CHAIRMAN'S STATEMENT

Despite a weaker oil price environment triggered by a slow down in the global economy, our operating activities have remained strong. In April 2002, the Company completed the acquisition of nine Repsol YPF S.A. subsidiaries which together own working interests in five oil and gas properties in Indonesia. We view this as an excellent opportunity to make a material acquisition of low-risk assets at a compelling price and, at the same time, further strengthens the Company's presence in the Asia Pacific region. Pro forma oil and gas revenues overcame the impact of lower realised price and recorded a 10% increase over that reported in the first half of last year. In March 2002, the Company took advantage of the favorable low interest rate environment to issue US$500 million 10-year guaranteed bonds. Our unit costs remained competitive and the period was also marked with increased development capital expenditure and an active exploration program, both of which are core features of our growth strategy.

REVIEW OF OPERATIONS

For the six months ended 30 June 2002, the Company's production achieved significant increase. Pro forma daily oil and gas production reached 340,321 barrels-of-oil-equivalent, representing a 30.1% increase over the same period last year. Pro forma net crude oil production was 292,964 barrels per day, pro forma net natural gas production was 279 million cubic feet per day, representing a 27.5% and 46.5% increase over the first half of 2001 respectively. However, for the six months ended 30 June 2002, excluding the first quarter production from our Indonesian operations, the Company's reported net total daily production was 307,334 barrels-of-oil-equivalent, representing a 17.5% increase over the same period a year earlier. The reported net crude oil production was 267,130 barrels per day, representing a 16.2% increase over the same period last year. The reported net daily gas production was 238 million cubic feet, which was up 25.3% from the same period a year earlier. The increase in oil and gas production reflected both an increase in offshore China daily production levels as well as the contribution of the Company's acquisition of Repsol YPF S.A.'s subsidiaries. Realised oil price was US$21.81 per barrel and gas price was US$3.07 per thousand cubic feet.

Despite the average realised oil price in the first half of 2002 being 15.5% lower than the same period last year, our exploration and production activities for the period generated pro forma oil and gas sales of RMB10.56 billion, which represented a 10% increase compared to RMB9.56 billion of the same period last year. Due to the lower oil price, crude oil trading activities generated marketing revenue and gross profits of RMB0.79 billion and RMB22 million, respectively in the first half of 2002, whilst the marketing revenue and gross profits of the same period in 2001 were RMB1.38 billion and RMB49.5 million, respectively. The Company's pro forma total revenue for the period was RMB11.57 billion, our pro forma profit before tax was RMB5.28 billion and pro forma profit after tax was RMB3.77 billion. We consolidated the income of our Indonesian operations from the second quarter and our reported realised total revenue was RMB10.64 billion, which was down 5.3% from the first half of the previous year. The reported oil and gas sales was RMB9.63 billion, which remained at approximately the same level as the first half of last year. The reported profit before tax was RMB4.99 billion, representing a decrease of 22.8% compared to RMB6.46 billion over the same period last year. The reported net profit after tax for the period was RMB3.62 billion, representing a decrease of 21.6% compared to RMB4.62 billion over the same period last year. The basic and diluted net earnings per share was RMB0.44.

We have had an active exploration program and recorded nine wildcat discoveries during the period. The Luda 4-2, Luda 10-1, Qinhuangdao 34-3, Penglai 2-2, Panyu 30-1 and Yacheng 13-4 discoveries were made through independent exploration efforts. Our PSC partners made the Luda 27-2, Caofeidian 11-3 and Caofeidian 16-1 discoveries. Together with our PSC partners, we drilled a total of eight appraisal wells to delineate reserves in discoveries made earlier. Notably, positive results were recorded at Luda 4-2, Luda 5-2, Luda 10-1, Luda 27-2, Yacheng 13-4 and Caofeidian 12-1S.

Development expenditure, which is a key driver of the near-term production growth, increased during the period. Five projects are currently under active development. During the period, C and D wellhead platforms of Qinhuangdao 32-6 and Wenchang 13-1/13-2 were on stream. Development activities for Dongfang 1-1, Penglai 19-3 and Panyu 4-2/5-1 also hit milestones on schedule.

We continue to focus on safety and sound environmental practices. The recordable accident rate for the six months ended 30 June 2002 was 0.12 incidents per 200,000 man-hours, representing a decrease of 50% from 0.24 incidents per 200,000 man-hours last year. Work hours lost in the six months ended 30 June 2002 averaged 0.15 days per 200,000 man-hours, which was down from 1 day 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 2002:

- We will focus on meeting our oil and gas production targets for the year while controlling costs. We will also strive to meet our development targets.

- We will continue our wildcat and appraisal well program, so as to increase reserves through a balance of independent and production sharing contracts exploration.

- 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.

*** Pro forma: Indonesia business effective from 1 January 2002.**

Wei Liucheng
Chairman & Chief Executive Officer

Hong Kong, August 23, 2002

KEY FIGURES

	Six months ended 30 June 2002	2001
Net profit, million RMB	**3,618.9**	4,618.1
Earnings per share, RMB	**0.44**	0.60
EBITDE, million RMB[(1)]	**7,481.8**	8,049.3
Total Oil and Gas Sales, million RMB	**9,628.9**	9,562.0
Total Revenue, million RMB	**10,640.4**	11,240.9
Total Production		
Oil , million barrels	**48.4**	41.6
Gas, billion cubic feet	**43.1**	34.4
Total, million barrels of oil equivalent	**55.6**	47.3
Daily Production		
Oil , barrels	**267,130**	229,824
Gas, million cubic feet	**238.0**	190.1
Total, barrels of oil equivalent	**307,334**	261,504

Note:

(1) EBITDE refers to earnings before interest income, interest expense, income taxes, depreciation, depletion and amortisation, dismantlement cost, exploration cost and exchange gain & loss.

