(All amounts expressed in Renminbi unless otherwise stated)

1. CORPORATE INFORMATION

CNOOC Limited (the "Company") was incorporated in the Hong Kong Special Administrative Region ("Hong Kong"), the People's Republic of China (the "PRC") on 20 August, 1999 to hold the interests in certain entities whereby creating a group comprising the Company and its subsidiaries. During the year, the Company and its subsidiaries (hereinafter collectively referred to as the "Group") were principally engaged in the exploration, development, production and sales of crude oil, natural gas and other petroleum.

In the opinion of directors, the ultimate holding company is China National Offshore Oil Corporation ("CNOOC"), a company established in the PRC.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year's financial statements:

SSAP 1 (Revised)	:	"Presentation of financial statements"
SSAP 11 (Revised)	:	"Foreign currency translation"
SSAP 15 (Revised)	:	"Cash flow statements"
SSAP 34	:	"Employee benefits"
Interpretation 14	:	"Evaluating the substance of transactions involving the legal form of a lease"
Interpretation 15	:	"Business combinations - "Date of exchange" and fair value of equity instruments"
Interpretation 18	:	"Consolidation and equity method - Potential voting rights and allocation of ownership interests"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs and Interpretations are summarised as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated statement of changes in equity is now presented on page 46 of the financial statements in place of the consolidated statement of recognised gains and losses that was previously required and in place of the Group reserves note.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the income statement of overseas subsidiaries are now translated to Renminbi at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

SSAP 15 (Revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to Renminbi at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") (continued)

SSAP 34 prescribes the principles to be applied for recognition, measurement and disclosures for employee short-term and long-term benefits. In addition, disclosures are now required in respect of the Company's share option scheme, as detailed in Note 32 to the financial statements. These share option scheme disclosures are similar to the Listing Rules disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP. The SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, therefore no prior year adjustment has been required.

3. CHANGE IN ACCOUNTING POLICY

During the year, the Group changed its method of accounting for the provision for dismantlement to comply with SSAP 28 "Provisions, contingent liabilities and contingent assets". SSAP 28 requires a 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 an 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 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 provision for dismantlement 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong ("Hong Kong GAAP") and the requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention as modified by the revaluation of land and buildings and short-term investments.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2002. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Impairment of assets

An assessment is made whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, or when there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Property, plant and equipment

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

(i) Oil and gas properties

For oil and gas properties, the successful efforts method of accounting is adopted. The Group capitalises initial acquisition costs of oil and gas properties. Impairment of initial acquisition costs is recognised based on exploratory experience and management judgement. Upon discovery of commercial reserves, acquisition costs are transferred to proved properties. The costs of drilling and equipping successful exploratory wells, all development costs, including those renewals and betterments which extend the economic life of the assets, and the borrowing costs arising from borrowings used to finance the development of oil and gas properties before they are substantially ready for production are capitalised. The costs of unsuccessful exploratory wells and all other exploration costs are treated as expenses when incurred.

Exploratory wells are evaluated for economic viability within one year of completion. Exploratory wells that discover potentially economic reserves in areas where major capital expenditures will be required before production would begin and when the major capital expenditure depends upon successful completion of further exploratory work remain capitalised and are reviewed periodically for impairment.

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

Capitalised acquisition costs of proved properties are amortised by the unit-of-production method on a property-by-property basis computed based on the total estimated units of proved reserves.

The Group estimates future dismantlement 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 required in accordance with current legislation and industry practices. The associated cost is capitalised and the liability is discounted and an accretion expense is recognised using the credit-adjusted risk-free interest rate in effect when the liability is initially recognised.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

(ii) Land and buildings

Land and buildings represent the onshore buildings and the land use rights are stated at valuation less accumulated depreciation and accumulated impairment losses. Professional valuations are performed periodically with the last valuation performed on 31 December, 2000. In the intervening years, the directors review the carrying value of land and buildings and adjustment is made where in the directors' opinion there has been a material change in value. Any increase in land and building valuation is credited to the revaluation reserves; any decrease is first offset against an increase in earlier valuation in respect of the same property and is thereafter charged to the income statement. Depreciation is calculated on the straight-line basis at annual rate estimated to write off valuation of each asset over its expected useful life, ranging from 30 to 50 years.

(iii) Vehicles and office equipment

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

The useful lives of assets and method of depreciation, depletion and amortisation are reviewed periodically.

The gain or loss on disposal or retirement of property, plant and equipment recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset. Any revaluation reserve relating to the fixed asset is transferred to retained earnings as a reserve movement.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of the associate is included in the consolidated income statement and consolidated reserves, respectively. The Group's proportionate interests in the associate are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Trade and other receivables

Trade and other receivables are stated at their cost, after provision for doubtful accounts.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories and supplies

Inventories consist primarily of oil and supplies consist mainly of items for repair and maintenance of oil and gas properties. Inventories are stated at the lower of cost and net realisable value. Costs of inventories and supplies represent purchase or production cost of goods and are determined on a weighted average basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal. Supplies are capitalised to property, plant and equipment when used for renewals and betterments of oil and gas properties and have resulted in an increase in the future economic values of oil and gas properties or are recognised as expenses when used.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Short-term investments

Short-term investments are investments in debt and equity securities not intended to be held on a continuing basis and are stated at their fair values at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the income statement in the period in which they arise.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are payable on demand and form an integral part of the Group's cash management. For the purpose of the balance sheet, cash and cash equivalents comprise cash on hand and at banks, and term deposits with maturities of three months or less, and assets similar in nature to cash which are not restricted to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Provisions for dismantlement are made based on the present value of the future costs expected to be incurred, on a site by site basis, in respect of the Group's expected dismantlement costs at the end of the related oil exploration and recovery activitites.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(i) Oil and gas sales

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

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

The Group entered into a gas sales contract with a customer which contains take-or-pay clauses. The clauses require the customer to take a specified minimum volume of gas each year. If the minimum volume of gas is not taken, the customer must pay for the deficiency gas, even though the gas is not taken. The customer can offset the deficiency payment against any future purchases in excess of the specified volume. The Group records any deficiency payments as deferred revenue which is included in other payables until any make-up gas is taken by the customer or the expiry of the contract.

(ii) Marketing revenues

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

(iii) Other income

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

(iv) Interest income

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(v) Dividend income

Dividend income is recognised when the right to receive payment has been established.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

To the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation on that asset is determined as the actual borrowing costs incurred on that borrowing during the period less any investment income on the temporary investment of those borrowings.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the enterprise that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset. The amount of borrowing costs capitalised incurred during a period should not exceed the amount of borrowing cost incurred during that period.

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including amortisation of discounts or premiums relating to borrowings, and amortisation of ancillary costs incurred in connection with arranging borrowings.

Research and development costs

Research costs are charged to the income statement as incurred.

Development expenditure (other than relating to oil and gas properties discussed above) incurred on projects is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably, and there is reasonable certainty that the projects are technically feasible and have commercial value. Development expenditure which does not meet these criteria is expensed when incurred. No development costs were capitalised during the year.

