(All amounts expressed in Renminbi, except number of shares and unless otherwise stated)

1. **ORGANISATION AND PRINCIPAL ACTIVITIES**

CNOOC Limited (the "Company") was incorporated in the Hong Kong Special Administration Region ("Hong Kong"), the People's Republic of China (the "PRC") on August 20, 1999. The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in the exploration, development, production and sales of crude oil and natural gas.

As at June 30, 2001, the Company had direct or indirect interests in the following principal subsidiaries and an associated company:

Name of entity	Percentage of equity interest attributable to the Group	Issued and paid up capital	Principal activities
Directly held subsidiaries:			
CNOOC China Limited	100%	RMB10 billion	Offshore petroleum exploration, development, production, and sales in the PRC
CNOOC International Limited	100%	US$2	Investment holding
China Offshore Oil (Singapore) International Pte. Ltd.	100%	S$3 million	Sales and marketing of petroleum outside of the PRC
Indirectly held subsidiaries*:			
Malacca Petroleum Limited	100%	US$12,000	Investment holding
OOGC America, Inc.	100%	US$1,000	Investment holding
OOGC Malacca Limited	100%	US$12,000	Investment holding
OOGC Myanmar Limited	100%	US$12,000	Investment holding
Associated company:**			
Shanghai Petroleum and Natural Gas Company Limited	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 AND PRINCIPAL ACCOUNTING POLICIES

Prior to the Reorganisation of the Company in 1999 for the purpose of listing its shares on the Hong Kong Stock Exchange and the New York Stock Exchange, 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 upon the Reorganisation.

The Company completed the initial public offering and listed its shares and in the form of ADSs on the Stock Exchange of Hong Kong and the New York Stock Exchange since February 28, 2001 and February 27, 2001, respectively.

The accompanying interim financial statements are prepared in accordance with accounting principles generally accepted in Hong Kong ("Hong Kong GAAP") except that the comparative figures for the cash flow statement were omitted which was not in compliance with Hong Kong Statement of Standard Accounting Practice No. 25 " Interim Reporting" ("Hong Kong SSAP 25"). The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited permit the deviation from Hong Kong SSAP 25 for the first cash flow statement to be included in the interim report in respect of interim financial statements relating to accounting period ended on or after July 1, 2000 and before July 1, 2001.

The principal accounting policies adopted by the Group for 2001 are consistent with those adopted for the preparation of the consolidated financial statements for the year ended December 31, 2000.

3. OIL AND GAS SALES AND MARKETING REVENUES

Oil and gas sales 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 recognized when the significant risks and rewards of ownership of oil and gas have been transferred to customers.

Marketing revenues represent sales of oil purchased from the foreign partners under the production sharing contracts, and the revenues from trading of oil through the Company's subsidiary in Singapore. The costs of the oil sold are included in the crude oil and product purchase expenses.

4. 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 sourced from Hong Kong. The Company's subsidiary established in the PRC, CNOOC China Limited, is exempt from 3% local surcharges and is subject to an enterprise income tax of 30% under the prevailing tax rules and regulations. Moreover, with approval from the tax authorities, CNOOC China Limited was entitled to a 50% reduction of enterprise income taxes for three years until end of year 2000. Starting from January 2001, CNOOC China Limited is subject to enterprise income taxes at normal rate of 30%. 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 periods presented.

(ii) Production taxes

CNOOC China Limited has to pay the following production taxes:

- production taxes equal to 5% of independent production and production under production sharing contracts; and
- business tax of 5% on other income.

5. EARNINGS PER SHARE

	Six months ended June 30	
	2001	2000
	RMB'000	RMB'000
Earnings:		
Net profit for the period and earnings for the purpose of basic and diluted earnings per share	4,618,098	4,821,562

	Six months ended June 30	
	2001	2000
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	7,649,324,517	6,102,164,502
Effect of dilutive potential ordinary shares under the pre-global offering share option scheme	651,256	-
Weighted average number of ordinary shares for the purpose of diluted earnings per share	7,649,975,773	6,102,164,502

6. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment amounting to approximately RMB1,676,747,000.

7. ACCOUNTS RECEIVABLE

The customers are required to make payment within 30 days after the delivery of oil and gas. As at June 30, 2001, substantially all the accounts receivable were aged within six months.

8. ACCOUNTS PAYABLE

As at June 30, 2001, substantially all the accounts payable were aged within six months.

9. SHARE CAPITAL

	Number of shares	Share capital
		HK$'000
Authorised:		
Ordinary shares of HK$0.10 each		
At June 30, 2001 and 2000	15,000,000,000	1,500,000
Issued and fully paid:		
Ordinary shares of HK$0.10 each		
At January 1, 2000	6,000,000,000	600,000
Issue of shares to corporate investors	496,969,695	49,697
At June 30, 2000	6,496,969,695	649,697
Ordinary shares of HK$0.10 each		
At January 1, 2001	6,557,575,755	655,758
Issue of shares during the initial public offering	1,656,589,900	165,659
At June 30, 2001	8,214,165,655	821,417

10. PRE-GLOBAL OFFERING SHARE OPTION SCHEME

On February 4, 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 on March 12, 2001. 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.