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2002

(All amounts expressed in thousands of Renminbi, except per share data)

	Notes	Six months ended 30 June 2002 (unaudited)	Six months ended 30 June 2001 (unaudited)
Turnover			
Oil and gas sales	*5*	**9,628,871**	9,561,986
Marketing revenue	*5*	**794,063**	1,377,457
Other income		**217,464**	301,462
Total revenue		**10,640,398**	11,240,905
Expenses			
Operating expenses		**(1,584,014)**	(1,047,984)
Production taxes		**(420,921)**	(491,371)
Exploration costs		**(634,859)**	(451,619)
Depreciation, depletion and amortisation		**(1,590,079)**	(1,295,221)
Dismantlement and site restoration allowance		**(59,810)**	(53,794)
Crude oil and product purchases	*5*	**(772,094)**	(1,327,994)
Selling and administrative expenses		**(358,105)**	(262,141)
Others		**(166,711)**	(206,650)
Total expenses		**(5,586,593)**	(5,136,774)
Profit from operating activities		**5,053,805**	6,104,131
Interest income		**79,498**	234,088
Interest expenses	*6*	**(138,213)**	(202,143)
Exchange (loss)/gain, net		**(146,269)**	175,778
Investment income		**102,287**	42,563
Share of profit of an associate		**38,577**	103,798
Non-operating gain /(loss), net		**2,417**	(1,787)
Profit before tax		**4,992,102**	6,456,428
Tax	*7*	**(1,373,241)**	(1,838,330)
Net profit		**3,618,861**	4,618,098
Earnings per share – Basic	*8*	**RMB0.44**	RMB0.60
– Diluted	*8*	**RMB0.44**	RMB0.60
Interim dividend declared HK$0.11 (2001: HK$0.10) per share	*14*	**958,314**	871,194

CONSOLIDATED BALANCE SHEET

As at 30 June 2002

(All amounts expressed in thousands of Renminbi)

	Notes	30 June 2002 (unaudited)	31 December 2001 (audited)
ASSETS			
Non-current assets			
Property, plant and equipment, net	*9*	**33,675,179**	23,827,499
Investment in an associate		**440,567**	461,990
		34,115,746	24,289,489
Current assets			
Cash and cash equivalents		**7,840,092**	6,393,724
Time deposits with maturities of three months or more		**1,250,000**	2,050,000
Accounts receivable, net	*10*	**2,255,613**	1,194,180
Inventories and supplies		**726,344**	627,337
Short term investments		**7,562,965**	8,895,804
Due from related companies		**346,716**	176,519
Other current assets		**922,410**	692,595
		20,904,140	20,030,159
Total assets		**55,019,886**	44,319,648
EQUITY AND LIABILITIES			
Non-current liabilities			
6.375% long term guaranteed notes	*11*	**4,065,445**	–
Long term bank loans		**2,696,606**	3,255,699
Dismantlement and site restoration allowance		**1,946,846**	1,598,130
Deferred tax liabilities		**5,986,060**	1,763,637
		14,694,957	6,617,466
Current liabilities			
Current portion of long term bank loans		**178,832**	1,231,840
Accounts payable	*12*	**1,647,470**	591,624
Other payables and accrued liabilities		**1,110,380**	813,146
Due to parent company		**164,962**	125,493
Due to related companies		**328,744**	157,823
Taxes payable		**971,788**	1,471,750
		4,402,176	4,391,676
Total liabilities		**19,097,133**	11,009,142
Shareholders' equity			
Share capital	*13*	**876,978**	876,978
Reserves		**35,045,775**	32,433,528
Total equity		**35,922,753**	33,310,506
Total equity and liabilities		**55,019,886**	44,319,648

STATEMENT OF CHANGES IN EQUITY

As at 30 June 2002

(All amounts expressed in thousands of Renminbi)

	Share capital	Share premium	Revaluation reserve	Cumulative translation reserve	Statutory reserves	Retained earnings	Total
Unaudited							
Balances at 1 January 2001	701,181	10,835,438	274,671	(6,350)	948,338	3,368,525	16,121,803
Issuance of ordinary shares	175,797	9,925,767	–	–	–	–	10,101,564
Net profit for the period	–	–	–	–	–	4,618,098	4,618,098
Foreign currency translation differences	–	–	–	907	–	–	907
Balances at 30 June 2001	876,978	20,761,205	274,671	(5,443)	948,338	7,986,623	30,842,372
Unaudited							
Balances at 1 January 2002 as previously stated	876,978	20,761,205	274,671	(5,648)	1,535,360	9,867,940	33,310,506
Cumulative effect of change in accounting policy *(Note 3)*	–	–	–	–	–	298,157	298,157
Balances at 1 January 2002 as restated	876,978	20,761,205	274,671	(5,648)	1,535,360	10,166,097	33,608,663
Net profit for the period	–	–	–	–	–	3,618,861	3,618,861
Dividends *(Note 14)*	–	–	–	–	–	(1,306,740)	(1,306,740)
Foreign currency translation differences	–	–	–	1,969	–	–	1,969
Balance at 30 June 2002	876,978	20,761,205	274,671	(3,679)	1,535,360	12,478,218	35,922,753

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

Six months ended 30 June 2002

(All amounts expressed in thousands of Renminbi)

	Six months ended 30 June 2002 (unaudited)	Six months ended 30 June 2001 (unaudited)
Net cash inflow from operating activities	**4,349,312**	3,422,264
Net cash used in investing activities	**(4,476,833)**	(7,902,549)
Net cash flow before financing	**(127,521)**	(4,480,285)
Net cash flow from financing	**1,571,920**	9,281,331
Net increase in cash and cash equivalents	**1,444,399**	4,801,046
Cash and cash equivalents at beginning of the period	**6,393,724**	2,796,627
Effect of exchange rate changes	**1,969**	907
Cash and cash equivalents at end of the period	**7,840,092**	7,598,580

(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 Hong Kong Special Administrative Region ("Hong Kong"), the People's Republic of China (the "PRC") on 20 August 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 and other petroleum. The directors of the Company consider China National Offshore Oil Corporation ("CNOOC"), a company established in the PRC, as the ultimate parent company.

