

# Chairman's Statement and Review of Operations and Results

CNOOC Limited (the "Company") completed the initial public offering of its shares and ADSs during the first half of 2001. The Company's stock has been listed and traded on the New York Stock Exchange and the Stock Exchange of Hong Kong since February 27 and February 28, 2001, respectively.

Despite a weaker oil price environment triggered by a slow down in the global economy, our operating activities have remained strong. Operating results were favourable in all areas. Oil and gas revenue overcame the impact of lower realized prices and recorded a 5.73% growth. Our unit costs remained competitive. A strong balance sheet helped reduce financing expenses. Operating income before tax was 11.3% higher than that of the same period last year. Increased development capital expenditure and an active exploration program also marked the period. Both are core features of our growth strategy.

## Review of Operations

For the six months ended June 30, 2001, net daily oil production was 229,824 barrels, a 7.5% increase over the same period last year. Net daily gas production was 190.1 million cubic feet, down 5.3% from the same period a year earlier due to a smaller offtake by buyers. Total daily production during the period was 261,504 barrels-of-oil-equivalent, representing a 5.7% increase over the same period a year earlier and a 9.3% increase over the annual average daily production of last year. Realized oil prices were US\$ 25.81 per barrel and gas prices were US\$ 3.10 per thousand cubic feet.

Our exploration and production activities for the period generated oil and gas sales of RMB 9.56 billion, up 5.73% from the same period of last year. Crude trading activities generated marketing revenue and gross profits of RMB 1.38 billion and RMB 49.5 million, respectively, in the first half of 2001 compared to marketing revenue and gross profits of RMB 2.83 billion and RMB 32.2 million, respectively, in the same period in 2000. Our total revenues during the period were RMB 11.24 billion, down 6% from the same period last year.

Our earnings before tax was RMB 6.46 billion, compared with RMB 5.80 billion in the same period in 2000, representing an 11.3% increase. The income tax rate of our PRC subsidiary was 30% during the period, compared with a preferential rate of 15% last year. Our tax provision increased from RMB 977 million in the first half of 2000 to RMB 1,838 million in the same period of 2001. Our net income was RMB 4.62 billion, compared with RMB 4.82 billion in the same period in 2000. The basic and diluted net income per share for the six months ended June 30, 2001 was RMB 0.60.

We had an active exploration program and recorded five wildcat discoveries during the period. The Wenchang 15-1 and Liuhoa 19-3 discoveries were made through independent exploration efforts. The Huizhou 9-2, Huizhou 19-2 and Caofeidian 11-2 discoveries were made by our PSC partners. Furthermore, we and our PSC partners drilled a total of 15 appraisal wells to delineate reserves in discoveries made earlier. Notably, positive results were recorded at Wenchang 12-1N, Caofeidian 11-1, Caofeidian 12-1, Bozhong 25-1 and Huizhou 19-3.

Development expenditures, which are a key driver of the near-term production growth, increased during the period. Five projects are currently under active development. Suizhong 36-1 (Phase II) and Qinhuangdao 32-6 are both expected to be completed in the fourth quarter of this year and progressed according to schedule during the period. Wenchang 13-1/13-2, scheduled to come on stream in the first half of 2002, also hit milestones on schedule. Development activities commenced for Dongfang 1-1 and Penglai 19-3.

Our parent company, China National Offshore Oil Corporation ("CNOOC"), signed two Production Sharing Contracts ("PSCs") during the period, one with Santa Fe Energy Resources of China Limited on Block 27/10 in the Eastern South China Sea and the other with Husky Oil China Limited on Block 39/05 in the Western South China Sea. Under our agreement with CNOOC, we are entitled to all commercial interests and benefits from the signed PSCs. CNOOC also reached an agreement with The Sinopec Group on exploration and development of the Xihu Trough in East China Sea. CNOOC will back in to a 50% working interest in the exploration and development of the Xihu Trough, an asset previously 100% owned by The Sinopec Group. We expect to acquire this 50% interest from CNOOC in the near future.

We continued focus on safety and sound environmental practices. The recordable accident rate for the six months ended June 30, 2001 was 0.24 incidents per 200,000 man hours, which was the same level as last year. Work hours lost in the six months ended June 30, 2001 averaged 1 day per 200,000 man hours, down from 3.04 days per 200,000 man hours in the same period a year earlier.

## Outlook

We will continue to implement our production and growth strategy in the second half of 2001.

- We will focus on meeting our oil and gas production targets of the year while controlling costs. We will also strive to meet our development targets. As planned, we expect to bring on stream the Suizhong 36-1 (Phase II) and Qinhuangdao 32-6 development projects before year end.
- We will continue our wildcat and appraisal well program, so as to increase reserves through a balance of independent exploration and production sharing contracts.
- We will explore the feasibility and economics of natural gas related businesses, expedite exploration and development of natural gas resources and search for opportunities to participate in overseas gas field development as part of our integrated LNG strategy.
- Finally, we will continue to upgrade our management and employee skill levels, maintain and strive to further reduce our internationally competitive cost structure and improve our efficiency through enhanced management and advanced technology.

## DISCLOSURE OF INFORMATION

As at June 30, 2001, the information in relation to the matters set out in paragraph 32 of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange did not change materially from the information disclosed in the annual report of the Company for the year 2000.

By order of the Board  
**CNOOC Limited**  
Liucheng Wei  
*Chairman and Chief Executive Officer*  
Hong Kong, August 27, 2001