Notes to the Financial Statements

As at 31 December, 2000
(Amounts expressed in Renminbi unless otherwise stated)

1. Organisation and Principal Activities

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 the entities now comprising the Company and its subsidiaries (hereinafter collectively referred to as the "Group"). The Group is principally engaged in the exploration, development, production and sales of crude oil and natural gas. Prior to the formation of the Company, the businesses and operations were carried on by China National Offshore Oil Corporation ("CNOOC"). All such businesses and operations were transferred to the Group pursuant to a reorganisation with effective date on 1 October, 1999 in preparation for a public offering of the Company's shares (the "Reorganisation").

As a result of the Reorganisation, CNOOC's interests in offshore oil and gas exploration, development, production and sales businesses in and outside of the PRC were transferred to the Group. CNOOC's assets and liabilities relating to such businesses in the PRC were transferred to the Company's wholly owned subsidiary, CNOOC China Limited, a wholly foreign owned enterprise established in the PRC. CNOOC's interests in offshore oil and gas businesses outside of the PRC were transferred to the Company's wholly owned subsidiaries, CNOOC International Limited, a company incorporated in the British Virgin Islands, and China Offshore Oil (Singapore) International Pte. Ltd., a company incorporated in Singapore.

As at 31 December, 2000, the Company had direct or indirect interests in the following principal subsidiaries and an associated company. All of these entities are private limited companies and were owned by CNOOC upon their incorporation/establishment except for CNOOC International Limited which was owned by the Company upon its incorporation:

Name of entity	Place and date of incorporation/ establishment	Percentage of equity interest attributable to the Group	Issued and paid up capital	Principal activities
Directly held subsidiaries:				
CNOOC China Limited	Tianjin, the PRC 15 September, 1999	100%	RMB10 billion	Offshore petroleum exploration, development, production, and sales in the PRC
CNOOC International Limited	British Virgin Islands 23 August, 1999	100%	US$2	Investment holding
China Offshore Oil (Singapore) International Pte. Ltd.	Singapore 14 May, 1993	100%	S$3 million	Sales and marketing of petroleum outside of the PRC

1. Organisation and Principal Activities (Cont'd)

Name of entity	Place and date of incorporation/ establishment	Percentage of equity interest attributable to the Group	Issued and paid up capital	Principal activities
Indirectly held subsidiaries*:				
Malacca Petroleum Limited	Bermuda 2 November, 1995	100%	US$12,000	Investment holding
OOGC America, Inc.	State of Delaware, United States of America 2 September, 1997	100%	US$1,000	Investment holding
OOGC Malacca Limited	Bermuda 2 November, 1995	100%	US$12,000	Investment holding
OOGC Myanmar Limited	Bermuda 16 May, 1997	100%	US$12,000	Investment holding
Indirectly held associated company:**				
Shanghai Petroleum and Natural Gas Company Limited	Shanghai, the PRC 7 September, 1992	30%	RMB900 million	Offshore petroleum exploration, development, production, and sales in the South Yellow Sea and East China Sea

* *Indirectly held through CNOOC International Limited.*
** *Indirectly held through CNOOC China Limited.*

2. Basis of Presentation

Prior to the Reorganisation, the Company and its subsidiaries did not exist as separate legal entities and their business operations were conducted by CNOOC and its various affiliates. In connection with the Reorganisation, CNOOC's oil and gas exploration, development, production and sales businesses and operations conducted both inside and outside of the PRC were transferred to the Group.

As CNOOC controlled the businesses and operations transferred to the Group before the Reorganisation and continues to control the Group after the Reorganisation, accordingly, the transfer of the businesses and operations has been accounted for as reorganisation of companies under common control in a manner similar to a pooling of interests.

Notes to the Financial Statements

2. Basis of Presentation (Cont'd)

On the basis described above, the financial statements have been prepared to present results of operations of the Group for the year ended 31 December, 1999 and the financial positions of the Company and the Group as at 31 December, 1999 as if the businesses and operations had been transferred to the Group at the beginning of the years presented. Consequently, the assets, liabilities, revenues and expenses that are clearly applicable to the businesses and operations transferred to the Group are included in the financial statements. For those expenses for which specific identification method was not practical, the following allocation basis was adopted:

	Basis
Salaries	Number of employees
Accounting and legal services	Number of employees
Advertising expenses	Revenues
Training	Number of employees
Pension liabilities	Number of employees
Rental and depreciation	Floor area
Other selling and administrative expenses	Number of employees

The allocation methodology used for each operating segment of the Group is the same as that used to allocate costs from CNOOC to the Group. The employee count, floor area and revenue data used to allocate expenses represent historical operating statistics that existed during the period that they were being used to allocate costs. Management believes that the foregoing is a reasonable basis of estimating what the Group's expenses would have been on a stand alone basis prior to the Reorganisation.

The financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong ("Hong Kong GAAP"). This basis of accounting differs from that used in the management accounts of CNOOC to account for the businesses and operations transferred to the Group. The management accounts of CNOOC were prepared in accordance with the accounting principles and the financial regulations applicable to state-owned enterprises established in the PRC.

3. Principal Accounting Policies

The principal accounting policies adopted by the Group in preparing the financial statements, which conform to Hong Kong GAAP, are as follows:

(a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries.

All significant intercompany transactions and balances, and any unrealised gains arising from intercompany transactions, have been eliminated on consolidation.

3. Principal Accounting Policies (Cont'd)

(b) Revenue recognition

(i) Oil and gas sales

Revenues represent the invoiced value of sales of oil and gas attributable to the interests of the Group, net of royalties and government share of allocable share oil, and are recognised when the significant risks and rewards of ownership of oil and gas have been transferred to customers.

Oil and gas lifted and sold by the Group above or below the Group's participating interests in the production sharing contracts result in overlifts and underlifts. The Group records these transactions in accordance with the entitlement method under which overlifts are recorded as liabilities and underlifts are recorded as assets. Settlement will be in kind when the liftings are equalised or in cash when production ceases.

(ii) Marketing revenues

Marketing revenues represent sales of oil purchased from the foreign partners under the production sharing contracts and revenues from trading of oil through the Company's subsidiary in Singapore. The title, together with the risks and rewards of the ownership of such oil, are transferred to the Group from the foreign partners and other unrelated oil and gas companies before the Group sells such oil to its customers. The cost of the oil sold is included in crude oil and product purchase expenses.

(iii) Other income

Other income mainly represents project management fees charged to the foreign partners and handling fees charged to customers and is recognised when the services are rendered.

(iv) Interest income

Interest income from deposits placed with banks and other financial institutions is recognised on a time proportion basis that takes into account the effective yield on the assets.

(c) Property, plant and equipment

Property, plant and equipment comprise oil and gas properties, land and buildings and vehicles and office equipment.

(i) Oil and gas properties

For oil and gas properties, the successful efforts method of accounting is adopted. The Group capitalises initial acquisition costs of oil and gas properties, the costs of drilling and equipping successful exploratory wells, all development costs, including those renewals and betterments which extend the economic life of the assets, and the interest charges arising from borrowings used to finance the development of oil and gas properties before they are substantially ready for production. Costs of unsuccessful exploratory wells and all other exploration costs are expensed as incurred.

Notes to the Financial Statements

3. Principal Accounting Policies (Cont'd)

(c) Property, plant and equipment (Cont'd)

(i) Oil and gas properties (Cont'd)

In the absence of a determination as to whether the reserves that have been found can be classified as proved, the costs of drilling such an exploratory well will not be carried as an asset for more than one year following completion of drilling. If, after that year has passed, a determination that proved reserves have been found cannot be made, the well shall be assumed to be impaired, and its costs shall be charged to the consolidated income statement.