Foreign currencies

The books and records of the Company and its subsidiary in China are maintained in Renminbi ("RMB"). Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the income statement.

On consolidation, the financial statements of overseas subsidiaries and an associate are translated into RMB using the net investment method, whereby assets and liabilities are translated at the rates of exchange prevailing at the balance sheet date and income and expenses are translated at the weighted average rates of exchange during the year. Share capital, share premium account and retained earnings are translated at historical rates. The resulting translation differences are included in the cumulative translation reserve.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement and termination benefits

The Group provides defined contribution plans based on local laws and regulations for full-time employees in the PRC and other countries in which it operates. The plans provide for contributions ranging from 5% to 22.5% of employees' basic salaries. The Group's contributions to defined contribution plans are charged to expense in the year to which they relate.

Share options schemes

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option schemes is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the income statement or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from the register of outstanding options.

Repairs, maintenance and overhaul costs

Repairs, maintenances and overhaul costs are normally charged to the income statement as operating expenses in the period in which they are incurred.

Financial instruments

The Group has currency swap contracts with financial institutions which are not designated as hedging instruments and are carried at fair value, with any changes in fair value thereof included in the income statement.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within capital and reserves in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Operating leases

Leases of assets under which substantially all the risks and rewards of ownership are retained by the lessor are classified as operating leases. Lease payments under an operating lease are recognised as an expense on a straight-line basis over the lease terms.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contingencies

Contingent liabilities are not recognised in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognised in the financial statements, but are disclosed when an inflow of economic benefits is probable.

Subsequent events

Post-year-end events that provide additional information about the Company's position at the balance sheet date or those that indicate the going concern assumption is not appropriate (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

Use of estimates

The preparation of financial statements in conformity with Hong Kong GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

5. ACQUISITION

During the year, the Company acquired nine subsidiaries of Repsol-YPF, S.A. which holds 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 of 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 cash consideration for the acquisition was a total cash consideration of US$585 million which was adjusted for a working capital adjustment. 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. For practical reasons, the operations of the acquired companies are included in the Company's consolidated financial statements from 1 April 2002. The profit that had accrued to the Group prior to 1 April 2002 has been treated as a purchase price reduction.

Subsequent to the acquisition, the Company estabilished five companies in Labuan, Malaysia and transferred the assets and liabilities of these nine subsidiaries of Repsol-YPF, S.A. to the five companies established in Labuan.

The transfer of the assets and liabilities were completed by 30 December 2002. The Company was in the process of winding up the acquired companies as at 31 December 2002.

(All amounts expressed in Renminbi unless otherwise stated)

5. ACQUISITION (continued)

The following unaudited pro forma consolidated financial information reflects the results of the operation of the Company for the years ended 31 December 2002 and 2001, as if the acquisition described above had completed on 1 January 2001.

	Pro forma financial results	
	2002	2001
Total revenue	**27,306,093**	24,953,612
Income before tax	**13,092,812**	12,171,582
Profit after tax	**9,397,483**	8,563,807
Earnings per share – Basic	**RMB1.14**	RMB1.04
– Diluted	**RMB1.14**	RMB1.04

6. PRODUCTION SHARING CONTRACTS

PRC

For production sharing contracts in the PRC, the foreign party to the contracts ("foreign partners") are normally required to bear all exploration costs during the exploration period and such exploration costs can be recovered according to the production sharing formula after commercial discoveries are made and production begins.

After the initial exploration stage, the development and operating costs are funded by the Group and the foreign partners according to their respective participating interest.

The Group has the option to take a participating interest as mutually agreed by both participants in a production sharing contract and may exercise such option after the foreign partners have independently undertaken all the exploration risks and costs and made viable commercial discoveries.

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

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

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

6. PRODUCTION SHARING CONTRACTS (continued)

Overseas

The Group and the other partners to the production sharing contracts in Indonesia are required to bear all exploration, development and operating costs according to their respective participating interests. Exploration, development and operating costs which qualify for recovery can be recovered according to the production sharing formula after commercial discoveries are made and production begins.

The Group's net interest in the production sharing contracts in Indonesia consists of its participating interest in the properties covered under the relevant production sharing contracts, less oil and gas distributed to the Indonesian government and the domestic market obligation.

7. SEGMENT INFORMATION

The Group is organised on a worldwide basis into three major operating segments. Segment information is presented by way of two segment formats: (i) on a primary reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

Intersegment transactions: segment revenue, segment expenses and segment performance include transfers between business segments and between geographical segments. Such transfers are accounted for at cost. Those transfers are eliminated on consolidation.

(a) Business segments

The Group is involved in the upstream operating activities of the petroleum industry that comprise production sharing contracts with foreign partners, 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. The Group evaluates performance based on profit or loss from operations before income taxes.

7. SEGMENT INFORMATION (continued)

(a) Business segments (continued)

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments.