As at 30 June 2002, the Company had direct or indirect interests in the following principal subsidiaries and an associate:

Name of entity	Place and date of incorporation/ establishment	Percentage of equity interest attributable to the Group	Nominal value of 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
CNOOC Finance (2002) Limited	British Virgin Islands 24 January 2002	100%	US$1,000	Bond issuance
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
CNOOC Southeast Asia Limited	Bermuda 16 May 1997	100%	US$12,000	Investment holding
CNOOC Southeast Sumatra, B.V.	The Netherlands 25 November 1996	100%	NLG41,000	Offshore petroleum exploration, development and production in Indonesia
CNOOC (Sumatra E&P) Limited	The Cayman Islands 13 August 1987	100%	US$2	Offshore petroleum exploration, development and production in Indonesia

NOTES TO INTERIM FINANCIAL STATEMENTS

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

1. ORGANISATION AND PRINCIPAL ACTIVITIES (CONTINUED)

Name of entity	Place and date of incorporation/ establishment	Percentage of equity interest attributable to the Group	Nominal value of issued and paid up capital	Principal activities
Indirectly held subsidiaries:				
CNOOC Exploracion Sunda, B.V.	The Netherlands 11 June 1971	100%	NLG1,000,000	Offshore petroleum exploration, development and production in Indonesia
CNOOC (Java) E&P Limited	The Cayman Islands 13 August 1987	100%	US$2	Offshore petroleum exploration, development and production in Indonesia
CNOOC Java Baratlaut B.V.	The Netherlands 25 November 1996	100%	NLG41,000	Offshore petroleum exploration, development and production in Indonesia
CNOOC Madura, B.V.	The Netherlands 8 October 1997	100%	NLG40,000	Offshore petroleum exploration, development and production in Indonesia
CNOOC Poleng, B.V.	The Netherlands 8 October 1997	100%	NLG40,000	Offshore petroleum exploration, development and production in Indonesia
CNOOC Blora Limited	The Cayman Islands 3 December 1996	100%	US$100	Onshore petroleum exploration, development and production in Indonesia
PT IIAPCO	Indonesia 26 December 1996	100%	US$500,000	Provision of technical services
Associate:				
Shanghai Petroleum and Natural Gas Company Limited	Shanghai, the PRC 7 September 1992	30%	RMB900 million	Offshore petroleum exploration, development, production and sales in South Yellow Sea and East China Sea

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

2. PRINCIPAL ACCOUNTING POLICIES

The accompanying interim financial statements are prepared under the historical cost convention as modified by the revaluation of land and buildings and short term investments, and in accordance with Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 25 "Interim financial reporting".

The principal accounting policies and basis of presentation used in the preparation of the interim financial statements are the same as those used in the annual audited financial statements for the year ended 31 December 2001, except as disclosed in note 3 below, that the Group has changed its accounting policy related to dismantlement and site restoration allowance in compliance with SSAP 28 "Provisions, contingent liabilities and contingent assets" issued in 2001 and changed certain of its accounting policies following the adoption of the following new or revised SSAPs issued by the Hong Kong Society of Accountants.

SSAP 1 (revised)	Presentation of financial statements
SSAP 2 (revised)	Net profit or loss for the period, fundamental errors and change in accounting policies
SSAP 11 (revised)	Foreign currency translation
SSAP 15 (revised)	Cash flow statements
SSAP 25 (revised)	Interim financial reporting
SSAP 34	Employee benefits

The impact of adopting the above new or revised Hong Kong SSAPs is not significant and, accordingly, no prior period adjustment has been made in the financial statements of the Group.

3. CHANGE IN ACCOUNTING POLICY

During the period, the Group changed its method of accounting for dismantlement and site restoration allowance in compliance with SSAP 28 "Provisions, contingent liabilities and contingent assets". SSAP 28 requires the provision to be recorded for a present obligation whether that obligation is legal or constructive. The associated cost is capitalised and the liability is discounted and accretion expense is recognised using the credit-adjusted risk-free interest rate in effect when the liability is initially recognised.

The effect of this change in accounting policy was to increase the retained earnings and property, plant and equipment, as at 1 January 2002 by RMB298,156,268 and RMB736,848,177, respectively, and to increase the dismantlement and site restoration allowance and deferred tax liabilities as at 1 January 2002 by RMB310,910,651 and RMB127,781,258, respectively. No adjustment was made to the prior year amounts as the impact on the financial statements for the year ended 31 December 2001 was not material.

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

4. ACQUISITION

During the period, the Company acquired nine subsidiaries of Repsol YPF, S.A. which hold a portfolio of operated and non-operated interests in oil and gas production sharing and technical assistance contracts in contract areas located offshore and onshore Indonesia. The assets acquired included a 65.3% interest in the Offshore Southeast Sumatra Contract Area production sharing contract, a 36.7% interest in the Offshore Northwest Java Contract Area production sharing contract, a 25.0% interest in the West Madura Offshore Block production sharing contract, a 50.0% interest in the Poleng Field technical assistance contract and a 16.7% interest in the Blora Block production sharing contract. The aggregate consideration for the acquisition was a total cash consideration of US$585 million (subject to adjustments). The effective date of the purchase agreement was 1 January 2002 and the profit of the acquired companies would accrue to the Group from that date. The acquisition was completed on 19 April 2002. Under the advice of the Company's auditors, the acquisition date for accounting purposes should be 19 April 2002 and for practical reasons, the operations of the acquired companies are included in the Company's consolidated financial statements from 1 April 2002. The profit accrued to the Group prior to 1 April 2002 has been treated as a purchase price reduction. The Company is in the process of obtaining third-party valuations of the oil and gas properties acquired and in the process of finalising the tax structure and agreeing the purchase price adjustments with the seller. Accordingly, the allocation of the purchase price is subject to refinement.

The following unaudited pro forma consolidated financial information reflects the results of the operation of the Company for the six months ended 30 June 2002, as if the acquisition described above had completed on 1 January 2002.