If the net book value of a proved property is greater than the estimated undiscounted future net cash flows from the same property, the property is considered impaired. The impairment expense is equal to the difference between the net book value and the fair value of the assets. The Group estimates fair value by discounting, at an appropriate rate, the future net cash flows from the net proved reserves.

In addition, the Group assesses the capitalised costs of unproved properties periodically to determine whether their value has been impaired below the capitalised costs. The Group recognises a loss to the extent that such impairment is indicated. In making these assessments, the Group considers factors such as exploratory drilling results, future drilling plans, and lease expiration terms.

Productive oil and gas properties and other tangible and intangible costs of producing properties are amortised using the unit-of-production method on a property-by-property basis under which the ratio of produced oil and gas to the estimated remaining proved reserves is used to determine the depreciation, depletion and amortisation provision. Costs associated with significant development projects are not depleted until commercial production commences and the reserves related to those costs are excluded from the calculation of depletion.

The Group estimates future dismantlement and site restoration costs for oil and gas properties with reference to the estimates provided from either internal or external engineers after taking into consideration the anticipated method of dismantlement and the extent of site restoration required in accordance with current legislation and industry practices. The Group provides for the future dismantlement and site restoration allowance using the unit-of-production method.

(ii) Land and buildings

Land and buildings are stated at valuation. Independent valuations are performed periodically with the last valuation performed on 31 December, 2000. In the intervening years, the directors review the carrying value of land and buildings and adjustment is made where in the directors' opinion there has been a material change in value. An increase in land and building valuation is credited to the revaluation reserves; any decrease is first offset against an increase on earlier valuation in respect of the same property and is thereafter charged to the consolidated income statement. Depreciation is calculated on the straight-line basis at annual rate estimated to write off valuation of each asset over its expected useful life of 50 years.

3. Principal Accounting Policies (Cont'd)

(c) Property, plant and equipment (Cont'd)

(iii) Vehicles and office equipment

Vehicles and office equipment are stated at cost less accumulated depreciation. The straight-line method is adopted to depreciate the cost less salvage value of these assets over their expected useful life. The Group estimates the useful lives of vehicles and office equipment to be 5 years.

When assets are sold or retired, their costs or revalued amounts and accumulated depreciation, depletion and amortisation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the consolidated income statement.

(d) Subsidiaries

A subsidiary is an enterprise in which the Company directly or indirectly holds more than 50% of the equity interest as a long-term investment and/or has the power to cast the majority of votes at meetings of the board of directors.

In the Company's financial statements, investments in subsidiaries are accounted for using cost method. Investment income is recognised to the extent of dividends received or receivable. An assessment of investments in subsidiaries is performed when there is an indication that the assets have been impaired or the impairment losses recognised in prior years no longer exist.

(e) Associated company

An associated company is an enterprise in which the Company has significant influence, but not control or joint control, and thereby has the ability to participate in their financial and operating policy decisions.

Investment in an associate is accounted for using equity method. An assessment of investment in an associate is performed when there is an indication that the asset has been impaired or the impairment losses recognised in prior years no longer exist.

(f) Short-term investment

Short-term investment is carried at fair value in the balance sheet. Changes in the fair value of the investment are included in the consolidated income statement. Upon disposal of the investment, the difference between net disposal proceeds and the carrying amount is included in the consolidated income statement.

(g) Research and development costs

Research and development costs are recognised as expenses in the period in which they are incurred.

(h) Cash

Cash represents cash on hand and short-term bank deposits with original maturities within three months.

Notes to the Financial Statements

3. Principal Accounting Policies (Cont'd)

(i) Inventories and supplies

Inventories consist primarily of oil while materials and supplies consist mainly of items for repair and maintenance of oil and gas properties. Inventories are valued at the lower of cost and net realisable value. Costs of inventories and supplies are determined on a weighted average basis. Materials and supplies are capitalised to property, plant and equipment when used for renewals and betterments of oil and gas properties or recognised as expenses when used for daily operations.

(j) Leases

Leases where substantially all the rewards and risks of ownership remain with the leasing company are accounted for as operating leases. Rental payment under operating leases is charged to the consolidated income statement on a straight-line basis over the period of the relevant leases. The Group does not have any finance leases.

(k) Taxation

The Group provides for income taxes on the basis of its net profit for financial reporting purposes, adjusted for income and expense items that are not assessable or deductible for income tax purposes.

Deferred taxation is provided under the liability method, at the current tax rate, in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except where it is considered that no liability will arise in the foreseeable future.

A deferred tax asset is not recognised unless the related benefits are expected to crystallise in the foreseeable future.

(l) Foreign currency translation

The books and records are maintained in Renminbi ("RMB") except for the subsidiaries incorporated overseas. The books and records of the overseas subsidiaries are maintained either in Singapore dollars or United States dollars. Transactions in currencies other than book currency during the year are translated into book currency at the exchange rates at the time of the transactions. Monetary assets and liabilities denominated in other currencies at the balance sheet date are translated into book currency at rates of exchange in effect at the balance sheet date. Exchange differences are dealt with in the consolidated income statement.

On consolidation, the financial statements of the overseas subsidiaries are translated into RMB using the closing rate method, whereby assets and liabilities are translated at the rates of exchange prevailing at the balance sheet date and income and expenses are translated at the average rates of exchange during the year. Share capital, share premium and retained earnings are translated at historical rates. Translation differences arising therefrom are dealt with as movements in reserves.

3. Principal Accounting Policies (Cont'd)

(m) Borrowing cost

Interest is expensed as incurred, except for interest directly attributable to property under development or construction which is capitalised as part of the cost of that property. Interest is capitalised at the weighted average cost of the related borrowings up to the date of completion of the property.

(n) Financial instruments

Financial instruments of the Group are currency swap contracts with financial institutions. Gains and losses related to the changes in the spot rates on such financial instruments are designated and qualified as hedges of the Japanese Yen loans. Discounts or premiums on currency swap contracts are amortised over the contract period. Assets related to financial instruments which are marked to market are included in "Other current assets". Liabilities resulting from the mark-to-market of such instruments are included in "Other payables and accrued liabilities".

(o) Retirement benefits and employee subsidies

The cost of providing retirement benefits is charged to expense over the service lives of the members of the benefit schemes.

The cost of employee subsidies is charged to the consolidated income statement as incurred.

4. Production Sharing Contracts

The Group performs a significant amount of its oil and gas activities through production sharing contracts with international oil and gas companies ("foreign partners").

For most production sharing contracts, foreign partners are required to bear all exploration costs during the exploration period and such exploration costs can be recovered according to the production sharing formula after commercial discoveries are made and production begins.

The development and operating costs are funded by the Group and the foreign partners according to their respective participating interest.

The Group has the option to take a participating interest of up to 51% in a production sharing contract and may exercise such option after the foreign partners have independently undertaken all the exploration risks and costs and made viable commercial discoveries. The foreign partners retain the remaining participating interests.

After the Group exercises the option to take a participating interest in a production sharing contract, the Group accounts for the oil and gas properties using the "proportional method" under which the Group recognises its share of development costs, revenues and expenses from such operations based on its participating interest in the production sharing contract. The Group does not account for the exploration costs incurred by its foreign partners and their share of development costs and revenues and expenses from such operations.

Notes to the Financial Statements

4. Production Sharing Contracts (Cont'd)

Part of the annual gross production of oil and gas is distributed to the PRC government for the payment of royalties pursuant to a sliding scale. The Group and the foreign partners also pay a production tax to the tax bureau at a pre-determined rate. There is a pre-agreed portion of oil and gas designated to recover all exploration costs, development costs, operating costs incurred and related interests according to the participating interest between the Group and the foreign partners. Any remaining oil is first distributed to the PRC government as share oil on a pre-determined ratio pursuant to a sliding scale and then distributed to the Group and the foreign partners based on their respective participating interests. As government share is not included in the Group's interest in the annual production, the net sales of the Group do not include the sales revenue of the government share oil.