Group

	Independent operations		Production sharing contracts		Trading business		Unallocated		Eliminations		Consolidated	
Segment revenue	**2002 RMB'000**	2001 RMB'000	**2002 RMB'000**	2001 RMB'000	**2002 RMB'000**	2001 RMB'000	**2002 RMB'000**	2001 RMB'000	**2002 RMB'000**	2001 RMB'000	**2002 RMB'000**	2001 RMB'000
Sales to external customers:												
Oil and gas sales	**10,318,549**	9,845,019	**13,460,745**	7,023,926	**-**	–	**-**	–	**-**	–	**23,779,294**	16,868,945
Marketing revenues	**-**	–	**-**	–	**2,377,469**	3,228,875	**-**	–	**-**	–	**2,377,469**	3,228,875
Intersegment revenues	**-**	–	**1,023,547**	691,843	**-**	–	**-**	–	**(1,023,547)**	(691,843)	**-**	–
Other income	**43,513**	558,368	**133,108**	123,312	**-**	–	**40,431**	40,057	**-**	–	**217,052**	721,737
Total	**10,362,062**	10,403,387	**14,617,400**	7,839,081	**2,377,469**	3,228,875	**40,431**	40,057	**-**	–	**26,373,815**	20,819,557
Segment results												
Operating expenses	**(1,268,360)**	(1,183,252)	**(2,506,974)**	(1,145,878)	**-**	–	**-**	–	**-**	–	**(3,775,334)**	(2,329,130)
Production taxes	**(556,583)**	(525,454)	**(466,466)**	(355,544)	**-**	–	**-**	(2,770)	**-**	–	**(1,023,049)**	(883,768)
Exploration costs	**(1,241,759)**	(955,475)	**(76,564)**	(83,822)	**-**	–	**-**	–	**-**	–	**(1,318,323)**	(1,039,297)
Depreciation, depletion and amortisation	**(1,635,131)**	(1,531,184)	**(2,384,401)**	(1,035,736)	**-**	–	**-**	–	**-**	–	**(4,019,532)**	(2,566,920)
Dismantlement	**(72,751)**	(41,530)	**(53,388)**	(48,837)	**-**	–	**-**	–	**-**	–	**(126,139)**	(90,367)
Impairment losses related to property, plant and equipment	**-**	(60,907)	**-**	(38,768)	**-**	–	**-**	–	**-**	–	**-**	(99,675)
Crude oil and product purchases	**-**	–	**(1,023,547)**	–	**(2,326,338)**	(3,145,155)	**-**	–	**1,023,547**	691,843	**(2,326,338)**	(2,453,312)
Selling and administrative expenses	**(38,548)**	(35,686)	**(553,537)**	(100)	**-**	–	**(414,455)**	(579,603)	**-**	–	**(1,006,540)**	(615,389)
Other	**-**	(514,655)	**(30,866)**	–	**-**	–	**-**	(3,221)	**-**	–	**(30,866)**	(517,876)
Interest income	**-**	–	**3,831**	–	**-**	–	**144,039**	317,706	**-**	–	**147,870**	317,706
Interest expense	**(62,081)**	(69,437)	**(17,100)**	(13,871)	**-**	–	**(215,611)**	(33,326)	**-**	–	**(294,792)**	(116,634)
Exchange (loss)/gain, net	**-**	–	**794**	–	**-**	–	**(114,608)**	235,409	**-**	–	**(113,814)**	235,409
Investment income	**-**	–	**-**	–	**-**	–	**193,277**	220,650	**-**	–	**193,277**	220,650
Share of profit of an associate	**-**	–	**-**	–	**-**	–	**165,387**	89,963	**-**	–	**165,387**	89,963
Non-operating (loss)/gain, net	**(85,414)**	18,267	**(220)**	–	**-**	–	**14,255**	16,674	**-**	–	**(71,379)**	34,941
Tax	**-**	–	**-**	–	**-**	–	**(3,541,416)**	(3,048,227)	**-**	–	**(3,541,416)**	(3,048,227)
Net profit	**5,401,435**	5,504,074	**7,508,962**	5,116,525	**51,131**	83,720	**(3,728,701)**	(2,746,688)	**-**	–	**9,232,827**	7,957,631
Other information												
Segment assets	**16,899,455**	15,422,016	**22,446,447**	10,295,857	**630,704**	368,670	**20,581,722**	17,771,115	**-**	–	**60,558,328**	43,857,658
Investment in an associate	**-**	–	**-**	–	**-**	–	**537,377**	461,990	**-**	–	**537,377**	461,990
Total assets	**16,899,455**	15,422,016	**22,446,447**	10,295,857	**630,704**	368,670	**21,119,099**	18,233,105	**-**	–	**61,095,705**	44,319,648
Segment liabilities	**(3,033,327)**	(4,254,418)	**(10,200,032)**	(3,372,175)	**(21,665)**	(106,862)	**(7,272,193)**	(3,275,687)	**-**	–	**(20,527,217)**	(11,009,142)
Capital expenditures	**2,770,640**	1,922,074	**4,396,933**	2,398,601	**-**	–	**37,652**	18,063	**-**	–	**7,205,225**	4,338,738

7. SEGMENT INFORMATION (continued)

(b) Geographical segments

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the Group's customers, and assets are attributed to the segments based on the location of the Group's assets.

The Group is an oil and gas entity mainly engaged in the exploration, development and production of crude oil and natural gas offshore China. Approximately 86% of the total revenue of the Group is contributed by PRC customers, therefore, the Group's activities are conducted predominantly in the PRC. An analysis by geographical segment is as follows:

	PRC		**Outside PRC**		**Total**	
	2002 RMB'000	2001 RMB'000	**2002 RMB'000**	2001 RMB'000	**2002 RMB'000**	2001 RMB'000
External sales	**22,781,301**	18,104,658	**3,592,514**	2,714,899	**26,373,815**	20,819,557
Segment assets	**50,647,452**	43,783,409	**10,448,253**	536,239	**61,095,705**	44,319,648
Capital expenditure	**6,453,798**	4,311,241	**751,427**	27,497	**7,205,225**	4,338,738

(c) An analysis of sales to the major customers by business segment is as follows:

	2002 RMB'000	2001 RMB'000
Production sharing contracts		
China Petroleum & Chemical Corporation	**3,707,536**	2,861,847
PetroChina Company Limited	**1,187,571**	1,126,127
Castle Peak Power Company Limited	**1,247,639**	1,205,649
	6,142,746	5,193,623
Independent operations		
China Petroleum & Chemical Corporation	**3,183,341**	3,420,685
PetroChina Company Limited	**–**	194,460
	3,183,341	3,615,145
	9,326,087	8,808,768

8. OIL AND GAS SALES

	2002 RMB'000	2001 RMB'000
Gross sales	**26,086,646**	19,663,251
Royalties	**(464,113)**	(283,014)
PRC government share oil	**(1,843,239)**	(1,819,449)
	23,779,294	17,560,788

9. MARKETING PROFIT

	2002 RMB'000	2001 RMB'000
Marketing revenues	2,377,469	2,537,032
Crude oil and product purchases	(2,326,338)	(2,453,312)
	51,131	83,720

10. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after (crediting)/charging:

	2002 RMB'000	2001 RMB'000
Crediting:		
Interest income on bank deposits	(147,870)	(317,706)
Interest	(52,739)	(21,344)
Dividends	(76,633)	(123,213)
Realised gains on investments	(26,940)	(32,297)
Unrealised gains on investments	(36,965)	(43,796)
Short-term investment income	(193,277)	(220,650)
Recovery of doubtful accounts	–	(4,966)
Charging:		
Auditors' remuneration	4,500	7,452
Staff costs		
– Wages, salaries and allowances*	390,376	675,440
– Labor costs paid to contractors*	660,029	–
– Provision for staff and workers' bonus and welfare funds	–	40,000
– Pension scheme contributions	7,042	6,392
Depreciation, depletion and amortisation	4,032,970	2,602,799
Less: Amount included in inventory	(13,438)	(35,879)
	4,019,532	2,566,920
Operating lease rentals	54,157	63,260
Loss on disposal of property, plant and equipment	85,202	51,333
Repairs and maintenance	521,561	457,414
Research and development costs	167,354	160,349

* Wages, salaries and allowances of RMB675,440,000 in 2001 included the labor costs paid to contractors.

11. SELLING AND ADMINISTRATIVE EXPENSES

	2002 RMB'000	2001 RMB'000
Salary and staff benefits	**390,376**	228,782
Utility and office expenses	**100,502**	89,462
Recovery of doubtful accounts	**–**	(4,966)
Transportation and entertainment	**64,319**	64,923
Rentals and maintenance	**75,738**	121,483
Selling expenses	**38,548**	38,069
Other	**337,057**	77,636
	1,006,540	615,389

12. INTEREST EXPENSES

	2002 RMB'000	2001 RMB'000
Interest on bank loans which are:		
– wholly repayable within five years	**177,156**	219,045
– not wholly repayable within five years	**–**	81,634
Interest expense to the parent company	**–**	8,415
Interest on long-term guaranteed notes	**215,028**	–
Other borrowing costs	**12,426**	6,510
Total interest	**404,610**	315,604
Less: Amount capitalised in property, plant and equipment	**(187,714)**	(198,970)
	216,896	116,634
Other finance costs:		
Increase in discounted amount of provisions arising from the passage of time (note 31)	**77,896**	–
	294,792	116,634

The interest rates used for interest capitalisation represented the cost of capital from raising the related borrowings and varied from 2.35% to 9.15% per annum for the year ended 31 December 2002.

13. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Companies Ordinance is as follows:

	2002 RMB'000	2001 RMB'000
Fees for executive directors	**–**	–
Fees for non-executive directors	**890**	890
Other emoluments for executive directors		
– Basic salaries and allowances	**6,654**	6,106
– Bonus	**1,109**	560
– Pension scheme contribution	**214**	207
– Other	**1,500**	1,500

13. DIRECTORS' REMUNERATION (continued)

The number of directors whose remuneration fell within the following bands is as follows:

	Number of directors	
	2002	2001
Up to HK$1,000,000	**8**	6
HK$1,000,001 – HK$1,500,000	**–**	–
HK$1,500,001 – HK$2,000,000	**2**	2
HK$2,000,001 – HK$2,500,000	**1**	–
HK$2,500,001 – HK$3,000,000	**–**	1
	11	9

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

14. FIVE HIGHEST PAID INDIVIDUALS

The five highest paid individuals during the year are as follows:

	2002	2001
	RMB'000	RMB'000
Basic salaries and allowances	**8,227**	7,280
Bonus	**2,518**	1,280
Pension scheme contributions	**505**	416
Other	**2,732**	1,500
Number of directors	**4**	4
Number of employees	**1**	1

The number of highest paid employees whose remuneration fell within the following bands is as follows:

	Number of senior executives	
	2002	2001
Up to HK$1,000,000	**1**	1
HK$1,500,001 – HK$2,000,000	**2**	2
HK$2,500,001 – HK$3,000,000	**1**	2
HK$4,500,001 – HK$5,000,000	**1**	–
	5	5

15. 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 operate. The Company is not liable for profits tax in Hong Kong as it does not have any assessable income currently sourced from Hong Kong.

The Company's subsidiary, 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.

The Company's subsidiary in Singapore, China Offshore Oil (Singapore) International Pte. Ltd., is subject to income tax at the rate of 10% and 26%, for its oil trading activities and other income generating activities respectively. 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 year are all subject to corporate and branch profit 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 year presented.

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

	2002 RMB'000	2001 RMB'000
Overseas income taxes		
– Current	**406,493**	20,401
– Deferred	**26,094**	–
PRC enterprise income tax		
– Current	**2,786,938**	2,715,409
– Deferred	**321,891**	312,417
Tax charge for the year	**3,541,416**	3,048,227

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

	2002 %	2001 %
Statutory PRC enterprise income tax rate	**33.0**	33.0
Effect of tax exemption granted	**(3.0)**	(3.0)
Effect of different tax rates for overseas subsidiaries	**0.2**	(1.2)
Tax effect of additional depreciation on revaluation and other permanent differences	**(0.4)**	(1.1)
Tax credit from government	**(2.1)**	–
Effective income tax rate	**27.7**	27.7

15. TAXATION (continued)

(i) Income tax (continued)

The tax effect of significant timing differences of the Group was as follows:

	2002 **RMB'000**	2001 RMB'000
Deferred tax assets		
– Provision for retirement and termination benefits	**86,602**	–
– Provision for dismantlement	**671,796**	479,439
– Provision for impairment of property, plant and equipment and write-off of unsuccessful exploratory drillings	**933,636**	1,880,791
	1,692,034	2,360,230
Deferred tax liabilities		
– Accelerated amortisation allowance for oil and gas properties	**(7,833,190)**	(4,123,867)
Net deferred tax liabilities	**(6,141,156)**	(1,763,637)

There were no significant unprovided deferred taxes in respect of the year (2001: Nil).

(ii) Other taxes

The Company's PRC subsidiary pays the following taxes:

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

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

16. NET PROFIT

The net profit for the year ended 31 December 2002 dealt with in the financial statements of the Company, is approximately RMB4,984,684,000 (2001: RMB1,073,901,000).

17. DIVIDENDS

	2002 **RMB'000**	2001 RMB'000
Final – HK$0.15 (2001: Nil) per ordinary share	**1,306,740**	–
Interim – HK$0.11 (2001: HK$0.10) per ordinary share	**958,314**	871,194
	2,265,054	871,194

17. DIVIDENDS (continued)

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

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

18. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on:

	2002	2001
Earnings		
Net profit attributable to shareholders, used in the basic and diluted earnings per share calculations	**RMB9,232,827,000**	RMB7,957,631,000
Shares		
Weighted average number of ordinary shares in issue during the year used in basic earnings per share calculation	**8,214,165,655**	7,941,383,305
Weighted average number of ordinary shares assumed issued at no consideration on deemed exercise of all share options outstanding during the year	**5,119,729**	905,498
Weighted average number of ordinary shares used in diluted earnings per share calculation	**8,219,285,384**	7,942,288,803

19. PROPERTY, PLANT AND EQUIPMENT, NET

Movements in property, plant and equipment of the Group were:

Group

	2002				2001
	Oil and gas properties RMB'000	**Land and buildings RMB'000**	**Vehicles and office equipment RMB'000**	**Total RMB'000**	Total RMB'000
Cost or valuation:					
At beginning of the year					
As previously reported	**41,177,459**	**824,781**	**57,900**	**42,060,140**	38,184,542
Cumulative effect of change in accounting policy (Note 3)	**1,515,088**	**–**	**–**	**1,515,088**	–
At beginning of year as restated	**42,692,547**	**824,781**	**57,900**	**43,575,228**	38,184,542
Additions	**7,419,956**	**–**	**37,653**	**7,457,609**	4,338,738
Acquisition of subsidiaries	**8,646,487**	**–**	**–**	**8,646,487**	–
Disposals and write-offs	**(438,011)**	**–**	**(2,011)**	**(440,022)**	(463,140)
Exchange realignment	**801**	**–**	**178**	**979**	–
End of year	**58,321,780**	**824,781**	**93,720**	**59,240,281**	42,060,140
Analysis of cost or valuation					
At cost	**58,321,780**	**–**	**93,720**	**58,415,500**	41,235,359
At revaluation	**–**	**824,781**	**–**	**824,781**	824,781
	58,321,780	**824,781**	**93,720**	**59,240,281**	42,060,140
Accumulated depreciation, depletion and amortisation:					
At beginning of the year					
As previously reported	**(18,154,653)**	**(55,653)**	**(22,335)**	**(18,232,641)**	(15,530,167)
Cumulative effect of change in accounting policy (Note 3)	**(778,240)**	**–**	**–**	**(778,240)**	–
At beginning of year as restated	**(18,932,893)**	**(55,653)**	**(22,335)**	**(19,010,881)**	(15,530,167)
Depreciation provided during the year	**(4,126,625)**	**(25,374)**	**(7,110)**	**(4,159,109)**	(2,602,799)
Impairment during the year recognised in income statement	**–**	**–**	**–**	**–**	(99,675)
Disposals	**–**	**–**	**1,777**	**1,777**	–
Exchange realignment	**(82)**	**–**	**(166)**	**(248)**	–
End of year	**(23,059,600)**	**(81,027)**	**(27,834)**	**(23,168,461)**	(18,232,641)
Net book value:					
Beginning of year as restated	**23,759,654**	**769,128**	**35,565**	**24,564,347**	22,654,375
End of year	**35,262,180**	**743,754**	**65,886**	**36,071,820**	23,827,499