	Pro forma financial results for the six months ended 30 June 2002 (unaudited) RMB'000
Total revenue	**11,572,781**
Income before tax	**5,281,032**
Profit after tax	**3,769,105**
Earnings per share – Basic	**RMB0.46**
– Diluted	**RMB0.46**

5. 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 recognised 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 revenues from trading of oil through the Company's subsidiary in Singapore. The title, together with the risks and rewards of ownership of such oil, is 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 costs of the oil sold are included in the crude oil and product purchases.

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

6. INTEREST EXPENSES

An amount of RMB37,806,457 (2001: nil) accretion expenses for dismantlement and restoration allowance as discussed in Note 3 above is recognised during the period.

7. TAX

(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 operated. 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, CNOOC China Limited, is a wholly foreign-owned enterprise established in the PRC. It is exempt from the 3% local surcharge and is subject to an enterprise income tax of 30% under the prevailing tax rules and regulations. During the current period, an amount of approximately RMB101 million tax exemption was deducted from the corporate income tax in accordance with the State Tax Bureau [2000] No. 90 regulation, <FIE purchase domestic equipment as investment>. The exemption is in the process of being approved by the relevant tax authorities but the directors consider that all the relevant requirements had been met as at 30 June 2002.

The Company's subsidiary in Singapore, China Offshore Oil (Singapore) International Pte. Ltd., is subject to income tax at rates of 10% and 26%, respectively for its oil trading activities and other income generating activities. The Company's subsidiaries owning interests in oil properties in Indonesia along the Malacca Strait are subject to corporate and dividend tax of 44%. The nine subsidiaries of Repsol-YPF, S.A. in Indonesia acquired by the Company during the period are all subject to corporate and dividend tax at a rate of 48%. All of the Company's other subsidiaries are not subject to any income taxes in their respective jurisdictions for the period presented.

(ii) Other taxes

CNOOC China Limited is required to pay the following taxes:

– production taxes equal to 5% of independent production and production under production sharing contracts; and

– business tax of 3% – 5% on other income.

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

8. EARNINGS PER SHARE

	Six months ended 30 June 2002 (unaudited)	Six months ended 30 June 2001 (unaudited)
Earnings:		
Net profit for the period and earnings for the purpose of basic and diluted earnings per share	**RMB 3,618,861,000**	RMB 4,618,098,000
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**8,214,165,655**	7,649,324,517
Effect of dilutive potential ordinary shares under the share option scheme	**2,378,206**	651,256
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**8,216,543,861**	7,649,975,773
Earnings per share – Basic	**RMB0.44**	RMB0.60
– Diluted	**RMB0.44**	RMB0.60

9. PROPERTY, PLANT AND EQUIPMENT, NET

During the period, apart from the acquisition of oil and gas properties in Indonesia as discussed in Note 4 above, the Group acquired property, plant and equipment amounting to approximately RMB2,223,500,000 (2001: RMB1,676,747,000).

10. ACCOUNTS RECEIVABLE, NET

The customers are required to make payment within 30 days after the delivery of oil and gas. As at 30 June 2002 and 31 December 2001, substantially all of the accounts receivable were aged within six months.

11. 6.375% LONG TERM GUARANTEED NOTES

On 1 March 2002, CNOOC Finance (2002) Limited, a company incorporated in the British Virgin Islands on 24 January 2002 and a wholly-owned subsidiary of the Company, issued US$500,000,000 principal amount of 6.375% guaranteed notes due in 2012. The obligations of CNOOC Finance (2002) Limited in respect of the notes are unconditionally and irrevocably guaranteed by the Company.

12. ACCOUNTS PAYABLE

As at 30 June 2002 and 31 December 2001, substantially all of the accounts payable were aged within six months.

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

13. SHARE CAPTIAL

	Number of shares	Share capital HK$'000
Authorised:		
Ordinary shares of HK$0.10 each		
As at 30 June 2002 and 31 December 2001	15,000,000,000	1,500,000
Issued and fully paid:		
Ordinary shares of HK$0.10 each		
As at 1 January 2001	6,557,575,755	655,758
Issue of shares during the initial public offering	1,656,589,900	165,659
As at 31 December 2001 *(audited)*	8,214,165,655	821,417
Ordinary shares of HK$0.10 each		
As at 30 June 2002 *(unaudited)*	8,214,165,655	821,417

14. DIVIDENDS

On 27 March 2002, the board of directors proposed a final dividend of HK$0.15 per share, recognised HK$1,232,124,848 (equivalent to RMB1,306,739,684) to its shareholders for the year ended 31 December 2001. The dividend distribution was approved by the shareholders in an annual meeting held on 6 June 2002. Subsequent to 30 June 2002, on 23 August 2002, the board of directors declared an interim dividend of HK$0.11 per share (2001: HK$0.10 per share), recognised HK$903,558,222, equivalent to approximately RMB958,314,000 (2001: RMB871,194,000).

15. SHARE OPTION SCHEME

The Company has a share option scheme which 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's approval the recipient of and number of shares underlying each option. The scheme provides for issuance of options exercisable for shares granted under this scheme and the pre-global offering share option scheme as described below not exceeding 10% of the total number of the Company's outstanding shares, excluding shares issued upon exercise of options granted under the scheme from time to time.

The exercise price 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 which is the higher of:

– the nominal value of the shares; and

– 80% of the average of the closing prices of shares on the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") for the five trading days immediately preceding the date of grant of the option on which there are dealing in shares on the Hong Kong Stock Exchange.

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

15. SHARE OPTION SCHEME (CONTINUED)

(a) On 27 August 2001, the board of directors approved under the above stock option scheme to grant options of 8,820,000 shares, and the exercise price is HK$6.16 per share. 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 terms of the share option scheme were amended on 6 June 2002 to comply with the requirements set out in the new chapter 17 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rule") which came into effect on 1 September 2001.

