payment RMB'000
Assets		
Property, plant and equipment, net	(274,671)	--
Liabilities/equity		
Asset revaluation reserve	(274,671)	--
Other reserves	--	110,144

Retained earnings	--	(110,144)

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2.4 SUMMARY OF THE IMPACT OF CHANGES IN ACCOUNTING POLICIES (continued)

(a) Effect on the consolidated balance sheet (continued)

At 31 December 2005 Effect of new policies Increase/(decrease)	Effect of adopting HKAS 16# Property, plant and equipment RMB'000	HKASs 32 and 39* Convertible bonds RMB'000	HKAS 39* Change in classification of equity investments RMB'000
Assets			
Property, plant and equipment, net	(274,671)	--	--
Liabilities/equity			
Long term guaranteed notes	--	373,060	--
Asset revaluation reserve	(274,671)	--	--
Other reserves	--	--	69,