The foreign partners have the right to take possession of their allocable remainder oil for sale in the international market or to negotiate with the Group to sell their allocable remainder oil to the Group for resale in the PRC market.

5. Oil and Gas Sales

	2000	1999
	RMB'000	RMB'000
Gross sales	**21,747,888**	12,681,879
Royalties	**(208,885)**	(106,899)
Government share oil	**(2,719,680)**	(1,177,107)
	18,819,323	11,397,873

6. Profit before Tax

Profit before tax was arrived at after charging (crediting) the following:

	2000	1999
	RMB'000	RMB'000
Interest expense	**475,004**	621,704
Interest income	**(236,624)**	(53,709)
Auditors' remuneration	**2,484**	978
Write-back of doubtful accounts	**(57,658)**	(5,382)
Repairs and maintenance	**492,328**	403,865
Salary and staff benefits	**172,593**	136,779
Contribution to pension scheme	**12,842**	12,207
Operating lease rentals	**53,732**	12,459
Loss on disposal of property, plant and equipment	**220,146**	–

7. Directors' and Senior Executives' Emoluments

Details of directors' and senior executives' emoluments were as follows:

	2000	1999
	RMB'000	RMB'000
Fees for executive directors	–	194
Fees for non-executive directors	–	–
Other emoluments for executive directors		
– basic salaries and allowances	400	1,847
– bonus	440	96
– pension	160	129
– other	1,500	1,136

The annual emoluments paid during the year to each of the directors, who were the five highest paid individuals, fell within the band from nil to HK$1,000,000.

No director had waived or agreed to waive any emoluments during the year.

During the year ended 31 December, 2000, no emolument was paid to the directors as an inducement to join or upon joining or as compensation for loss of office.

8. Selling and Administrative Expenses

	2000	1999
	RMB'000	RMB'000
Salary and staff benefits	172,593	136,779
Utility and office expenses	70,069	61,674
Write-back of doubtful accounts	(57,658)	(5,382)
Transportation and entertainment	60,682	40,879
Rentals and maintenance	89,184	78,583
Selling expenses	36,481	16,502
Other	84,651	187,450
	456,002	516,485

9. Interest, Net

	2000	1999
	RMB'000	RMB'000
Interest expense on bank loans which are:		
– wholly repayable within five years	241,749	355,876
– not wholly repayable within five years	191,755	337,629
Interest expense to CNOOC	41,500	6,225
Less: amount capitalised	–	(78,026)
	475,004	621,704
Interest income	(236,624)	(53,709)
	238,380	567,995

Notes to the Financial Statements

9. Interest, Net (Cont'd)

The capitalised interest rate represented the cost of capital from raising the related borrowings and varied from 6% to 7% per annum for the year ended 31 December, 1999.

10. Taxation

(i) Income tax

The Company and its subsidiaries are subject to income taxes on an entity basis on profit arising in or derived from the tax jurisdictions in which they are domiciled and operate. The Company is not liable for profits tax in Hong Kong as it does not have any assessable income currently sourced from Hong Kong. The Company's subsidiary established in the PRC, CNOOC China Limited, is subject to enterprise income taxes at rate of 33%. Subsequent to the Reorganisation, CNOOC China Limited became a wholly foreign owned enterprise and accordingly is exempt from 3% local surcharges and is subject to an enterprise income tax of 30% under the prevailing tax rules and regulations. Moreover, entities now comprising the Company's subsidiary in the PRC were exempt from enterprise income taxes for two years starting from the first profitable year in 1996 and were entitled to a 50% reduction of enterprise income taxes for three years starting from 1998. With the approval of the tax authorities, the tax reduction continues to be applicable to the Company's subsidiary in the PRC after the Reorganisation. The Company's subsidiary in Singapore, China Offshore Oil (Singapore) International Pte. Ltd., is subject to income tax at rate of 10% and 26% respectively for its oil trading activities and other income producing activities. The Company's subsidiaries owning interests in oil properties in Indonesia along the Malacca Strait are subject to corporate and dividend tax of 56% before August 2000. Starting from August 2000 with the renewal of relevant production sharing contracts, the tax rate was changed to 44%. All of the Company's other subsidiaries are not subject to any income taxes in their respective jurisdictions for the year presented.

An analysis of the provision for taxation in the consolidated income statement was as follows:

	2000	1999
	RMB'000	RMB'000
Hong Kong profits tax	**–**	–
Overseas income taxes		
– Current income taxes	**43,873**	22,246
– Deferred income taxes	**–**	43
PRC enterprise income taxes		
– Current income taxes	**1,600,608**	462,401
– Deferred income taxes	**281,595**	237,235
	1,926,076	721,925

With the tax holiday exemption, current income tax liabilities of the Company's subsidiary in the PRC were reduced by approximately RMB1,920,730,000 (1999: RMB536,385,000) during the year ended 31 December, 2000.

10. Taxation (Cont'd)

(i) Income tax (Cont'd)

The reconciliation of the applicable statutory PRC enterprise income tax rate to the effective income tax rate of the Group was as follows:

	2000	1999
Statutory PRC enterprise income tax rate	**33.0%**	33.0%
Effect of tax holiday	**(15.0%)**	(15.0%)
Effect of additional tax exemption granted as a result of the Reorganisation	**(3.0%)**	(2.1%)
Effect of future tax rate changes on originating timing differences	**1.2%**	2.7%
Effect of different tax rates for overseas subsidiaries	**0.3%**	0.2%
Tax effect of permanent difference for additional depreciation on internal revaluation	**(0.7%)**	(3.9%)
Effective income tax rate	**15.8%**	14.9%

(ii) Production taxes

The Company's PRC subsidiary pays the following production taxes:

- production taxes equal to 5% of independent production and production under production sharing contracts;
- in the case of independent production, a 0.5% local surcharges; and
- business tax of 5% on other income.

11. Dividends

The payment of future dividends will be determined by the Company's board of directors. The payment of dividends will depend upon, among other things, future earnings, capital requirements and financial condition and general business conditions of the Company. The Company's ability to pay dividends will also depend on the cash flows determined by the dividends, if any, received by the Company from its subsidiaries and associated company. As the controlling shareholder, CNOOC will be able to influence the Company's dividend policy.

Cash dividends to the shareholders in Hong Kong will be paid in Hong Kong dollars and dividends to the ADS holders will be paid to the depositary in Hong Kong dollars and will be converted by the depositary into United States dollars and paid to the holders of ADSs.

On 20 December, 2000, the board of directors of the Company proposed a dividend of RMB0.98 per share, totaling approximately RMB6,426,424,000, to its shareholders for the year ended 31 December, 2000. The proposed dividend distribution has been approved by the shareholders in their annual general meeting held on 4 February, 2001.

Notes to the Financial Statements

11. Dividends (Cont'd)

Immediately before the Reorganisation effective on 1 October, 1999, the retained earnings of CNOOC China Limited as at 30 September, 1999 amounting to RMB739,665,000 as reported in accordance with Accounting Regulations for Enterprises with Foreign Investment of the PRC ("PRC GAAP") were distributed to CNOOC. In March 2000, CNOOC China Limited distributed to the Company RMB1,045,365,000 which represented its total distributable profits for the three months ended 31 December, 1999 as reported in accordance with PRC GAAP.