Under the amended share option scheme:

(i) share options may be granted to employees including any non-executive directors of the Group;

(ii) the option period shall commence on a day after the date the option was granted and shall end not later than 10 years from the date of grant;

(iii) the maximum number of shares in respect of which options may be granted must not exceed 10% of the issued share capital of the Company as at 6 June 2002;

(iv) subject to the approval of the shareholders of the Company in general meetings, the maximum number of shares to be issued under the share option scheme when aggregated with any other share option schemes of the Group may be increased by increments provided that such increments shall not exceed 10% of the issued share capital of the Company as of the date of approval of such increments. Under any circumstances, the total number of shares to be issued upon exercise of all outstanding options shall not exceed 30% of the issued share capital of the Company;

(v) unless separately approved by shareholders of the Company in general meeting with the relevant participant and his/her associates abstaining from voting, the maximum number of shares in respect of which options may be granted to any participant together with any shares issued in respect of options which have been exercised by that participant and any shares which would be issued upon the exercise of the outstanding options granted to that participant in any 12 month period up to the date of the latest grant shall not exceed 1% of the issued share capital of the Company.

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

15. SHARE OPTION SCHEME (CONTINUED)

(vi) the exercise price shall be determined by the board of directors and shall not be less than the higher of:

(a) the closing price of the shares on the Stock Exchange of Hong Kong Limited ("Stock Exchange") as stated in the Stock Exchange's quotation sheets on the relevant date of grant of the options;

(b) the average closing price of the shares on the Stock Exchange as stated in the Stock Exchange's quotation sheets for the five trading days immediately preceding the date of grant of the options; and

(c) the nominal value of the shares;

(vii) any grant of share options to a Connected Person of the Company (as defined in the Listing Rules) must be approved by the independent non-executive directors of the Company (excluding any independent non-executive director of the Company who is the grantee of the options).

(b) On 4 February 2001, the Company adopted a pre-global offering share option scheme. Under this scheme, options of an aggregate of 4,620,000 shares were granted to the senior management on 12 March 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.

Outstanding options under the two options plans described above will remain in force for a maximum of 10 years from the grant date.

No options granted under the share option scheme and the pre-global offering share option scheme have been exercised since the date of grant and up to the date when the board of directors approved the interim financial statements.

16. 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.

The Group has entered into several agreements with CNOOC and its affiliates, which govern the provision of materials, utilities and ancillary services, the provision of technical services, the provision of research and development services and various other commercial arrangements.

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

16. RELATED PARTY TRANSACTIONS (CONTINUED)

(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;

– 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

CNOOC China Limited has entered into technical service agreements with specialised companies formed by CNOOC. According to the 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 subsidiaries, 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 the following:

– geophysical exploration services;

– seismic data processing;

– comprehensive exploration research services; and

– information technology services.

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

16. RELATED PARTY TRANSACTIONS (CONTINUED)

(iv) Lease agreements

The Group has entered into lease agreements with affiliates of CNOOC for the leasing of various office, warehouse and residential premises for a three-year term commencing from 9 September 1999. Lease charges are based on market rates.

(v) Sales of crude oil, condensate oil and liquefied petroleum gas

The Group sells crude oil, condensate oil and liquefied petroleum gas to CNOOC's affiliates which engage in the downstream petroleum business at the international market price. For the six months ended 30 June 2002, the total sales amounted to approximately RMB1,950,303,340.

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.

	Six months ended 30 June 2002 (unaudited) RMB'000
Included in exploration costs:	
Provision of geological and geophysical services	**15,260**
Provision of research and development services	**73,254**
Provision of drilling services	**149,715**
Included in operating expenses:	
Provision of technological services	**6,899**
Provision of research and development services	**17,222**
Provision of oil transportation services	**73,776**
Provision of production related services	**53,624**
Provision of materials, utilities and ancillary services	**150,219**
Included in selling and administrative expenses:	
Rental for office leases	**27,033**
Provision of research and development services	**10,068**
Provision of other ancillary services	**67,746**
Capitalised under property, plant and equipment:	
Provision of oil and gas property construction services	**458,981**
Provision of drilling services	**173,076**
Provision of well measurement services	**39,934**

In addition to the recurring transactions described above, pursuant to a conditional agreement dated 27 August 2001, the Group will acquire interests in certain oil and natural gas fields in the Xihu Trough in the East China Sea of the PRC from CNOOC for a total consideration of US$45,000,000. As at 30 June 2002, the transaction has not been completed and the legal title of the reserves has not been passed to the Group. The amount paid was recorded as prepayments which is included in other current assets in the consolidated balance sheet.

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

17. COMMITMENTS AND CONTINGENCIES

(i) Capital commitments

As at 30 June 2002, the Group had the following capital commitments, principally for the construction and purchase of oil and gas properties and equipment:

	30 June 2002 (unaudited) RMB'000	31 December 2001 (audited) RMB'000
Contracted for	**1,555,731**	1,606,700
Authorised, but not contracted for	**6,422,832**	5,183,690

As at 30 June 2002, the Group had unutilised banking facilities amounting to approximately RMB10,474,803,000 (2001: RMB7,599,371,000) to finance development of oil and gas properties. The Group had no significant contingent liabilities as at 30 June 2002.

(ii) Research and development commitments

As referred to note 16 (iii), the remaining commitments for research and development services to be provided by the Centre as at 30 June 2002 amounted to approximately RMB47,345,000. (2001: RMB83,382,500).

(iii) Operating lease commitments

Operating lease commitments as at 30 June 2002 amounted to approximately RMB63,757,000 (2001:RMB94,079,000) and were as follows:

	30 June 2002 (unaudited) RMB'000	31 December 2001 (audited) RMB'000
Commitment due:		
– Within one year	**44,399**	48,789
– After one year but within two years	**19,358**	45,290
	63,757	94,079

(iv) Commitment to invest in development of Australia's gas project

In August 2001, the Company signed a Memorandum of Understanding to explore the feasibility of acquiring an equity interest in oil and gas assets in a large natural gas field in Australia, and to develop the natural gas market in coastal China. In November 2001, the Company entered into a heads of agreement (the "Agreement") on a joint venture to develop Northwest Shelf gas in Australia. The Company agreed to co-invest in the development of the Australian Northwest Shelf gas project and to produce and process liquefied natural gas to sell to the China market, subject to the successful bid of the joint venture for the contract to supply liquefied natural gas to an import facility in Guangdong Province, in which CNOOC, the parent company, has an equity interest. The negotiations are currently ongoing as at 30 June 2002. See note 20 for latest development.

