

Stream of

Value Creation

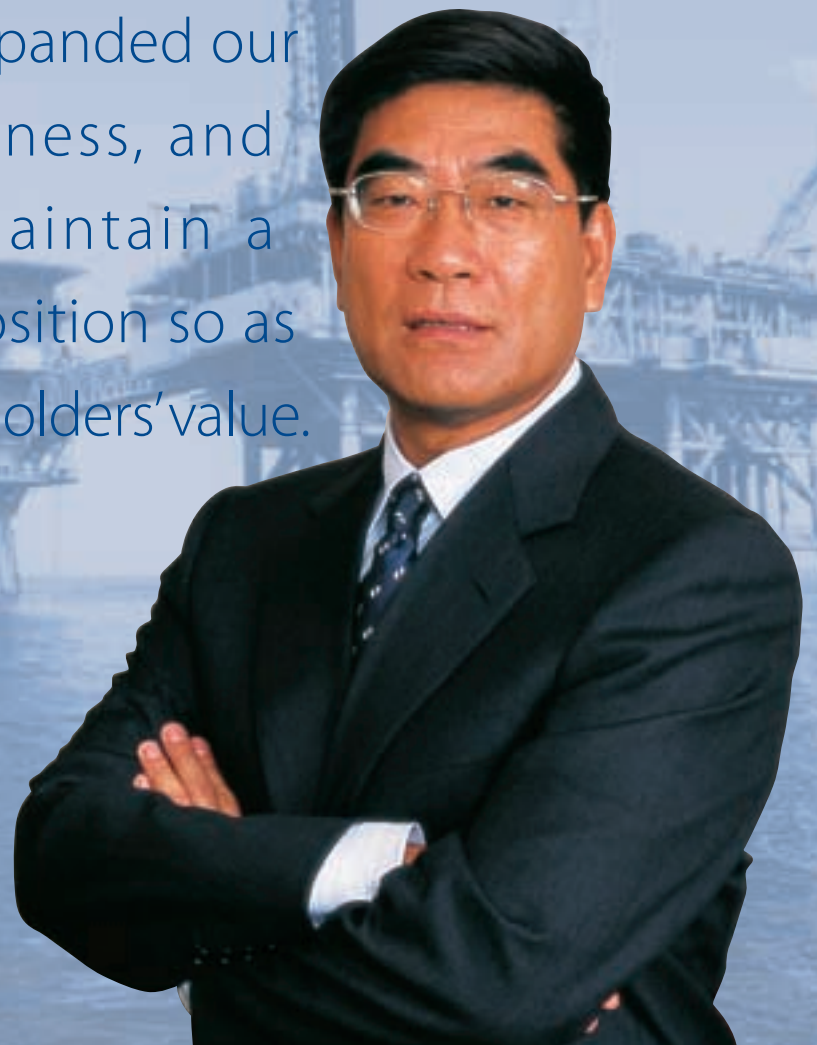


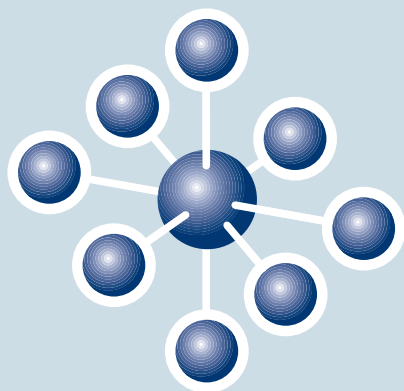
CHAIRMAN'S REPORT

Adhering to our objective of creating better value for our shareholders, we continued to emphasize production and reserves growth. We have also proactively developed and expanded our natural gas business, and continued to maintain a sound financial position so as to maximize shareholders' value.

Fu Chengyu

Chairman and Chief Executive Officer





In 2004, world economy remained auspicious. China, as one of the robust regions, still grew at a rapid rate of 9.5%. The continuous rapid development in the economy resulted in strong demand for energy. Under the combined effect of various factors including increase in demand, hedging activities, market panic and geopolitical instability, international oil prices stayed at a high level during the year.