Had the property, plant and equipment been carried at cost less accumulated depreciation, depletion and amortisation, the carrying amount of each class would have been:

	Oil and gas properties	Land and buildings	Vehicles and office equipment	Total	2001 Total
Cost	**58,321,780**	**550,110**	**93,720**	**58,965,610**	41,785,469
Accumulated depreciation, depletion and amortisation	**(23,059,600)**	**(55,131)**	**(27,834)**	**(23,142,565)**	(18,215,902)
	35,262,180	**494,979**	**65,886**	**35,823,045**	23,569,567

19. PROPERTY, PLANT AND EQUIPMENT, NET (continued)

Impairment loss for the year ended 31 December 2001 represented the estimated impairment resulting from downward revision of the reserves of certain oilfields.

Property, plant and equipment of the Company mainly comprised office equipment and were stated at cost less accumulated depreciation and accumulated impairment losses. Movements in property, plant and equipment of the Company were as follows:

	Company	
	2002	2001
	RMB'000	RMB'000
Cost:		
At beginning of the year	**5,751**	5,105
Additions	**11**	646
Exchange realignment	**2**	–
End of year	**5,764**	5,751
Accumulated depreciation:		
At beginning of the year	**(3,003)**	(935)
Charge for the year	**(2,103)**	(2,068)
Exchange realignment	**(2)**	–
End of year	**(5,108)**	(3,003)
Net book value:		
At beginning of year	**2,748**	4,170
End of year	**656**	2,748

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

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

20. INTERESTS IN SUBSIDIARIES

	Company	
	2002	2001
	RMB'000	RMB'000
Unlisted shares, at cost	**7,766,963**	7,766,955
Loan to a subsidiary	**4,138,290**	1,489,082
Due from subsidiaries	**6,039,152**	1,467,642
Due to subsidiaries	**(3,946,247)**	–
	13,998,158	10,723,679

20. INTERESTS IN SUBSIDIARIES (continued)

The loans due to a subsidiary are unsecured and interest-bearing at 7.084% per annum. The maturities of the balance were as follows:

	2002 **RMB'000**	2001 RMB'000
Balances due:		
– Within five years	**1,489,082**	1,489,082
– More than five years	**2,649,208**	–
	4,138,290	1,489,082

The amounts due from/to subsidiaries are unsecured, interest-free and repayable on demand.

Particulars of the principal subsidiaries are as follows:

Name	**Place and date of incorporation/ registration and operations**	**Nominal value of issued ordinary share capital**	**Percentage of equity attributable to the Company**	**Principal activities**
Directly held subsidiaries:				
CNOOC China Limited	Tianjin, the PRC 15 September 1999	RMB10 billion	100%	Offshore petroleum exploration, development, production and sales in the PRC
CNOOC International Limited	British Virgin Islands 23 August 1999	US$2	100%	Investment holding
China Offshore Oil (Singapore) International Pte., Ltd.	Singapore 14 May 1993	S$3 million	100%	Sales and marketing of petroleum outside of the PRC
CNOOC Finance (2002) Limited	British Virgin Islands 24 January 2002	US$1,000	100%	Bond issuance
Indirectly held subsidiaries:*				
Malacca Petroleum Limited	Bermuda 2 November 1995	US$12,000	100%	Investment holding
OOGC America, Inc.	State of Delaware, United States of America 2 September 1997	US$1,000	100%	Investment holding

31 December 2002
(All amounts expressed in Renminbi unless otherwise stated)

20. INTERESTS IN SUBSIDIARIES (continued)

Name	Place and date of incorporation/ registration and operations	Nominal value of issued ordinary share capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held subsidiaries:*				
OOGC Malacca Limited	Bermuda 2 November 1995	US$12,000	100%	Investment holding
CNOOC Southeast Asia Limited	Bermuda 16 May 1997	US$12,000	100%	Investment holding
CNOOC ONWJ Ltd.	Labuan , F.T., Malaysia 27 March 2002	US$1	100%	Offshore petroleum exploration, development and production in Indonesia
CNOOC SES Ltd.	Labuan , F.T., Malaysia 27 March 2002	US$1	100%	Offshore petroleum exploration, development and production in Indonesia
CNOOC Poleng Ltd.	Labuan , F.T., Malaysia 27 March 2002	US$1	100%	Offshore petroleum exploration, development and production in Indonesia
CNOOC Madura Ltd.	Labuan , F.T., Malaysia 27 March 2002	US$1	100%	Offshore petroleum exploration, development and production in Indonesia
CNOOC Blora Ltd.	Labuan , F.T., Malaysia 27 March 2002	US$1	100%	Offshore petroleum exploration, development and production in Indonesia

* Indirectly held through CNOOC International Limited.

20. INTERESTS IN SUBSIDIARIES (continued)

During the year, the Group acquired nine subsidiaries of Repsol-YPF, S.A. Subsequent to the acquisition, a restructuring was performed whereby all the assets and liabilities acquired from the subsidiaries of Repsol-YPF, S.A. were transferred to the newly established companies in Labuan F.T., Malaysia. Further details of this acquisition are included in note 5 to the financial statements.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

21. INVESTMENT IN AN ASSOCIATE

Investment in an associate represents a 30% equity interest of CNOOC China Limited in Shanghai Petroleum and Natural Gas Company Limited ("SPC"). SPC was incorporated on 7 September 1992 in the PRC with limited liability and is principally engaged in offshore petroleum exploration, development, production and sales in the South Yellow Sea and East China Sea areas. The issued and paid-up capital of SPC is RMB900,000,000.

	Group	
	2002	2001
	RMB'000	RMB'000
Unlisted shares, at cost	**270,000**	270,000
Accumulated share of profit	**357,377**	290,990
Dividends received	**(90,000)**	(99,000)
	537,377	461,990

The directors are of the opinion that the underlying value of the investment in an associate is not less than the carrying amount of the associate as at 31 December 2002.

22. ACCOUNTS RECEIVABLE, NET

	Group	
	2002	2001
	RMB'000	RMB'000
Trade receivables	**3,063,266**	1,204,907
Less: Provision for doubtful accounts	**–**	(10,727)
	3,063,266	1,194,180

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The customers are required to make payment within 30 days after the delivery of oil and gas. As at 31 December 2002 and 2001, substantially all the accounts receivable were aged within six months.