In accordance with a board resolution dated 10 March, 2000, the Company declared a dividend amounting to RMB1,045,365,000 to CNOOC for the period from its incorporation to 31 December, 1999. The dividend had been paid to CNOOC in March 2000 in cash immediately after the declaration.

12. Earnings per Share

Earnings per share for the year ended 31 December, 2000 have been computed by dividing net profit for the year by the weighted average number of shares outstanding during the year. Earnings per share for the year ended 31 December, 1999 have been computed by dividing net profit by the number of shares outstanding immediately after the Reorganisation. The weighted average number of shares outstanding during the year ended 31 December, 2000 was 6,331,114,421 shares and the total number of shares outstanding immediately after the Reorganisation was 6,000,000,000 shares.

No diluted earnings per share were presented as there were no potential dilutive ordinary shares outstanding for the year ended 31 December, 2000.

13. Property, Plant and Equipment, Net

	Group				
	2000				1999
	Oil and gas properties	Land and buildings	Vehicles and office equipment	Total	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:					
Beginning balance	33,756,460	374,862	35,185	34,166,507	29,957,132
Additions	4,233,845	345,846	4,652	4,584,343	4,147,716
Revaluation	–	104,073	–	104,073	170,598
Disposals	(670,381)	–	–	(670,381)	(108,939)
Ending balance	37,319,924	824,781	39,837	38,184,542	34,166,507
Representing:					
At cost	37,319,924	–	39,837	37,359,761	33,791,645
At revaluation	–	824,781	–	824,781	374,862
	37,319,924	824,781	39,837	38,184,542	34,166,507
Accumulated depreciation, depletion and amortisation:					
Beginning balance	(13,216,562)	(20,598)	(21,822)	(13,258,982)	(10,994,541)
Charge for the year	(2,629,323)	(9,682)	4,017	(2,634,988)	(2,373,380)
Write back on disposals	363,803	–	–	363,803	108,939
Ending balance	(15,482,082)	(30,280)	(17,805)	(15,530,167)	(13,258,982)
Net book value at beginning of year	20,539,898	354,264	13,363	20,907,525	18,962,591
Net book value at end of year	21,837,842	794,501	22,032	22,654,375	20,907,525
Had the property, plant and equipment been carried at cost less accumulated depreciation, depletion and amortisation, the carrying amount of each class would have been:					
Cost	37,319,924	550,110	39,837	37,909,871	33,995,909
Accumulated depreciation, depletion and amortisation	(15,482,082)	(22,697)	(17,805)	(15,522,584)	(13,257,086)
	21,837,842	527,413	22,032	22,387,287	20,738,823

13. Property, Plant and Equipment, Net (Cont'd)

As at and for the year ended 31 December, 2000, property, plant and equipment of the Company mainly comprised office equipment and were all stated at cost.

	Company	
	2000	1999
	RMB'000	RMB'000
Cost:		
Beginning balance	**114**	–
Additions	**4,991**	114
Ending balance	**5,105**	114
Accumulated depreciation, depletion and amortisation:		
Beginning balance	**–**	–
Charge for the year	**(935)**	–
Ending balance	**(935)**	–
Net book value at beginning of year	**114**	–
Net book value at end of year	**4,170**	114

Land and buildings of the Group are held outside Hong Kong with lease terms of 50 years.

Certain land use rights which were previously granted by the PRC government at no cost were revalued by Sallmanns (Far East) Limited, Chartered Surveyors (the "Valuer") as at 31 December, 2000 and 31 August, 1999 using a depreciated replacement cost approach. The depreciated replacement cost approach considers the cost to reproduce or replace in new condition the property being appraised in accordance with current construction costs for similar property in the locality with allowance for accrued depreciation as evidenced by observed condition or obsolescence present, whether arising from physical, functional or economic causes. The Valuer assumed that the assets would be used for the purposes for which they are presently used and did not consider alternative uses.

The revaluation surplus of approximately RMB104,073,000 in 2000 (1999: RMB170,598,000) arising from the revaluation has been recorded by the Group.

14. Investments in Subsidiaries

	Company	
	2000	1999
	RMB'000	RMB'000
Unlisted shares	**7,766,955**	7,766,955
Amounts due from subsidiaries	**3,190,361**	1,045,365
	10,957,316	8,812,320

14. Investments in Subsidiaries (Cont'd)

Balances with subsidiaries were unsecured, non-interest bearing and had no fixed repayment date. The Company's directors are of the opinion that the underlying value of the subsidiaries was not less than the Company's carrying value of the subsidiaries as at 31 December, 2000.

15. Investment in an Associated Company

Investment in an associated company represented a 30% equity interest in Shanghai Petroleum and Natural Gas Company Limited ("SPC"). SPC was incorporated in the PRC with limited liability and is principally engaged in offshore petroleum exploration, development, production and sales in the South Yellow Sea and East China Sea areas.

	Group		Company	
	2000	1999	**2000**	1999
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cost	**270,000**	270,000	**–**	–
Share of profits	**222,027**	3,701	**–**	–
Dividends received from associated company	**(21,000)**	–	**–**	–
	471,027	273,701	**–**	–

16. Accounts Receivable, Net

	Group		Company	
	2000	1999	**2000**	1999
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**1,931,883**	3,070,401	**–**	–
Less: Provision for doubtful accounts	**(15,693)**	(65,256)	**–**	–
	1,916,190	3,005,145	**–**	–

The customers are required to make payment within 30 days after the delivery of oil and gas. As at 31 December, 2000 and 1999, substantially all the accounts receivable were aged within six months.

17. Inventories and Supplies

	Group		Company	
	2000	1999	**2000**	1999
	RMB'000	RMB'000	**RMB'000**	RMB'000
Materials and supplies	**448,536**	466,873	**–**	–
Oil in tanks	**178,328**	100,447	**–**	–
	626,864	567,320	**–**	–

18. Other Current Assets

	Group		Company	
	2000	1999	**2000**	1999
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**148,529**	109,264	**74,069**	12,927
Other receivables	**92,925**	21,528	**–**	–
Short-term investment	**300,000**	–	**–**	–
Other	**3,668**	1,782	**50,805**	3,044
	545,122	132,574	**124,874**	15,971

Short-term investment as at 31 December, 2000 represented investment in government debentures and stocks through financial institutions and was stated at cost which approximated its fair value at the balance sheet date.

19. Bank Loans

Short-term bank loans of the Group in 1999 which were used to finance the working capital were unsecured and had been fully repaid in 2000.

As at 31 December, 2000, long-term bank loans of the Group were used primarily to finance the development of oil and gas properties and to meet working capital requirements.

		Group	
	Interest rate and final maturity	**2000**	1999
		RMB'000	RMB'000
RMB denominated bank loans	Floating prevailing market rate adjusted annually with maturities through 2006	**675,000**	675,000
	Fixed interest rate at 5.94% per annum through 2005	**75,270**	84,270
US$ denominated bank loans	Floating LIBOR rate with maturities through 2003	**310,429**	1,920,798
	Floating prevailing rate for six months foreign currency loans quoted by domestic banks with maturities through 2003	**1,475,157**	1,475,371
	Fixed interest rate of 9.15% per annum with maturities through 2006	**827,810**	827,930
Japanese Yen ("JPY") denominated bank loans	Fixed interest rate ranging from 2.35% to 5.15% per annum, with maturities through 2007	**2,382,711**	3,305,455
		5,746,377	8,288,824
Less: current portion		**(997,533)**	(2,255,337)
		4,748,844	6,033,487

As at 31 December, 2000, LIBOR was approximately 6.2% (1999: 6.1%).

19. Bank Loans (Cont'd)

As at 31 December, 2000, all the bank loans of the Group were unsecured and approximately RMB1,475,157,000 (1999: RMB1,475,371,000) of the outstanding borrowings were guaranteed by CNOOC.

