

Report of the Directors

The directors (the "Directors") of CNOOC Limited (the "Company") are pleased to present their report together with the audited financial statements for the year ended December 31, 2000.

Principal Activities and Operating Results

The principal activity of the Company is investment holding of its subsidiaries (together with the Company shall be known as the "Group"), which are principally engaged in the exploration, development, production and sales of crude oil and natural gas.

Please refer to pages 40 to 77 of the financial statements for the operating results of the Group for the year ended December 31, 2000.

Summary of Financial Information

Please refer to the Financial Summary section on page 2 for a summary of the operating results, assets and liabilities of the Group for the year ended December 31, 2000.

Loans

Please refer to the Bank Loans of the financial statements on pages 60 to 61.

Property, Plant and Equipment and other Fixed Assets

Please refer to Note 13 to the financial statements on pages 57 to 58 for movements in Property, Plant and Equipment and other Fixed Assets of the Group for the year ended December 31, 2000.

Reserves

Please refer to pages 65 to 67 for movement in the reserves of the Group for the year ended December 31, 2000.

Donations

Donations made by the Group during the year ended December 31, 2000 amounted to Rmb 400,000.

Subsidiaries and Associated Companies

Particulars of the Company's subsidiaries and the Group's associated company as of December 31, 2000 are set out in Note 1 to the financial statements on pages 44 to 45.

Dividends

Except for those dividends described in the financial statements, the Directors do not recommend the payment of any dividend for the year ended December 31, 2000.

Changes in Shareholders' Equity

Please refer to Movements in Equity of the financial statements on pages 65 to 67.

Retirement Benefits

Please refer to Retirement Benefits of the financial statements on page 67.

Major Customers

The Group's sales to the five largest customers did not exceed 25% of the Group's total turnover for the year ended December 31, 2000.

None of the directors or their respective associates (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) 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 customers of the Group for the year ended December 31, 2000.

Connected Transactions

The independent non-executive directors confirmed that the connected transactions in year 2000 to which the Group was a party had been entered into, and the agreements governing those transactions were entered into, by the Group either on terms that are fair and reasonable so far as the shareholders of the Company are concerned or:

1. in the ordinary and usual course of its business;
2. either (a) on normal commercial terms, or (b) where there is no available comparison, on terms no less favourable than those available to independent third parties; and
3. on terms that are fair and reasonable so far as the shareholders of the Company are concerned.

The independent non-executive Directors further confirmed that:

1. the aggregate annual volume of transactions under the materials, utilities and ancillary services supply agreements have not exceeded 10% of the audited consolidated total revenues of the Group in the immediate preceding financial year;
2. the aggregate annual volume of transactions in relation to technical services have not exceeded Rmb2,200 million.
3. the aggregate annual volume of transactions in relation to research and development services for particular projects have not exceeded Rmb140 million;
4. the aggregate annual volume of transactions in relation to sales of crude oil, condensate oil and liquefied petroleum gas have not exceeded 4% of the audited consolidated total revenues of the Group in the immediate preceding financial year;
5. the amount paid under the general research and development services agreement has not exceeded Rmb110 million; and
6. the aggregate amounts paid under the lease and management agreements have not exceeded Rmb 55 million.

The auditors of the Group reviewed the connected transactions and confirmed to the Directors that:

- (a) the transactions received the approval of the Directors;
- (b) the transactions were in accordance with the pricing policies as stated in the Company's financial statements; and
- (c) the transactions were entered into in accordance with the terms of the agreements governing the transactions.

Please refer to Note 28 to the financial statements for a summary of the connected transactions.

Share Capital and Share Option Scheme

Details of the increase in the share capital for the year ended 31 December, 2000 are set out in Note 24 to the financial statements on pages 63 to 64.

On February 4, 2001, the Company adopted a share option scheme (the "Share Option Scheme") pursuant to which the directors of the Company may, at their discretion, invite employees, including executive directors, of the Company or any of its subsidiaries, to take up options to subscribe for shares up to a maximum aggregate number of shares (including those that could be subscribed for under the pre-global offering share option scheme, the particulars of which are described below) equal to 10 % of the total issued share capital of the Company. According to the Share Option Scheme, the consideration payable by a participant for the grant of an option is an undertaking to pay HK\$1.0 to the Company. The subscription price of a share payable by a participant upon the exercise of an option will be determined by the directors at their discretion at the date of grant, except that such price may not be set below a minimum price which is the higher of:

- (i) the nominal value of a share; and

Report of the Directors

(ii) 80% of the average of the closing prices of shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the five trading days immediately preceding the date of grant of the option on which there were dealings in the shares on the Stock Exchange.

The period during which an option may be exercised is as follows:

- one-third of the shares underlying the option shall vest on the first anniversary of the date of the grant;
- one-third of the shares underlying the option shall vest on the second anniversary of the date of the grant; and
- one-third of the shares underlying the option shall vest on the third anniversary of the date of the grant.

On February 4, 2001, the Company also adopted a pre-global offering share option scheme (the "Pre-Global Offering Share Option Scheme"), the principal terms of which are the same as the Share Option Scheme in all material respects except that:

- (i) options for an aggregate of 4,620,000 shares have been granted under the Pre-Global Offering Share Option Scheme;
- (ii) the subscription price per share is HK\$5.95; and
- (iii) the period during which an option may be exercised is as follows:
 - 50% of the shares underlying the option shall vest 18 months after the date of the grant; and
 - 50% of the shares underlying the option shall vest 30 months after the date of the grant.

Assuming all the share options granted under the Pre-Global Offering Share Option Scheme were fully converted into the shares of the Company, the issued share capital of the Company would increase by 4,620,000 shares.

Purchase, Sale or Redemption of Shares

For the year ended December 31, 2000, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed shares.

Substantial Interests in the Share Capital of the Company

Please refer to the financial statements for the shareholding position of the Company's shares as of December 31, 2000.

Directors and Senior Management of the Company

Please refer to pages 27 to 29 for information concerning the directors and senior management of the Company.

Directors' Interest in and Right to Acquire Shares

As of December 31, 2000, none of the Directors of the Company had any interest in the equity securities of the Company or any of its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance.

Directors' Interest in Contracts and Service Contracts

Each of the existing executive Directors entered into a service contract with the Company for a term of three years effective from February 28, 2001.

Save as the service contracts mentioned above, as of December 31, 2000, the directors of the Company did not have any material interests, whether directly or indirectly, in any contracts of significance entered into by the Company.

Emoluments of the Directors and Senior Executives

Please refer to Note 7 to the financial statements on page 53 for details of the emoluments of the Directors and senior executives of the Company.

Material Legal Proceedings

As at December 31, 2000, 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 as far as the Company is aware of.

Compliance with the Code of Best Practice

The Company has complied with the Code of Best Practice as set out by The Stock Exchange of Hong Kong Limited in Appendix 14 to the Listing Rules since February 28, 2001, except that the non-executive directors were not appointed for a specific term, but are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's articles of association.

Auditors

Arthur Andersen & Co was appointed as the auditors of the Company for the year ended December 31, 2000 and have audited the accompanying financial statements.

By Order of the Board

Liucheng WEI
Chairman

Hong Kong, April 11, 2001