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

17. COMMITMENTS AND CONTINGENCIES (CONTINUED)

(v) Financial instruments

As at 30 June 2002, the Group had currency swap contracts with a financial institution for the sales of United States dollars ("US$") in an exchange for Japanese Yen ("JPY") in order to hedge certain JPY denominated loan repayments in the future.

The details of the exchange are as follows:

	30 June 2002		30 June 2001	
	Notional contract amount (JPY '000)	Weighted contractual exchange rate (JPY / US$)	Notional contract amount (JPY '000)	Weighted contractual exchange rate (JPY / US$)
Year				
2001	–	–	135,735	95.00
2002	**135,735**	**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

18. SEGMENT INFORMATION

The Group is involved in the upstream operating activities of the petroleum industry which comprises production sharing contracts with foreign partners and independent operations and trading business. These segments are determined primarily because the senior management makes key operating decisions and assesses performance of the segments separately. An analysis of the Group's turnover and operating results by principal activity and geographical area of operations for the six months ended 30 June 2002 is as follows:

	For the six months ended 30 June 2002	
	Turnover (unaudited) RMB'000	Operating profit (unaudited) RMB'000
By principal activity:		
Production sharing contracts ("PSC")	**5,031,873**	**2,605,239**
Independent operations	**4,810,194**	**2,239,237**
Trading business	**794,063**	**21,969**
Unallocated	**4,268**	**(1,247,584)**
	10,640,398	**3,618,861**

Approximately 89% of the total revenue of the Group is contributed by PRC customers.

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

19. ADDITIONAL FINANCIAL INFORMATION

As at 30 June 2002, net current assets and total assets less current liabilities of the Group amounted to approximately RMB16,501,964,000 and RMB50,617,710,000 (2001: RMB15,638,483,000 and RMB39,927,972,000), respectively.

20. SUBSEQUENT EVENT

Further to the heads of agreement entered into by the Company with respect to a joint venture to develop Northwest Shelf gas in Australia ("NWS Gas Project") in November 2001, the Company received an offer to acquire an interest in the upstream production and reserves of NWS Gas Project in August 2002. The preliminary terms envisage the Company paying approximately US$320 million to purchase an approximate 5% interest in the upstream reserves of the NWS Gas Project. Under the terms of the offer, the Company would also assume a 25% interest in the China LNG Joint Venture ("CLNG JV"), which will be established to supply LNG from the NWS Gas Project to the Guangdong LNG terminal. As of the date of these interim financial statements, which were approved by the Board of the Directors, the Company had not yet accepted the offer.

21. SIGNIFICANT DIFFERENCES BETWEEN HONG KONG GAAP AND U.S. GAAP

The accounting policies adopted by the Group conform with 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 31 August 1999 and 31 December 2000 and the related revaluation surplus was 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 30 June 2002 was approximately RMB4,578,000 (2001: RMB4,578,000). Under U.S. GAAP, property, plant and equipment is required to be stated at cost. Accordingly, no additional depreciation, depletion and amortisation from the revaluation is recognised under U.S.GAAP.

(ii) Short-term investments

According to Hong Kong GAAP, available-for-sale investments in marketable securities are measured at fair value and related unrealised 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 Statement of Financial Accounting Standards ("SFAS") No. 115. Under U.S. GAAP, related unrealised gains and losses are excluded from current period earnings.

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

21. SIGNIFICANT DIFFERENCES BETWEEN HONG KONG GAAP AND U.S. GAAP (CONTINUED)

(a) Net profit and equity (continued)

(iii) Impairment of long-lived assets

Under Hong Kong GAAP, impairment charges are recognised when a long-lived asset's carrying amount exceeds the higher of an asset's net selling price and value in use, which incorporates discounting the asset's estimated future cash flows.

Under U.S. GAAP, long-lived assets are assessed for possible impairment in accordance with SFAS No. 144, "Accounting for the impairment or disposal of long-lived assets". SFAS No. 144 was issued in August 2001 and is effective for fiscal years beginning after 15 December 2001. SFAS No. 144 retains the requirements of SFAS No. 121 to (a) recognise an impairment loss only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows and (b) measure an impairment loss as the difference between the carrying amount and fair value of the asset. SFAS No. 144 requires that a long-lived asset to be abandoned, exchanged for a similar productive asset, or distributed to owners in a spin-off be considered held and used until it is disposed of. The accounting model for long-lived assets to be disposed of by sale is used for all long-lived assets, whether previously held and used, or newly acquired.

SFAS 144 requires the Group to assess the need for an impairment of capitalised costs of proved oil and gas properties and the costs of wells and related equipment and facilities on a property-by-property basis. If an impairment is indicated based on undiscounted expected future cash flows, then an impairment is recognised to the extent that net capitalised costs exceed the estimated fair value of the property. Fair value of the property is estimated by the Group using the present value of future cash flows discounted at 10%. The impairment was determined based on the difference between the carrying value of the assets and the present value of future cash flows discounted at 10%. It is reasonably possible that a change in reserve or price estimates could occur in the near term and adversely impact management's estimate of future cash flows and consequently the carrying value of properties.

In addition, under Hong Kong GAAP, a subsequent increase in the recoverable amount of an asset is reversed to the income statement to the extent that an impairment loss on the same asset was previously recognised as an expense when the circumstances and events that led to write-down or write-off cease to exist. The reversal is reduced by the amount that would have been recognised as depreciation had the write-off not occurred. Under U.S. GAAP, an impairment loss establishes a new cost basis for the impaired asset and the new cost basis should not be adjusted subsequently other than for further impairment losses.