The maturities of long-term bank loans are as follows:

	Group	
	2000	1999
	RMB'000	RMB'000
Balances due:		
– Within one year	**997,533**	2,255,337
– Within one to two years	**1,280,876**	1,042,859
– Within two to five years	**1,867,816**	2,746,828
– Beyond five years	**1,600,152**	2,243,800
	5,746,377	8,288,824
Portion classified as current liabilities	**(997,533)**	(2,255,337)
	4,748,844	6,033,487

As at 31 December, 2000 and 1999, the Company did not have any bank loans outstanding.

20. Accounts Payable

As at 31 December, 2000 and 1999, substantially all the accounts payable were aged within six months.

21. Balances with CNOOC and Related Companies

Except for deposits with a related company of RMB5,959,000 as at 31 December, 1999 which earned interest at market deposit rate; and RMB1,660,000,000 payable to CNOOC as at 31 December, 2000 and 1999 which paid interest at 2.5% per annum; all other balances with CNOOC and related companies were unsecured, non-interest bearing and repayable on demand.

	Group		Company	
	2000	1999	**2000**	1999
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amount due to parent company:				
– Advances from (to) CNOOC	**122,497**	(45,870)	**–**	–
– Debt payable to CNOOC for pension liabilities	**1,660,000**	1,660,000	**–**	–
	1,782,497	1,614,130	**–**	–

Notes to the Financial Statements

22. Deferred Taxation

The tax effect of significant timing differences was as follows:

	Group		Company	
	2000	1999	**2000**	1999
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deferred tax assets				
– Dismantlement and site restoration allowance	**452,329**	421,258	**–**	–
– Provision for impairment of property, plant and equipment and write-off of unsuccessful exploratory drillings	**1,266,523**	989,530	**–**	–
– Other	**–**	42,879	**–**	–
	1,718,852	1,453,667	**–**	–
Deferred tax liabilities				
– Accelerated amortisation allowance for oil and gas properties	**(3,170,072)**	(2,623,292)	**–**	–
Net deferred tax liabilities	**(1,451,220)**	(1,169,625)	**–**	–

There were no unprovided deferred income taxes during the year.

23. Dismantlement and Site Restoration Allowance

Dismantlement and site restoration costs represented the estimated costs of dismantling offshore oil platforms and abandoning oil and gas properties. Dismantlement and site restoration allowance has been classified under long-term liabilities. The details of the dismantlement and site restoration allowance were as follows:

	Group		Company	
	2000	1999	**2000**	1999
	RMB'000	RMB'000	**RMB'000**	RMB'000
Total anticipated costs	**2,757,902**	2,184,264	**–**	–
Total costs accrued	**1,507,763**	1,404,195	**–**	–

24. Share Capital

		Number of ordinary shares	Par value of ordinary share	Amount
				('000)
Authorised:				
Authorised share capital upon incorporation	(i)	100,000	HK$0.10	HK$ 10
Increase in authorised share capital	(ii)	14,999,900,000	HK$0.10	1,499,990
Balance at 31 December, 2000		15,000,000,000		HK$1,500,000
Issued and fully paid:				
Issue of shares upon incorporation	(i)	2	HK$0.10	HK$ –
Issue of new shares in connection with the Reorganisation	(iii)	5,999,999,998	HK$0.10	600,000
		6,000,000,000		600,000
Issue of new shares to corporate investors	(iv)	557,575,755	HK$0.10	55,758
Balance at 31 December, 2000		6,557,575,755		HK$ 655,758
				RMB 701,181
Balance at 31 December, 1999		6,000,000,000		RMB 642,000

(i) The Company was incorporated in Hong Kong with an authorised share capital of HK$10,000, divided into 100,000 ordinary shares with par value of HK$0.10 per share. Two ordinary shares were allotted and issued to CNOOC (BVI) Limited, an indirect wholly owned subsidiary of CNOOC, at par upon incorporation.

(ii) By a shareholders' resolution dated 13 September, 1999, the Company's authorised ordinary shares were increased from 100,000 ordinary shares to 15,000,000,000 ordinary shares.

(iii) Upon the Reorganisation effective on 1 October, 1999, the Company allotted 5,999,999,998 ordinary shares with par value of HK$0.10 per share to CNOOC (BVI) Limited.

(iv) According to the subscription agreements dated 17 March, 2000, 31 May, 2000 and 28 June, 2000, the Company issued in total 557,575,755 new shares to eight unaffiliated entities at US$0.825 per share ("Private Placements") for aggregate net proceeds of approximately RMB3,769,664,000, after deducting expenses of approximately RMB39,136,000 (see note 26).

24. Share Capital (Cont'd)

Details of the subscriptions were as follows:

Date	Subscribers	Number of shares subscribed
17 March, 2000	GIC Special Investments Pte. Ltd.	60,606,060
	AIG Asian Infrastructure Fund II, L.P.	181,818,181
	American International Assurance Co., Ltd.	6,060,606
	American International Assurance Co., (Bermuda) Ltd.	6,060,606
31 May, 2000	Hutchison International Limited	121,212,121
	Hong Kong Electric Holdings Limited	121,212,121
28 June, 2000	CDC Group Plc	30,303,030
	GEMS Oriental & General Fund Ltd.	30,303,030
		557,575,755

25. Share Option Scheme

The Company adopted a share option scheme. This scheme provides for the grant of options to the Company's senior management. Under this share option scheme, the remuneration committee of the Company's board of directors will from time to time propose for board approval the recipient of and number of shares underlying each option. Options granted under this scheme may be exercised, in whole or in part, in accordance with the following vesting schedule:

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

The scheme will provide for issuance of options exercisable for shares granted under the share option scheme and the pre-global offering share option scheme as described in note 33(ii) not exceeding 10% of the total number of the Company's outstanding shares, excluding shares issued upon exercise of options granted under the scheme.

The price for a share payable by a participant upon the exercise of an option will be determined by the board of directors at its discretion upon the grant date, as long as the price will not be less than a specified minimum. The minimum price is the higher of:

- the nominal value of a share; and
- 80% of the average of the closing prices of shares on the Hong Kong Stock Exchange on the five trading days immediately preceding the date of grant of the option on which there are dealings in shares on the Hong Kong Stock Exchange.

As at 31 December, 2000, no such options have been granted.

26. Movements in Equity

Movements in equity were as follows:

	Group						
	Paid-in capital	Share premium	Re-valuation reserves	Cumulative translation reserve	Statutory reserves	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balances at 31 December, 1998	2,485,762	–	–	–	–	3,872,932	6,358,694
Net profit for the year	–	–	–	–	–	4,111,439	4,111,439
Appropriation to statutory reserves (iii)	–	–	–	–	100,874	(100,874)	–
Distribution to CNOOC (note 11)	–	–	–	–	–	(739,665)	(739,665)
Dividends (note 11)	–	–	–	–	–	(1,045,365)	(1,045,365)
Return of capital to CNOOC (i)	(471,461)	–	–	–	–	–	(471,461)
Share premium arising from the Reorganisation	(1,372,301)	7,124,955	–	–	–	(5,752,654)	–
Revaluation surplus on properties (note 13)	–	–	170,598	–	–	–	170,598
Balances at 31 December, 1999	642,000	7,124,955	170,598	–	100,874	345,813	8,384,240
Net profit for the year	–	–	–	–	–	10,296,600	10,296,600
Appropriation to statutory reserves (iii)	–	–	–	–	847,464	(847,464)	–
Dividends (note 11)	–	–	–	–	–	(6,426,424)	(6,426,424)
Proceeds from Private Placements (ii)	59,181	3,710,483	–	–	–	–	3,769,664
Revaluation surplus on properties (note 13)	–	–	104,073	–	–	–	104,073
Foreign currency translation difference	–	–	–	(6,350)	–	–	(6,350)
Balances at 31 December, 2000	701,181	10,835,438	274,671	(6,350)	948,338	3,368,525	16,121,803

26. Movements in Equity (Cont'd)

	Company			
	Paid-in capital	Share premium	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Balances at 20 August, 1999	–	–	–	–
Net profit for the period	–	–	1,045,365	1,045,365
Dividends (note 11)	–	–	(1,045,365)	(1,045,365)
Share premium arising from the Reorganisation	642,000	7,124,955	–	7,766,955
Balances at 31 December, 1999	642,000	7,124,955	–	7,766,955
Net profit for the year	–	–	6,443,844	6,443,844
Dividends (note 11)	–	–	(6,426,424)	(6,426,424)
Proceeds from Private Placements (ii)	59,181	3,710,483	–	3,769,664
Balances at 31 December, 2000	701,181	10,835,438	17,420	11,554,039

As at 31 December, 2000, the distributable profits of the Company amounted to approximately RMB17,420,000 (1999: Nil).