23. INVENTORIES AND SUPPLIES

	Group	
	2002	2001
	RMB'000	RMB'000
Materials and supplies	**585,431**	428,991
Oil in tanks	**263,174**	198,346
	848,605	627,337

24. SHORT-TERM INVESTMENTS

As at 31 December 2002, short-term investments mainly represented investments in liquidity funds and were stated at fair value at the balance sheet date.

Details were as follows:

	Group		Company	
	2002	2001	**2002**	2001
	RMB'000	RMB'000	**RMB'000**	RMB'000
Liquidity funds	**5,537,191**	7,675,622	**5,537,191**	7,675,622
Corporate bonds	**951,876**	1,177,991	**951,876**	1,177,991
Common stock	**42,211**	42,191	**42,211**	42,191
	6,531,278	8,895,804	**6,531,278**	8,895,804

25. ACCOUNTS PAYABLE

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

26. OTHER PAYABLES AND ACCRUED LIABILITIES

	Group	
	2002	2001
	RMB'000	RMB'000
Accrued payroll and welfare payable	**149,501**	132,773
Provision for retirement and termination benefit	**211,321**	–
Accrued expenses	**793,823**	434,766
Advances from customers	**60,101**	86,301
Royalties payable	**208,214**	–
Other payables	**289,448**	159,306
	1,712,408	813,146

As at 31 December 2002, deferred revenue from gas sales contract amounted to approximately RMB5,582,000 (2001: RMB5,581,000) and was included in other payables.

27. LONG-TERM BANK LOANS

As at 31 December 2002, long-term bank loans of the Group were used primarily to finance the development of oil and gas properties and to meet working capital requirements.

		Group	
		2002	2001
		RMB'000	RMB'000
	Interest rate and final maturity		
RMB denominated bank loans	Floating prevailing market rate adjusted annually with maturities through 2006	**–**	670,000
	Fixed interest rate at 5.94% per annum through 2005	**57,270**	66,270
US$ denominated bank loans	Floating LIBOR rate with maturities through 2003	**259,907**	1,177,761
	Fixed interest rate of 9.15% per annum with maturities through 2006	**827,730**	827,660
Japanese Yen denominated bank loans	Fixed interest rate ranging from 2.35% to 5.15% per annum, with maturities through 2007	**93,704**	1,745,848
		1,238,611	4,487,539
Less: Current portion of long-term bank loans		**(297,518)**	(1,231,840)
		941,093	3,255,699

As at 31 December 2002, LIBOR was approximately 1.4% per annum (2001: 2.0% per annum).

As at 31 December 2002, all the bank loans of the Group were unsecured and approximately RMB259,907,000 (2001: RMB991,537,000) of the outstanding borrowings were guaranteed by CNOOC.

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

	Group	
	2002	2001
	RMB'000	RMB'000
Balances due:		
- Within one year	**297,518**	1,231,840
- After one year but within two years	**27,541**	794,593
- After two years but within three years	**48,341**	462,564
- After three years but within four years	**846,471**	483,364
- After four years but within five years	**18,740**	1,231,423
	1,238,611	4,203,784
- More than five years	**–**	283,755
	1,238,611	4,487,539
Amount due within one year shown under current liabilities	**(297,518)**	(1,231,840)
	941,093	3,255,699

27. LONG-TERM BANK LOANS (continued)

Supplemental information with respect to long-term bank loans:

	Balance at year end RMB'000	Weighted average interest rate at year end	Maximum amount outstanding during the year RMB'000	Average amount outstanding during the year* RMB'000	Weighted average interest rate during the year**
For the year ended 31 December					
2002	1,238,611	7.19%	4,487,539	2,863,075	6.11%
2001	4,487,539	5.03%	5,746,377	5,116,958	5.66%

* The average amount outstanding is computed by dividing the total of outstanding principal balances as at 1 January and 31 December by two.

** The weighted average interest rate is computed by dividing the total of weighted average interest rates as at 1 January and 31 December by two.

28. 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.

29. BALANCES WITH THE PARENT COMPANY

As at 31 December 2002 and 2001, the balances with CNOOC were unsecured, interest-free and repayable on demand.

30. RELATED PARTY TRANSACTIONS

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, the provision of bank guarantees and various other commercial arrangements.

(a) In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

	Notes	**2002**	2001
		RMB'000	RMB'000
Included in exploration costs:			
Provision of geological and geophysical services	(ii)	**100,738**	139,659
Provision of research and development services	(iii)	**95,507**	89,999
Provision of drilling services	(ii)	**396,814**	389,847
Included in operating expenses:			
Provision of technical services	(ii)	**68,130**	44,044
Provision of research and development services	(iii)	**46,226**	29,587
Provision of oil transportation services	(i)	**200,709**	68,399
Provision of production related services	(i)	**208,730**	579,207
Provision of materials, utilities and ancillary services	(i)	**470,030**	148,149
Included in selling and administrative expenses:			
Rental of office lease	(iv)	**54,421**	45,524
Provision of research and development services	(iii)	**25,621**	40,763
Provision of other ancillary services		**110,407**	87,557
Included in interest expense:			
Interest expense to CNOOC		**–**	8,415
Capitalised under property, plant and equipment:			
Provision of oil and gas property construction services	(ii)	**1,837,573**	1,341,545
Provision of drilling services	(ii)	**591,749**	285,834
Provision of well measurement services	(ii)	**83,883**	97,633

30. RELATED PARTY TRANSACTION (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 a term of three years from 9 September 1999.

The materials, utilities and ancillary services are provided at:

– state-prescribed prices; or

– where there is no state-prescribed price, market prices, including the local or national market prices or the prices at which CNOOC's affiliates previously provided the relevant materials, utilities and ancillary services to independent third parties; or

– where neither of the prices mentioned above is applicable, the cost to CNOOC's affiliates of providing the relevant materials, utilities and services, including the cost of sourcing or purchasing from third parties, plus a margin of not more than 5% before any applicable taxes.

On 5 December 2002, the Group renewed the agreement for the term of three years from 31 December 2002.

(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;

– platform fabrication service and maintenance; and

– design, construction, installation and test of offshore and onshore production facilities.

The technical services are provided by the related companies at prices on an arms-length negotiation on normal commercial terms or on terms no less favourable than those available to independent third parties, under prevailing market conditions.

30. RELATED PARTY TRANSACTION (continued)

(iii) Research and development services

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

– geophysical exploration services;

– seismic data processing;

– comprehensive exploration research services; and

– information technology services.

On 5 December 2002, the Company renewed the agreement for a term of three years from 31 December 2002. Under the agreement, the Group will pay the Centre RMB140,000,000, RMB150,000,000 and RMB160,000,000 respectively.

(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 9 September 1999. The lease charges were based on the prevailing market rates at the inception of the leases.

On 5 December 2002, the Group renewed the lease agreements for the terms of three years from 31 December 2002.

(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 year ended 31 December 2002, the total sales amounted to approximately RMB4,361,852,000 (2001: RMB1,814,197,000).