11. CONSOLIDATED MOVEMENTS IN EQUITY

Movements in equity during the period were as follows:

	Six months ended June 30							
	2001							2000
	Paid-in capital	Share premium	Revaluation reserves	Cumulative translation reserve	Statutory reserves	Retained earnings	Total	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balances at beginning of the period	701,181	10,835,438	274,671	(6,350)	948,338	3,368,525	16,121,803	8,384,240
Net profit for the period	-	-	-	-	-	4,618,098	4,618,098	4,821,562
Issuance of ordinary shares	175,797	9,925,767	-	-	-	-	10,101,564	3,359,920
Foreign currency translation differences	-	-	-	907	-	-	907	(3,389)
Balances at end of the period	876,978	20,761,205	274,671	(5,443)	948,338	7,986,623	30,842,372	16,562,333

12. COMMITMENTS AND CONTINGENCIES

(i) Capital commitments

As at June 30, 2001, the Group had the following capital commitments, principally for construction and equipment purchases:

	June 30, 2001	December 31, 2000
	RMB'000	RMB'000
Contracted for	1,814,350	3,325,216
Authorised but not contracted for	6,470,270	7,729,113

As at June 30, 2001, the Group had unutilised banking facilities amounting to RMB15,145,849,000 (December 31, 2000: RMB15,146,544,000) to finance development of oil and gas properties.

The Group had no significant contingent liabilities as at June 30, 2001 and December 31, 2000.

(ii) Research and development commitments

According to the research and development services agreement with the China Offshore Oil Research Centre (the "Centre"), the Group agreed to pay the Centre for a term of three years from September 9, 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 June 30, 2001, the remaining commitments for research and development services to be provided by the Centre amounted to approximately RMB140,738,000 (December 31, 2000: RMB192,472,500).

(iii) Operating lease commitments

Operating lease commitments as at June 30, 2001 amounted to approximately RMB118,564,000 (December 31, 2000: RMB143,922,000).

12. COMMITMENTS AND CONTINGENCIES *(continued)*

(iv) Financial instruments

As at June 30, 2001, the Group had currency swap contract with one financial institution to sell United States dollars in an exchange for Japan Yen ("JPY") in order to hedge certain JPY denominated loan repayments in the future.

The details are as follows:

	June 30, 2001		December 31, 2000	
	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				
2001	135,735	95.00	271,470	95.00
2002	271,470	95.00	271,470	95.00
2003	271,470	95.00	271,470	95.00
2004	271,470	95.00	271,470	95.00
2005	271,470	95.00	271,470	95.00
2006	271,470	95.00	271,470	95.00
2007	271,470	95.00	271,470	95.00

13. 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. In view of the fact that substantially all the operations are in the PRC, no geographical segment information is presented other than revenues and profits. The Group's segment information is set out below:

	Six months ended June 30	
	2001	2000
	RMB'000	RMB'000
Revenues:		
Production sharing contracts	4,358,431	4,664,301
Independent operations	5,203,555	4,379,251
Marketing revenues	1,377,457	2,829,610
Other income	301,462	88,152
	11,240,905	11,961,314

13. SEGMENT INFORMATION *(continued)*

	Six months ended June 30 2001 RMB'000	Six months ended June 30 2000 RMB'000
Revenues sourced from:		
Inside the PRC	9,782,984	8,222,012
Outside the PRC	1,457,921	3,739,302
	11,240,905	11,961,314
Profits sourced from*:		
Inside the PRC	5,764,625	4,771,870
Outside the PRC	808,297	1,410,069
	6,572,922	6,181,939
Depreciation, depletion and amortisation:		
Production sharing contracts	558,031	582,642
Independent operations	737,190	605,904
	1,295,221	1,188,546
Dismantlement and site restoration allowance:		
Production sharing contracts	25,629	27,684
Independent operations	28,165	23,471
	53,794	51,155
Operating expenses:		
Production sharing contracts	534,535	639,724
Independent operations	513,449	351,808
	1,047,984	991,532
Capital expenditures:		
Production sharing contracts	878,094	759,640
Independent operations	798,653	1,034,721
	1,676,747	1,794,361

	June 30, 2001 RMB'000	December 31, 2000 RMB'000
Assets:		
Production sharing contracts	16,835,838	12,004,410
Independent operations	27,850,997	20,592,995
	44,686,835	32,597,405

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

14. INTERIM DIVIDEND

On August 27, 2001, the Board of Directors declared an interim dividend of HK$0.10 per share, totalling HK$821,416,566.