(i) This represented net assets distributed to CNOOC for no monetary consideration. Such assets and liabilities were mainly in connection with ancillary, social and supporting operations which were retained by CNOOC under the Reorganisation but were generated from earnings of the exploration, development, production and sales businesses transferred to the Group.

(ii) Analysis of proceeds from Private Placements:

	Paid-in capital	Share premium	Total
	RMB'000	RMB'000	RMB'000
Gross proceeds	59,181	3,749,619	3,808,800
Expenses on share issuance	–	(39,136)	(39,136)
	59,181	3,710,483	3,769,664

(iii) Statutory reserves

According to the laws and regulations of the PRC and articles of association of CNOOC China Limited, CNOOC China Limited is required to provide for certain statutory funds, namely, reserve fund and staff and workers' bonus and welfare fund, which are appropriated from net profit after taxation and making good of any losses from previous years, but before dividend distribution. CNOOC China Limited is required to allocate at least 10% of its net profit as reported in accordance with PRC GAAP to the reserve fund until the balance of such fund has reached 50% of its registered capital. Appropriation to staff and workers' bonus and welfare fund which is determined at the discretion of CNOOC China Limited's directors, is charged to expense as incurred. The reserve fund can only be used, upon approval by the relevant authority, to offset accumulated losses or increase capital. Staff and workers' bonus and welfare fund can only be used for special bonuses or collective welfare of employees, and assets acquired through this fund shall not be taken as assets of CNOOC China Limited.

26. Movements in Equity (Cont'd)

(iii) Statutory reserves (Cont'd)

Prior to the Reorganisation, CNOOC China Limited was part of CNOOC and was not required to provide for such statutory funds.

Percentages of the appropriations made by CNOOC China Limited to the statutory reserves out of its net profit as reported in accordance with PRC GAAP for the year ended 31 December, 2000 were as follows:

	2000	1999
Reserve fund	**10%**	10%
Staff and workers' bonus and welfare fund	**–**	5%

As at 31 December, 2000, the reserve fund appropriated amounted to RMB948,338,000 (1999: RMB100,874,000), representing approximately 9.5% (1999: 1.0%) of the total registered capital of CNOOC China Limited.

27. Retirement Benefits

All the Group's full-time employees in the PRC are covered by a government regulated pension, and are entitled to an annual pension equal to their basic salaries at their retirement dates. The PRC government is responsible for the pension liabilities to these retired employees. The Group is required to make annual contributions to the government regulated pension at rates ranging from 20% to 35% of the employees' basic salaries. This defined contribution plan continues to be available to the Group's employees after the Reorganisation. The related pension costs are expensed as incurred.

In addition to the government regulated pension fund described above, CNOOC also provided a supplementary pension scheme for its retirees. The average annual supplementary pension payment was about RMB16,000 per retiree as at 30 June, 1999. Pursuant to the Reorganisation, CNOOC agreed to take up the ultimate pension liabilities under this supplementary pension scheme for the former employees of CNOOC who had worked with the Group before the Reorganisation. In return, the Group agreed to pay CNOOC RMB1,660,000,000 which approximated the accrued pension liabilities for this group of retirees as at 30 June, 1999.

Pursuant to a board resolution dated 20 September, 1999, this supplementary pension scheme was cancelled from that date as the Company decided to adopt market based compensation structure to replace the previous low salary and high benefit compensation structure.

The expenses attributed to the PRC government pension plan for the year ended 31 December, 2000 amounted to approximately RMB12,842,000 (1999: RMB12,207,000). There were no contribution made by the Group to the defined benefit plan during the years ended 31 December, 2000 and 1999.

28. Related Party Transactions

Companies are considered to be related if one company has the ability, directly or indirectly, to control the other company or exercise significant influence over the other company in making financial and operating decisions. Companies are also considered to be related if they are subject to common control or common significant influence.

Notes to the Financial Statements

28. Related Party Transactions (Cont'd)

In connection with the Reorganisation, the Group entered into several agreements with CNOOC and its affiliates which govern employee benefit arrangements, the provision of materials, utilities and ancillary services, the provision of technical services, the provision of research and development services, the provision of bank guarantees and various other commercial arrangements.

(i) Provision of materials, utilities and ancillary services

CNOOC China Limited has entered into materials, utilities and ancillary services supply agreements with the affiliates of CNOOC. Under these agreements, the affiliates of CNOOC provide to CNOOC China Limited various materials, utilities and ancillary services for the term of three years from 9 September, 1999.

The materials, utilities and ancillary services are provided at:

- state-prescribed prices, or
- where there is no state-prescribed price, market prices, including the local or national market prices or the prices at which CNOOC's affiliates previously provided the relevant materials, utilities and ancillary services to independent third parties, or
- where neither of the prices mentioned above is applicable, the cost to CNOOC's affiliates of providing the relevant materials, utilities and services, including the cost of sourcing or purchasing from third parties, plus a margin of not more than 5% before any applicable taxes.

(ii) Technical services

Since the establishment of CNOOC, a number of specialised companies have been formed by CNOOC to provide sub-contracting services for CNOOC's offshore oil and gas production activities.

In connection with the Reorganisation, CNOOC transferred to the Group the existing technical service agreements with these specialised companies. According to the transferred agreements, the Group uses the technical services provided by these specialised companies, including:

- offshore drilling;
- ship tugging, oil tanker transportation and security services;
- well survey, well logging, well cementation and other related technical services;
- collection of geophysical data, ocean geological prospecting, and data processing; and
- design, construction, installation and test of offshore and onshore production facilities.

(iii) Research and development services

Under the terms of a general research and development services agreement with CNOOC's affiliate, China Offshore Oil Research Centre (the "Centre"), the Group pays the Centre for a term of three years from 9 September, 1999, an annual amount of RMB110,000,000, for the provision of the services, including:

- geophysical exploration services;
- seismic data processing;
- comprehensive exploration research services; and
- information technology services.

28. Related Party Transactions (Cont'd)

(iv) Lease agreements

In connection with the Reorganisation, the Group has entered into lease agreements with affiliates of CNOOC for various office, warehouse and residential premises.

The following is a summary of significant recurring transactions carried out in the ordinary course of business between the Group and CNOOC and its affiliates.