For the six months period ended 30 June 2002, there was no impairment losses recognised under Hong Kong GAAP and U.S. GAAP and no reversal of the recovery of previous impairment charges has been recorded under Hong Kong GAAP.

(iv) Stock compensation schemes

As described in Note 15 to the interim financial statements, as at 30 June 2002, the Group had two stock option schemes. The Group applies Accounting Principles Board Opinion 25 and related Interpretations in accounting for these stock option schemes. Accordingly, compensation costs that have been recognised for the stock option schemes were RMB1,376,000 for the six months ended 30 June 2002.

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

21. SIGNIFICANT DIFFERENCES BETWEEN HONG KONG GAAP AND U.S. GAAP (CONTINUED)

(a) Net profit and equity (continued)

(v) Dismantlement and site restoration allowance

HK GAAP requires the provision of dismantlement and site restoration allowance to be recorded for a present obligation whether that obligation is legal or constructive. The associated cost is capitalised and the liability is discounted and accretion expense is recognised using the credit-adjusted risk-free interest rate in effect when the liability is initially recognised. However, under U.S. GAAP, the provisions of dismantlement and site restoration allowance are provided on a unit-of-production basis over field lives, there is no corresponding tangible fixed asset.

For the six months ended 30 June 2002, there was no significant effect to the income statement. The impact on the consolidated balance sheet as at 30 June 2002 is summarised below.

Increase (decrease) in caption heading	30 June 2002 (unaudited) RMB'000
Property, plant and equipment, net	**(677,038)**
Dismantlement and site restoration allowance	**(251,100)**
Deferred tax liabilities	**(127,781)**
Reserves	**(298,157)**

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

	Net profit Six months ended 30 June 2002 (unaudited)	2001 (unaudited)
As reported under Hong Kong GAAP	**3,618,861**	4,618,098
Impact of U.S. GAAP adjustments:		
– Reversal of additional depreciation, depletion and amortisation charges arising from the revaluation surplus on land buildings	**4,578**	4,578
– Unrealised gains from available-for-sale investments in marketable securities	**(5,458)**	(34,739)
– Recognition of stock compensation cost	**(1,376)**	–
Net profit as restated under U.S. GAAP	**3,616,605**	4,587,937
Net profit per share under U.S. GAAP		
– Basic	**RMB0.44**	RMB0.60
– Diluted	**RMB0.44**	RMB0.60

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

21. SIGNIFICANT DIFFERENCES BETWEEN HONG KONG GAAP AND U.S. GAAP (CONTINUED)

(a) Net profit and equity (continued)

	Equity	
	30 June 2002 (unaudited) RMB'000	31 December 2001 (audited) RMB'000
As reported under Hong Kong GAAP	**35,922,753**	33,310,506
Impact of U.S. GAAP adjustments:		
– Reversal of revaluation surplus on land and buildings	**(274,671)**	(274,671)
– Reversal of additional depreciation, depletion and amortisation charges arising from the revaluation surplus on land buildings	**21,317**	16,739
– Reversal of cumulated adjustment for change in accounting policy of dismantlement and site restoration allowance recorded	**(298,157)**	–
As restated under U.S. GAAP	**35,371,242**	33,052,574

(b) 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 which under U.S. GAAP, are included in comprehensive income and excluded from net income.

	Six months ended 30 June	
	2002 (unaudited) RMB'000	2001 (unaudited) RMB'000
Net income under U.S. GAAP	**3,616,605**	4,587,937
Other comprehensive income:		
– Foreign currency translation adjustments	**1,969**	907
– Unrealised gains on short term investments	**5,458**	34,739
	3,624,032	4,623,583

(c) Derivative instruments

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 repayments in the future. In accordance with SFAS No. 133 "Accounting for derivatives instruments and hedging activities", the derivative contract was recorded as "Other payables and accrued liabilities" in the accompanying consolidated balance sheet at fair value. For the six months ended 30 June 2002, the Group recognised related changes in fair value, a gain of RMB10,000,000 (2001: loss of RMB36,311,000), and included the amount in "Exchange (loss)/gain, net" in the consolidated income statement.

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

21. SIGNIFICANT DIFFERENCES BETWEEN HONG KONG GAAP AND U.S. GAAP (CONTINUED)

(d) Accounting for asset retirement obligations

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

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.

22. APPROVAL OF INTERIM FINANCIAL STATEMENTS

The interim financial statements for the six months ended 30 June 2002 were approved by the Board of Directors on 23 August 2002.

ERNST & YOUNG
安永會計師事務所

To the Board of Directors
CNOOC Limited (the "Company")

We have been instructed by the Company to review the interim financial report of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2002 set out on pages 5 to 26.

DIRECTOR'S RESPONSIBILITIES

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

REVIEW WORK PERFORMED

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of the Group's management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial report.

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2002.

Ernst & Young
Certified Public Accountants

Hong Kong
23 August 2002

DISCLOSURE OF INFORMATION

Amendments to share option scheme

On 4 February 2001, the Company adopted a share option scheme for the purposes of recognizing the contribution that certain individuals have made to the Company and attracting and retaining the best available personnel to the Company. The terms of the share option scheme were amended on 6 June 2002 to comply with the requirements set out in the new chapter 17 of the Listing Rules which came into effect on 1 September 2001. Under the amended share option scheme:

(i) share options may be granted to employees including any non-executive directors of the Group;

(ii) the option period shall commence on a day after the date the option was granted and shall end not later than 10 years from the date of grant;

(iii) the maximum number of shares in respect of which options may be granted must not exceed 10% of the issued share capital of the Company as at 6 June 2002;

(iv) subject to the approval of the shareholders of the Company in general meetings, the maximum number of shares to be issued under the share option scheme when aggregated with any other share option schemes of the Group may be increased by increments provided that such increments shall not exceed 10% of the issued share capital of the Company as of the date of approval of such increments. Under any circumstances, the total number of shares to be issued upon exercise of all outstanding options shall not exceed 30% of the issued share capital of the Company;

(v) unless separately approved by shareholders of the Company in general meeting with the relevant participant and his/her associates abstaining from voting, the maximum number of shares in respect of which options may be granted to any participant together with any shares issued in respect of options which have been exercised by that participant and any shares which would be issued upon the exercise of the outstanding options granted to that participant in any 12 month period up to the date of the latest grant shall not exceed 1% of the issued share capital of the Company.