15. SUBSEQUENT EVENT

Pursuant to a conditional agreement dated August 27, 2001, the Company, through CNOOC China Limited, acquired interests in certain oil and natural gas fields in the Xihu Trough in the East China Sea of the PRC from CNOOC, the parent company, for a total consideration of US$45,000,000.

16. ADDITIONAL FINANCIAL INFORMATION

As at June 30, 2001, net current assets and total assets less current liabilities of the Group amounted to approximately RMB14,089,000,000 and RMB37,584,000,000 (December 31, 2000: RMB704,228,000 and RMB23,829,630,000), respectively.

17. 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 generally accepted accounting principles in the United States of America ("U.S. GAAP").

(a) Net profit and equity

(i) Revaluation of land and buildings

The Group revalued certain land and buildings on August 31, 1999 and December 31, 2000 and the related revaluation surplus had been recorded on the respective dates. 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 for the six months ended June 30, 2001 was approximately RMB4,578,000 (2000: RMB2,843,000). Under U.S. GAAP, property, plant and equipment is required to be stated at cost. Hence, no additional depreciation, depletion and amortization from the revaluation is recognized under U.S. GAAP.

(ii)Investments in marketable securities

According to Hong Kong GAAP, available-for-sale investments in marketable securities are measured at fair value and related unrealized holding gains and losses are included in current period earnings. According to U.S. GAAP, such investments are also measured at fair value and classified in accordance with United States Statement of Financial Accounting Standards ("SFAS") No. 115. Under U. S. GAAP, related unrealized gains and losses are excluded from current period earnings and reported as a separate component of shareholders' equity.

17. SIGNIFICANT DIFFERENCES BETWEEN HONG KONG GAAP AND U.S. GAAP *(continued)*

(a) Net profit and equity *(continued)*

Effects on net profit and equity of the above significant difference between Hong Kong GAAP and U.S. GAAP are summarized below:

	Net profit	
	Six months ended June 30	
	2001	2000
	RMB'000	RMB'000
As reported under Hong Kong GAAP	4,618,098	4,821,562
Impact of U.S. GAAP adjustments:		
- Reversal of additional depreciation, depletion and amortization arising from the revaluation surplus on land and buildings	4,578	2,843
- Unrealized gains from available-for-sale investments in marketable securities	(34,739)	-
As restated under U.S. GAAP	4,587,937	4,824,405
Net income per share under U.S. GAAP	RMB 0.60	RMB 0.79

	Equity	
	June 30, 2001	December 31, 2000
	RMB'000	RMB'000
As reported under Hong Kong GAAP	30,842,372	16,121,803
Impact of U.S. GAAP adjustments:		
- Reversal of revaluation surplus on land and buildings	(274,671)	(274,671)
- Reversal of additional depreciation, depletion and amortization charges arising from the revaluation surplus on land and buildings	12,161	7,583
As restated under U.S. GAAP	30,579,862	15,854,715

17. SIGNIFICANT DIFFERENCES BETWEEN HONG KONG GAAP AND U.S. GAAP *(continued)*

(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 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:

	Six months ended June 30, 2001
	RMB'000
Net cash inflow (outflow) from:	
- Operating activities	6,819,587
- Investing activities	(7,902,549)
- Financing activities	5,884,008
Changes in cash	4,801,046
Cash at beginning of the period	2,796,627
Effect of exchange rate changes	907
Cash at end of the period	7,598,580

(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 six months ended June 30, 2001, the only other comprehensive income is the exchange differences arising from the translation of the financial statements of the Company's foreign subsidiaries.

(d) Derivative instrument

The Group had a currency swap contract with a financial institution to sell United States dollars in exchange for JPY in order to hedge certain JPY denominated loan repayment in the future. In accordance with SFAS No. 133, the derivative contract was recorded as "Other current liabilities" in the accompanying consolidated balance sheet at fair value. For the six months ended June 30, 2001, the Group recognized related changes in fair value, a loss of RMB36,311,000, and included the amount in "Exchange gain, net" in the accompanying consolidated income statement. The adoption of SFAS No. 133 as of January 1, 2001 has no material impacts on the Group's financial statements.

17. SIGNIFICANT DIFFERENCES BETWEEN HONG KONG GAAP AND U.S. GAAP *(continued)*

(e) Newly issued accounting standard

On August 15, 2001, SFAS No. 143 "Accounting for Asset Retirement Obligations" was released and will be effective for the fiscal years beginning after June 15, 2002. This statement requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The associated asset retirement costs are capitalized as part of the carrying amount of the long-lived assets. Further under this statement, the liability is discounted and accretion expense is recognized using the credit-adjusted risk-free interest rate in effect when the liability was initially recognized.

According to the existing accounting policies adopted to prepare the financial statements, 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 practice. The Group provides for the future dismantlement and site restoration allowance using the unit of production method over the useful life of the related asset.

Adoption of the statement will likely result in increase in both costs of assets and total liabilities. The Group is currently assessing these matters and has not yet determined whether or the extent to which they will affect the financial statements.