	2000	1999
	RMB'000	RMB'000
Included in exploration costs:		
Provision for geological and geophysical services	**165,175**	127,290
Provision for drilling services	**106,150**	35,046
Included in operating expenses:		
Provision for technological services	**306,129**	211,326
Provision for oil transportation services	**171,490**	263,061
Production related services	**597,579**	570,219
Materials, utilities and ancillary services	**163,828**	90,177
Included in selling and administrative expenses:		
Rental for office lease	**49,089**	12,459
Other ancillary services	**31,748**	–
Included in interest income and expense:		
Interest income from a related company	**25**	117
Interest expense to CNOOC	**41,500**	6,225
Capitalised under property, plant and equipment:		
Provision for oil and gas property construction services	**865,549**	679,000
Provision for drilling services	**445,414**	456,717
Provision for well measurement services	**140,065**	101,392

29. Commitments and Contingencies

(i) Capital commitments

As at 31 December, 2000, the Group had the following capital commitments, principally for construction and equipment purchases:

	2000	1999
	RMB'000	RMB'000
Contracted for	**3,325,216**	3,156,200
Authorised but not contracted for	**7,729,113**	12,033,228

As at 31 December, 2000, the Group had unutilised banking facilities amounting to RMB15,146,544,000 (1999: RMB8,505,952,000) to finance development of oil and gas properties.

The Group had no significant contingent liabilities as at 31 December, 2000 and 1999.

Notes to the Financial Statements

29. Commitments and Contingencies (Cont'd)

(ii) Research and development commitments

According to the research and development services agreement with the Centre, the Group agreed to pay the Centre for a term of three years from 9 September, 1999, an annual amount of RMB110,000,000 for provision of general geophysical exploration services, comprehensive exploration research services, information technology services and seismic data processing. As at 31 December, 2000, commitments for research and development services to be provided by the Centre amounted to approximately RMB192,472,500 (1999: RMB293,330,000).

(iii) Operating lease commitments

Operating lease commitments as at 31 December, 2000 amounted to approximately RMB143,922,000 (1999: RMB100,315,000), of which approximately RMB49,843,000 (1999: RMB37,618,000) was payable in the next twelve months. All leases will expire within two to five years.

(iv) Financial instruments

As at 31 December, 2000, the Group had currency swap contract with one financial institution to sell United States dollars in exchange for JPY in order to hedge certain JPY denominated loan repayments in the future.

The details are as follows:

	2000		1999	
	Notional contract amount	**Weighted average contractual exchange rate**	Notional contract amount	Weighted average contractual exchange rate
	(JPY'000)	**(JPY/US$)**	(JPY'000)	(JPY/US$)
Year				
2000	**–**	**–**	1,471,470	104.45
2001	**271,470**	**95.00**	271,470	95.00
2002	**271,470**	**95.00**	1,471,470	104.45
2003	**271,470**	**95.00**	1,471,470	104.45
2004	**271,470**	**95.00**	1,471,470	104.45
2005	**271,470**	**95.00**	1,471,470	104.45
2006	**271,470**	**95.00**	1,471,470	104.45
2007	**271,470**	**95.00**	1,471,470	104.45

(v) Share repurchase commitment

According to the subscription agreements dated 17 March, 2000, 31 May, 2000 and 28 June, 2000, the Company issued in total 557,575,755 new shares to eight unaffiliated entities. As at 31 December, 2000, the Company was obligated to purchase such corporate investors' shares pursuant to the subscription agreements. This repurchase obligation was terminated upon the consummation of the global offering of the Company on 28 February, 2001 (see note 33(i)).

30. Notes to Cash Flow Statement

(a) The reconciliation of profit before tax to net cash inflow from operating activities is as follows:

	2000	1999
	RMB'000	RMB'000
Profit before tax	**12,222,676**	4,833,364
Depreciation, depletion and amortisation	**2,577,882**	2,373,380
Write-back of doubtful accounts	**(57,658)**	(5,382)
Share of profit of associated company	**(218,326)**	(13,301)
Loss on disposals of property, plant and equipment	**220,146**	–
Dismantlement and site restoration allowance	**103,569**	177,090
Interest income	**(236,624)**	(53,709)
Interest expense	**475,004**	621,704
Unrealised exchange (gain) loss, net	**(324,178)**	402,529
Decrease (Increase) in accounts receivable	**1,146,613**	(1,928,492)
Increase in inventories and supplies	**(2,438)**	(124,677)
Increase in other current assets	**(39,386)**	(1,791)
(Decrease) Increase in accounts payable and accrued liabilities	**(1,433,928)**	1,583,741
Increase in other taxes payable	**2,701**	307,291
Net cash inflow from operating activities	**14,436,053**	8,171,747

Notes to the Financial Statements

30. Notes to Cash Flow Statement (Cont'd)

(b) Analysis of changes in financing during the year:

	Paid-in capital and share premium	Bank loans	Amount due to parent company	Amounts due to related companies
	RMB'000	RMB'000	RMB'000	RMB'000
Balances at 31 December, 1998	2,485,762	10,030,187	877	136,985
Return of capital to CNOOC	(471,560)	–	–	–
Net proceeds from loans	–	–	–	159,844
Net repayments of loans	–	–	(786,412)	–
Proceeds from bank loans	–	813,965	–	–
Repayments of bank loans	–	(2,143,892)	–	–
Effect of changes in foreign exchange rates	99	402,529	–	–
Transfer from reserves	5,752,654	–	–	–
Accrual for pension liabilities and distribution to CNOOC	–	–	2,399,665	–
Balances at 31 December, 1999	7,766,955	9,102,789	1,614,130	296,829
Proceeds from Private Placements	3,769,664	–	–	–
Net proceeds from loans	–	–	47,256	–
Net repayments of loans	–	–	–	(164,570)
Proceeds from bank loans	–	339,423	–	–
Repayments of bank loans	–	(3,371,657)	–	–
Effect of changes in foreign exchange rates	–	(324,178)	–	–
Properties transferred from CNOOC	–	–	121,111	–
Balances at 31 December, 2000	11,536,619	5,746,377	1,782,497	132,259

31. Segment Information

The Group is involved in the upstream operating activities of the petroleum industry that comprise production sharing contracts with foreign partners and independent operations. These segments are determined primarily because the senior management makes key operating decisions and assesses performance of the segments separately. The accounting policies of the Group's segments are the same as those described in the principal accounting policies in note 3. Operating expenses are allocated to these segments based on the allocation method as described in note 2. The Group's segment information is set out below:

	2000	1999
	RMB'000	RMB'000
Revenues:		
Production sharing contracts	**9,536,095**	6,809,482
Independent operations	**9,283,228**	4,588,391
Marketing revenues	**5,126,015**	3,804,367
Other income	**278,580**	108,347
	24,223,918	15,310,587

31. Segment Information (Cont'd)

	2000	1999
	RMB'000	RMB'000
Revenues sourced from:		
Inside the PRC	17,559,042	11,140,229
Outside the PRC	6,664,876	4,170,358
	24,223,918	15,310,587
Profits sourced from*:		
Inside the PRC	9,632,050	4,589,827
Outside the PRC	2,881,377	1,747,607
	12,513,427	6,337,434
Depreciation, depletion and amortisation:		
Production sharing contracts	1,130,820	1,566,660
Independent operations	1,447,062	806,720
	2,577,882	2,373,380
Dismantlement and site restoration allowance:		
Production sharing contracts	54,424	122,418
Independent operations	49,145	54,672
	103,569	177,090
Operating expenses:		
Production sharing contracts	1,229,265	1,316,644
Independent operations	894,813	538,665
	2,124,078	1,855,309
Capital expenditures:		
Production sharing contracts	1,244,159	691,577
Independent operations	3,340,184	3,626,737
	4,584,343	4,318,314
Assets:		
Production sharing contracts	12,004,410	9,669,579
Independent operations	20,592,995	16,498,981
	32,597,405	26,168,560

* *Segment profits represent segment revenues less segment expenses other than selling and administrative expenses, interest, exchange gain (loss) and other expenses that were incurred by and related to the Group as a whole.*