(vi) the exercise price shall be determined by the board of directors and shall not be less than the higher of:

    (a) the closing price of the shares on the Stock Exchange of Hong Kong Limited ("Stock Exchange") as stated in the Stock Exchange's quotation sheets on the relevant date of grant of the options;

    (b) the average closing price of the shares on the Stock Exchange as stated in the Stock Exchange's quotation sheets for the five trading days immediately preceding the date of grant of the options; and

    (c) the nominal value of the shares;

(vii) any grant of share options to a Connected Person of the Company (as defined in the Listing Rules) must be approved by the independent non-executive directors of the Company (excluding any independent non-executive director of the Company who is the grantee of the options).

As at 30 June 2002, save as disclosed herein, the information in relation to the matters set out in paragraph 32 of Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") did not change materially from the information disclosed in the annual report of the Company for the year 2001.

SHARE OPTION SCHEME

As at 30 June 2002, the Company had granted 8,820,000 share options under the share option scheme, of which 1,660,000 options have been granted to the directors and the chief executive of the Company. Please refer to the section on "Director's Interest in the Securities of the Company and Right to Acquire Shares" for further details.

All share options under the share option scheme were granted on 27 August 2001 and are exercisable not later than 10 years from the effective date as provided in the share option scheme. The vesting periods of such share options are as follows:

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

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

3. one-third of the shares underlying the option shall vest on the third anniversary of the date of grant.

As at 30 June 2002, no options granted under the share option scheme have been exercised.

PRE-GLOBAL OFFERING SHARE OPTION SCHEME

As at 30 June 2002, the Company had granted 4,620,000 share options under the pre-global offering share option scheme, of which 1,690,000 options have been granted to the directors and the chief executive of the Company. Please refer to the section on "Director's Interest in the Securities of the Company and Right to Acquire Shares" for further details.

All share options under the pre-global offering share option scheme were granted on 12 March, 2001 and are exercisable not later than 10 years from the effective date as provided in the pre-global offering share option scheme. The vesting periods of such share options are as follows:

1. 50% of the shares underlying the option shall vest 18 months after the date of the grant; and

2. 50% of the shares underlying the option shall vest 30 months from the date of the grant.

As at 30 June 2002, no options granted under the pre-global offering share option scheme have been exercised.

OTHER INFORMATION

DIRECTOR'S INTEREST IN THE SECURITIES OF THE COMPANY AND RIGHT TO ACQUIRE SHARES

As at 30 June 2002, the interest of the directors and the chief executive of the Company in the equity securities of the Company or any of its associated corporations as defined in the Securities (Disclosure of Interests) Ordinance (the "Ordinance") as recorded in the register required to be kept under section 29 of the Ordinance were as follows:

Director	Company	Personal Interest
So Chak Kwong	CNOOC Limited	30,000 Ordinary Shares

As at 30 June 2002, the directors and the chief executive of the Company had share options granted pursuant to the pre-global offering share option scheme, details of which are set out below:

Name of Grantee	Date of Grant	Exercise Price (HK$)	No. of Options
Wei Liucheng	March 12, 2001	5.95	500,000
Fu Chengyu	March 12, 2001	5.95	350,000
Jiang Longsheng	March 12, 2001	5.95	280,000
Zhou Shouwei	March 12, 2001	5.95	280,000
Luo Han	March 12, 2001	5.95	280,000

As at 30 June 2002, the directors and the chief executive of the Company had share options granted pursuant to the share option scheme, details of which are set out below:

Name of Grantee	Date of Grant	Exercise Price (HK$)	No. of Options
Wei Liucheng	August 27, 2001	6.16	500,000
Fu Chengyu	August 27, 2001	6.16	350,000
Jiang Longsheng	August 27, 2001	6.16	230,000
Zhou Shouwei	August 27, 2001	6.16	350,000
Luo Han	August 27, 2001	6.16	230,000

Apart from the foregoing, as at 30 June 2002, there was no other interest or right recorded in the register required to be kept under section 29 of the Ordinance.

SUBSTANTIAL SHAREHOLDERS OF THE COMPANY

As at June 30, 2002, so far as is known to the Directors, the following person was directly or indirectly interested in 10% or more of the issued share capital carrying rights to vote at the general meeting of the Company. Such person has no options in respect of such capital:

Name of the person	No. of Ordinary Shares
CNOOC (BVI) Limited	5,800,000,000

Apart from the foregoing, no person or corporation had any interest in the share capital of the Company as recorded in the register required to be kept under section 16(1) of the Ordinance as having an interest in 10% or more of the issued share capital of the Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SECURITIES

During the six months ended June 30, 2002, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

INTERIM DIVIDEND

The Board of Directors has resolved to declare an interim dividend of HK$0.11 per share to shareholders whose name appears on the Register of Members of the Company on 23 September 2002. The dividend will be paid on 27 September 2002.

The Register of Members will be closed from 18 September 2002 to 23 September 2002 (both days inclusive). In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Registrar, Computershare Hong Kong Investor Services Limited, Room 1712, 17th floor, Hopewell Centre, Queen's Road East, Wanchai, Hong Kong, not later than 4.00 pm on 17 September 2002.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

None of the directors is aware of any information that would reasonably indicate that the Company is not, or was not, for any part of the six months ended 30 June 2002, in compliance with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, except that non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's articles of association.

By order of the Board
Cao Yunshi
Company Secretary

Hong Kong, August 23, 2002

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