As at 31 December 2002, the Group had cash and cash equivalents and time deposits aggregating RMB2,740 million (2001: Nil) placed with CNOOC Finance Corporation Limited ("CNOOC Finance"), a wholly-owned subsidiary of CNOOC. CNOOC Finance is a non-bank finance company supervised by the People's Bank of China ("PBOC") and the Company is one of its customers. The interest rates offered by CNOOC Finance were same as the rates promulgated by the PBOC which were applicable to accounts deposits with PRC banks or finance companies. The interest income received for the year ended 31 December 2002 was approximately RMB 3,516,000 (2001: nil).

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 31 December 2002, the transaction had not been completed and the legal title of the reserves had not been passed to the Group. The amount paid for the interests is included in the property, plant and equipment in the balance sheet as at 31 December 2002.

31. PROVISION FOR DISMANTLEMENT

Provision for dismantlement represents the estimated costs of dismantling offshore oil platforms and abandoning oil and gas properties. Provision for dismantlement has been classified under long-term liabilities. As detailed in Note 3 above, the Group changed its method of accounting for the provision for dismantlement during the year. As such, the associated cost is capitalised and the liability is discounted and an accretion expense is recognised during the credit-adjusted risk-free interest rate in effect when the liability is initially recognised. The current year income statement charge represents the amortisation charge on the dismantlement liabilities captialised in accordance with SSAP 28 and is included in the accumulated depreciation, depletion and amortisation in Note 19. The prior year income statement charges were calculated using the unit-of-production method on the estimated total undiscounted dismantlement costs.

The details of the provision for dismantlement were as follows:

	Group	
	2002	2001
	RMB'000	RMB'000
At beginning of year:		
As previously reported	**1,598,130**	1,507,763
Cumulative effect of change in accounting policy (Note 3)	**310,911**	–
As restated	**1,909,041**	1,507,763
Additional provision based on unit-of-production method	**–**	90,367
Additions during the year and capitalised in oil and gas properties	**252,383**	–
Increase in discounted amount of provisions arising from the passage of time	**77,896**	–
End of year	**2,239,320**	1,598,130

32. SHARE CAPITAL

Shares

	Number of shares	Share capital HK$'000
Authorised:		
Ordinary shares of HK$0.10 each		
At 31 December 2002 and 2001	15,000,000,000	1,500,000

	Number of shares	Share capital HK$'000	Share capital Equivalent of RMB'000
Issued and fully paid:			
Ordinary shares of HK$0.10 each			
at 1 January 2001	6,557,575,755	655,758	701,181
Issue of shares during the initial public offering (i)	1,656,589,900	165,659	175,797
At 31 December 2001	8,214,165,655	821,417	876,978
Ordinary shares of HK$0.10 each			
At 1 January and 31 December 2002	8,214,165,655	821,417	876,978

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

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

The net proceeds from the initial public offering (including the exercise of the over-allotment option) amounted to approximately RMB10,101,564,000, after deducting expenses of approximately RMB288,058,000.

32. SHARE CAPITAL (continued)

Share options

The Company has share option schemes which provide for the grant of options to the Company's senior management. Under these share option schemes in accordance with SSAP 34, the remuneration committee of the Company's board of directors will from time to time propose for the board's approval the recipient of and number of shares underlying each option. These scheme provide for issuance of options exercisable for shares granted under these schemes 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.

On 4 February 2001, the Company adopted a pre-global offering share option scheme (the "Pre-Global Offering Share Option Scheme"). Pursuant to the Pre-Global Offering Share Option Scheme:

1. options for an aggregate of 4,620,000 shares have been granted;
2. the subscription price per share is HK$5.95; and
3. the period during which an option may be exercised is as follows:
   (a) 50% of the shares underlying the option shall vest 18 months after the date of the grant; and
   (b) 50% of the shares underlying the option shall vest 30 months after the date of the grant.

The exercise period for options granted under the Pre-Global Offering Share Option Scheme shall end not later than 10 years from 12 March 2001.

On 4 February 2001, the Company adopted a share option scheme (the "2001 Share Option Scheme") for the purposes of recognising the contribution that certain individuals had made to the Company and attracting and retaining the best available personnel to the Company. Pursuant to the 2001 Share Option Scheme:

1. options for an aggregate of 8,820,000 shares have been granted;
2. the subscription price per share is HK$6.16; and
3. the period during which an option may be exercised is as follows:
   (a) one-third of the shares underlying the option shall vest on the first anniversary of the date of the grant;
   (b) one-third of the shares underlying the option shall vest on the second anniversary of the date of the grant; and
   (c) one-third of the shares underlying the option shall vest on the third anniversary of the date of the grant.

32. SHARE CAPITAL (continued)

Share options (continued)

The exercise period for options granted under the 2001 Share Option Scheme shall end not later than 10 years from 27 August 2001.

In view of the amendments to the relevant provisions of the Listing Rules regarding the requirements of share option schemes of a Hong Kong listed company effective on 1 September 2001, no further options will be granted under the 2001 Share Option Scheme.

In June 2002, the Company adopted a new share option scheme (the "2002 Share Option Scheme").

Under the 2002 Share Option Scheme, the Directors of the Company may, at their discretion, invite employees, including executive directors, of the Company or any of its subsidiaries, to take up options to subscribe for shares. The maximum aggregate number of shares (including those that could be subscribed for under the Pre-Global Offering Share Option Scheme and the 2001 Share Option Scheme) which may be granted shall not exceed 10% of the total issued share capital of the Company. The maximum number of shares which may be granted under the 2002 Share Option Scheme to any individual in any 12 month period up to the next grant shall not exceed 1% of the total issued share capital of the Company from time to time.

According to the 2002 Share Option Scheme, the consideration payable by a participant for the grant of an option will be HK$1.00. The subscription price of a share payable by a participant upon the exercise of an option will be determined by the Directors at their discretion at the date of grant, except that such price may not be set below a minimum price which is the highest of:

1. the nominal value of a share;

2. the average closing price of the shares on the HKSE as stated in the HKSE's quotation sheets for the five trading days immediately preceding the date of grant of the option; and

3. the closing price of the shares on the HKSE as stated in the HKSE's quotation sheets on the date of grant of the option.

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

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

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

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

The exercise period for options granted under the 2002 Share Option Scheme shall end not later than 10 years from the date on which the option is granted.

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 financial statements. The total number of options exercisable as of 31 December 2002 was 9,864,167.

33. RESERVES

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

As at 31 December 2002, the general reserve fund appropriated amounted to RMB2,232,410,000 (2001: RMB1,535,360,000), representing approximately 22.3% (2001: 15.4%) of the total registered capital of CNOOC China Limited.

Included in retained earnings is an amount of RMB456,377,000 (2001: RMB311,990,000), being the retained earnings attributable to an associate.

The cumulative translation reserves and revaluation reserves have been established and will be dealt with in accordance with the accounting policies adopted for foreign currency translation and the revaluation of land and buildings.