Notes to the Financial Statements

32. Concentration of Customers

A substantial portion of the sales of the Group is made to a small number of customers on an open account basis and generally no collateral is required. Details of individual customers accounting for more than 10% of the Group's sales for the year ended 31 December, 2000 were as follows:

	2000	1999
	RMB'000	RMB'000
Sales to refineries of China Petroleum & Chemical Corporation:		
SINOPEC Changling Company	**331,897**	969,778
SINOPEC Wuhan Company	**474,506**	709,972
SINOPEC Jiujiang Company	**405,588**	903,912
SINOPEC Anqing Company	**288,542**	929,107
SINOPEC Shanghai Petrochemical Company Limited	**91,737**	–
SINOPEC Jinling Company	**81,177**	914,756
SINOPEC Zhenhai Refining & Chemical Company Limited	**199,751**	748,052
SINOPEC Jingmen Company	**344,736**	711,137
SINOPEC Tianjin Oil Products Company	**871,754**	573,240
SINOPEC Dian-Qian-Gui Oil Field Company	**971,571**	550,119
Other	**2,263,802**	1,587,468
	6,325,061	8,597,541
Sales to refineries of PetroChina Company Limited:		
Dalian West Pacific Petrochemical Company Limited	**1,458,429**	1,651,888
Other	**–**	185,036
	1,458,429	1,836,924
	7,783,490	10,434,465

33. Subsequent Events

(i) Global offering

The Company completed its initial public offering in March 2001 and the details were as follows:

- issued 1,442,426,000 shares of HK$0.10 each at HK$6.01 per share and the shares and in the form of ADSs were listed on the Hong Kong Stock Exchange and the New York Stock Exchange on 28 February, 2001, and 27 February, 2001 respectively; and
- issued 214,163,900 shares of HK$0.10 each at HK$6.01 per share on 23 March, 2001 upon the exercise of an over-allotment option by the underwriters of the global offering.

The net proceeds from the initial public offering (including the exercise of the over-allotment option) amounted to approximately RMB10,125,276,000.

33. Subsequent Events (Cont'd)

(ii) Pre-global offering share option scheme

On 4 February, 2001, the Company adopted a pre-global offering share option scheme. Under this scheme, an aggregate of 4,620,000 shares were granted to the senior management. The exercise price is HK$5.95 per share. Options granted under this scheme will be exercisable, in whole or in part, in accordance with the following vesting schedule:

- 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.

34. Ultimate Holding Company

The directors of the Company consider CNOOC, a company established in the PRC, to be the ultimate holding company.

35. Additional Financial Information

As at 31 December, 2000, net current assets and total assets less current liabilities of the Group amounted to approximately RMB704,228,000 (1999 net current liabilities: RMB4,189,679,000) and RMB23,829,630,000 (1999: RMB16,991,547,000), respectively.

36. Significant Differences between Hong Kong GAAP and U.S. GAAP

The accounting policies adopted by the Group conform to Hong Kong GAAP, which differ in certain respects from U.S. GAAP.

(a) Net profit and net equity

Differences that have a significant effect on net profit and net equity are set out below.

(i) Dividends declared

Under Hong Kong GAAP, dividends declared after the end of an accounting period in respect of that accounting period are deducted from retained earnings at the end of such accounting period. Under U.S. GAAP, dividends are not recognised until the declaration date.

(ii) Revaluation of land and buildings

The Group revalued certain land and buildings on 31 August, 1999 as part of the Reorganisation. The Group has recorded the revaluation surplus on that date. On 31 December, 2000, the Group revalued such properties again and the related revaluation surplus of approximately RMB104,073,000 had been recorded on that date. Under Hong Kong GAAP, revaluation of property, plant and equipment is permitted and depreciation, depletion and amortisation is based on the revalued amount. Additional depreciation arising from the revaluation was approximately RMB1,896,000 for the period from 1 September, 1999 to 31 December, 1999 and RMB5,687,000 for the year ended 31 December, 2000. Under U.S. GAAP, property, plant and equipment is required to be stated at cost. Hence, no additional depreciation, depletion and amortisation from the revaluation is recognised under U.S. GAAP.

36. Significant Differences between Hong Kong GAAP and U.S. GAAP (Cont'd)

(a) Net profit and net equity (Cont'd)

Effects on net profit and net equity of above significant differences between Hong Kong GAAP and U.S. GAAP are summarised below:

	Net profit	
	2000	1999
	RMB'000	RMB'000
As reported under Hong Kong GAAP	**10,296,600**	4,111,439
Impact of U.S. GAAP adjustments:		
– Reversal of additional depreciation, depletion and amortisation arising from the revaluation surplus on land and buildings	**5,687**	1,896
As restated under U.S. GAAP	**10,302,287**	4,113,335
Net income per share under U.S. GAAP	**RMB 1.63**	RMB0.69

	Equity	
	2000	1999
	RMB'000	RMB'000
As reported under Hong Kong GAAP	**16,121,803**	8,384,240
Impact of U.S. GAAP adjustments:		
– Reversal of revaluation surplus on land and buildings	**(274,671)**	(170,598)
– Reversal of additional depreciation, depletion and amortisation charges arising from the revaluation surplus on land and buildings	**7,583**	1,896
– Dividends declared after the year end	**–**	1,045,365
As restated under U.S. GAAP	**15,854,715**	9,260,903

36. Significant Differences between Hong Kong GAAP and U.S. GAAP (Cont'd)

(b) Statement of cash flows

The Group applies Hong Kong Statement of Standard Accounting Practice No. 15 "Cash Flow Statements" ("Hong Kong SSAP 15"). Its objectives and principles are similar to those set out in the United States Statement of Financial Accounting Standards ("SFAS") No. 95, "Statement of Cash Flows". The principal differences between the standards relate to classification. Under Hong Kong SSAP 15, the Group presents its cash flows for (a) operating activities; (b) returns on investments and servicing of finance; (c) taxation; (d) investing activities; and (e) financing. Cash flows from taxation and returns on investments and servicing of finance would be included as operating activities under SFAS No. 95, with the exception of distributions, which under SFAS No. 95 would be classified as financing activities. Summarised cash flow data by operating, investing and financing activities in accordance with SFAS No. 95 are as follows:

	2000	1999
	RMB'000	RMB'000
Net cash inflow (outflow) from:		
– Operating activities	**13,239,052**	7,323,120
– Investing activities	**(7,860,607)**	(4,442,058)
– Financing activities	**(3,454,350)**	(2,428,055)
Changes in cash	**1,924,095**	453,007
Cash at beginning of year	**878,882**	425,776
Effect of exchange rate changes	**(6,350)**	99
Cash at end of year	**2,796,627**	878,882

(c) Comprehensive income

According to SFAS No. 130, it is required to include a statement of other comprehensive income for revenues and expenses, gains and losses that under U.S. GAAP are included in comprehensive income and excluded from net income. During the years ended 31 December, 2000 and 1999, the only other comprehensive income is the exchange differences arising from the translation of the financial statements of the Company's foreign subsidiaries.

(d) Newly issued accounting standards

In June 1998, SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" was issued. This statement requires companies to record all derivatives on the balance sheet as assets or liabilities measured at fair value. Gains and losses resulting from changes in fair market values of those derivative instruments would be accounted for depending on the use of the instrument and whether it qualifies for hedge accounting. SFAS No. 133 will be effective for the year ending 31 December, 2001. The Group does not expect that the implementation of SFAS No. 133 will have a significant impact on its financial position, results of operations or cash flows.

37. Comparative Figures

Certain 1999 comparative figures have been reclassified to conform to the current year's presentation.