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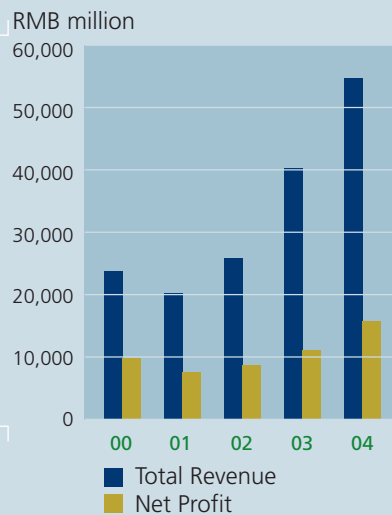
Due to high oil prices and increase in production, the Company's results for 2004 were the best in the Company's history. For the year ended 31 December 2004, total revenue of RMB 55,222 million and net profit of RMB 16,186 million were recorded, representing a growth of 34.9% and 40.3%, respectively over the previous year.

During the year, the Company continued its prudent financial policies. Standard and Poor's has upgraded the Company's long-term corporate credit rating from "BBB" to "BBB+" with positive outlook, demonstrating the rating agency's confidence in our financial position.

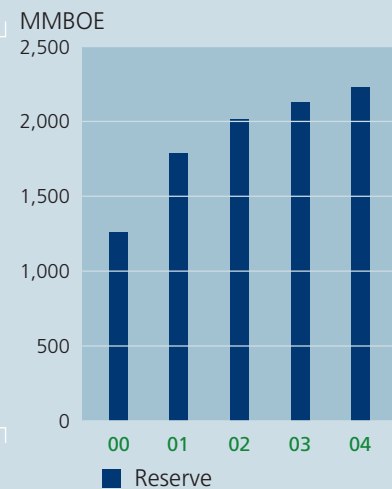
During the year under review, the Company implemented a stock-split plan to subdivide our shares into five shares each and broadened our investor base. In addition, the Company repurchased and cancelled some of its issued shares from May to July in 2004. The share repurchases not only evidenced the confidence of the Directors and management in the Company's prospect, but also effectively enhanced the shareholders' value. Taking advantage of the favorable market conditions on our strong stock performance as well as the US dollar interest rate at its historical lowest level, CNOOC Finance (2004) Limited, a wholly-owned subsidiary of the Company, issued US\$1 billion zero coupon convertible bonds, which further improved the Company's capital structure.

In 2004, the Company continued to focus on oil and natural gas exploration and development, achieving steady growth in oil and gas production and reserves. The oil and natural gas production were 117 million barrels and 133 bcf respectively, which amounts to 140 million barrels of oil equivalent in total, a year-on-year increase of 7.5%. During the year, six projects

TOTAL REVENUE AND NET PROFIT



RESERVE GROWTH



commenced production, including Weizhou 12-1N, Qikou 18-2, Bonan fields, Bozhong 25-1/25-1S, Caofeidian 11-1/11-2, and Huizhou 19-3/2. They were executed under strict progress, cost, quality and HSE controls. In addition, many projects were underway. As planned, nine new projects are expected to commence production in 2005, a year with the largest number of projects on stream.

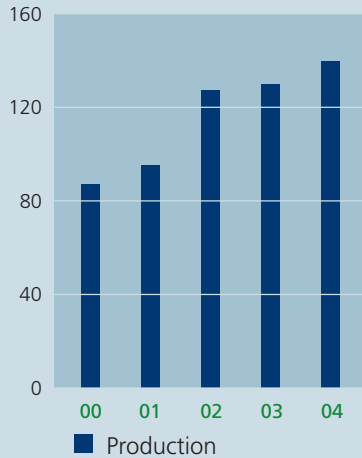
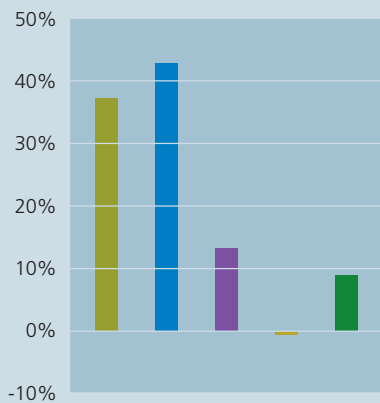
Growth in our reserves remained satisfactory in 2004. 242 million BOE of reserves were added, realizing a reserve replacement ratio of 173%. During the same period, our appraisal work accomplished promising results, in terms of both commercial appraisal success rate and reserve additions. We will continue to expand our efforts offshore China on new exploration initiatives.

We will further execute our natural gas strategy, and maintain our leading position in supplying coastal China. The Company completed the acquisition of an equity interest in the North West Shelf Gas Project in Australia. We exercised our pre-emptive right to increase interests in the Indonesian Tangguh Project to 16.96%. In 2004, the Chunxiao gas field in East China Sea, the phase 2 of Dongfang 1-1 in Western South China Sea, and Huizhou 21-1 in Eastern South China Sea are under construction. In the coming years, we expect our natural gas production to grow steadily.

In the past year, the economy of China continued to grow in an accelerated manner. Meanwhile, the prices of raw materials such as iron, steel, coal and electricity went up sharply. The surge in costs of upstream oil and gas sector became a problem commonly faced by the players in sector. Nevertheless, the Company maintained effective cost control. We continued to rank in the top quartile among our peers in term of production costs.

PRODUCTION GROWTH

MMBOE

**TOTAL RETURN** (FROM 01-01-04 TO 31-12-04)

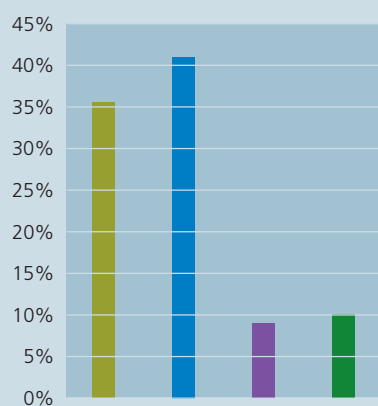
- CNOOC Ltd. (HK)
- CNOOC Ltd. (HK shares + Dividends)
- Hang Seng Index
- MSCI China Index
- Hang Seng Red Chip Index

We also gained satisfactory results in health, safety and environmental protection. During 2004, the Company did not have any incident of small scale or above oil spillage nor any incident resulting in economic loss in excess of RMB 1 million. The Company's OSHA statistics were above average among our international peers. Focus on our employee's health, emphasis on safety and environmental protection have always been part of the missions of the Company. We will maintain and constantly improve our performance in these areas.

As a corporate citizen, we insist on our community responsibility. We actively participated in community charity activities in the PRC, Indonesia and Australia through various channels. At the end of 2004, a tsunami disaster occurred in the South-east Asia. The Company as a whole expressed our sympathies to the tsunami victims in Southeast Asia, and made donations, which was recognised and praised by the society at large.

Despite the wide coverage and geographical distance in our asset distribution, we were able to sustain development and steady growth by capitalizing on the outstanding professional expertise and diligent work attitude of over 2,500 domestic and foreign staff. I am impressed by their efforts as well as performance of last year. On behalf of the Board, I would like to express our sincere thanks for the hard work, loyal service and contribution made by our employees.

On the basis of the good performance in 2004, the Company was able to pursue our development goals and ensure our healthy and sound development, while delivering promising return to our shareholders. During the year under review, the basic and diluted earnings per share of the Company were RMB 0.39. In accordance with our dividend policies, our Board of Directors has proposed a final dividend of HK\$0.03 per share and a special final dividend of HK\$ 0.05 per share. Together with the interim dividend of HK\$0.03 per share and the special interim dividend of HK\$0.05 per share, we distributed a total of HK\$0.16 per share to our shareholders during 2004.

TOTAL RETURN (FROM 01-01-04 TO 31-12-04)

- CNOOC ADR
- CNOOC (ADR + Dividends)
- S&P 500 Oil & Gas
- MSCI Asian Energy Index



In the coming year, we remain positive towards China's economic growth and global oil industry. China has become one of the world's major energy consumption countries, importing 120 million tons of crude oil in 2004. This creates a favorable business environment for the Company. We will increase our oil and gas reserves and production, maintain prudent financial policies, and devote great effort in natural gas business. Whilst consolidating on our solid fundamentals, we will adhere to our objective of maximizing shareholders' value, and leverage on opportunities to grow into a new era.

Fu Chengyu

Chairman and Chief Executive Officer

Hong Kong, 29 March 2005