Company	**Share premium**	**Cumulative Translation Reserve**	**Retained earnings**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
Balances at 1 January 2001	10,835,438	–	17,420	10,852,858
Net profit for the year	–	–	1,073,901	1,073,901
Dividends	–	–	(871,194)	(871,194)
Net proceeds from private placements	9,925,767	–	–	9,925,767
Balances at 1 January, 2002	20,761,205	–	220,127	20,981,332
Net profit for the year	–	–	4,984,684	4,984,684
Foreign currency translation difference	–	5,523	–	5,523
Dividends (Note 17)	–	–	(2,265,054)	(2,265,054)
Balances at 31 December 2002	20,761,205	5,523	2,939,757	23,706,485

As at 31 December 2002, the distributable profits of the Company amounted to approximately RMB2,939,757,000 (2001: RMB220,127,000).

34. RETIREMENT AND TERMINATION BENEFITS

All the Group's full-time employees in the PRC are covered by a government regulated pension, and are entitled to an annual pension equal to their basic salaries at their retirement dates. The PRC government is responsible for the pension liabilities to these retired employees. The Group is required to make annual contributions to the government-regulated pension at rates ranging from 12% to 22.5% of the employees' basic salaries.

The contribution made by the Group to the PRC government pension plan for the year ended 31 December 2002 amounted to approximately RMB 7,042,000 (2001: RMB6,392,000).

The Company is required to make contributions to a defined contribution of a mandatory provident fund at a rate of 5% of the basic salaries for all full-time employees in Hong Kong. The related pension costs are treated expenses as incurred.

The Group provides retirement and termination benefits for all local employees in Indonesia in accordance with Indonesia labour law, while the employee benefits provides to expatriate staff in accordance with the relevant employment contracts. The Group has adopted an accounting policy to record liabilities for the retirement and termination benefits. The provisions for retirement and termination benefits in Indonesia for the year ended 31 December 2002 amounted to approximately RMB46,350,000 (2001: Nil).

35. NOTES TO THE CASH FLOW STATEMENT

(a) Reconciliation of profit before tax to cash generated from operations

	2002	2001
	RMB'000	RMB'000
Profit before tax	**12,774,243**	11,005,858
Adjustments for:		
Interest income	**(147,870)**	(317,706)
Interest expense	**294,792**	116,634
Exchange losses/(gains), net	**113,814**	(261,305)
Share of profit of an associate	**(165,387)**	(89,963)
Short-term investment income	**(193,277)**	(220,650)
Depreciation, depletion and amortisation	**4,019,532**	2,566,920
Provision for impairment of property, plant and equipment	**–**	99,675
Recovery of doubtful accounts	**–**	(4,966)
Loss on disposals and write-off of property, plant and equipment	**437,799**	456,827
Dismantlement	**126,139**	90,367
Amortisation of discount of long-term guaranteed notes	**6,100**	–
Operating cash flows before movements in working capital	**17,265,885**	13,441,691
Decrease in accounts receivable	**497,959**	726,976
(Increase)/decrease in inventories and supplies	**(20,211)**	35,422
Increase in other current assets	**(705,664)**	(447,473)
Increase in amounts due from related companies	**(276,771)**	–
Increase in accounts payable, other payables and accrued liabilities	**353,452**	379,233
Increase/(decrease) in other taxes payable	**73,551**	(110,867)
Increase in amounts due to related companies	**73,769**	–
Cash generated from operations	**17,261,970**	14,024,982

35. NOTES TO THE CASH FLOW STATEMENT (continued)

(b) Acquisition of subsidiaries

	2002 RMB'000	2001 RMB'000
Net assets acquired:		
Property, plant and equipment, net	**8,646,487**	–
Other current assets	**35,175**	–
Inventories and supplies	**187,619**	–
Accounts receivable	**2,367,045**	–
Cash and bank balances	**1,652**	–
Accounts payable	**(1,577,214)**	–
Other payables and accrued liabilities	**(952,911)**	–
Tax payable	**(70,247)**	–
Deferred tax	**(3,901,780)**	–
	4,735,826	–
Satisfied by:		
Cash	**4,735,826**	–

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2002 RMB'000	2001 RMB'000
Cash consideration	**4,735,826**	–
Cash and bank balances acquired	**(1,652)**	–
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	**4,734,174**	–

On 19 April 2002, the Group acquired nine subsidiaries of Repsol-YPF, S.A. which held 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. Further details of the transaction are included in note 5 to the financial statements.

The subsidiaries acquired during the year contributed RMB3,317 million to turnover and RMB464 million to the consolidated profit after tax for the year ended 31 December 2002.

(c) Major non-cash transaction

The cash generated from operations of RMB17,634,448,000 did not take into account of a transfer of prepayment of RMB372,479,000 recorded in 2001 to property, plant and equipment relating to acquisition of 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.

36. CONTINGENT LIABILITIES

At the balance sheet date, there were no material contingent liabilities not provided for in the financial statements.

37. COMMITMENTS

(i) Capital commitments

As at 31 December 2002, the Group and the Company had the following capital commitments, principally for the construction and purchase of property, plant and equipment:

	2002	2001
	RMB'000	RMB'000
Contracted for	**1,715,173**	1,606,700
Authorised, but not contracted for	**9,060,722**	5,183,690

As at 31 December 2002, the Group had unutilised banking facilities amounted to approximately RMB31,646,389,000 (2001: RMB7,599,371,000).

(ii) General research and development commitments

According to the general research and development services agreement with the Centre renewed on 5 December 2002, the Group agreed to pay the Centre for a term of three years from 31 December 2002, an annual amount of RMB140,000,000, RMB150,000,000 and RMB 160,000,000 respectively for provision of general geophysical exploration services, comprehensive exploration research services, information technology services and seismic data processing. As at 31 December 2002, commitments for research and development services to be provided by the Centre amounted to approximately RMB450,000,000 (2001: RMB83,382,500).

(iii) Operating lease commitments

Operating lease commitments as at 31 December 2002 amounted to approximately RMB 50,645,000 (2001: RMB94,079,000) and were as follows:

	2002	2001
	RMB'000	RMB'000
Commitment due:		
– Within one year	**47,017**	48,789
– After one year but within two years	**2,131**	45,290
– After two years but within three years	**1,497**	–
	50,645	94,079

37. COMMITMENTS (continued)

(iv) Commitment to invest in an Australian gas project

In August 2001, the company signed a Memorandum of Understanding to explore the feasibility of acquiring an equity interest in certain 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 to establish a joint venture to develop Northwest Shelf gas in Australia. The Company has agreed to co-invest in the development of Australia's Northwest Shelf gas project and to produce and process liquefied natural gas to sell to the China markets, subject to the joint venture successfully bidding 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.

On 21 October 2002, the Company entered into a definitive agreement with Northwest Shelf Venture partners to acquire an interest up to 5.56% in the North West Shelf Gas Project ("NWS Gas Project") titles and assume a 25% interest in the China LNG Joint Venture for a total consideration of US$366 million.

(v) Commitments to invest in an Indonesian gas project

In September 2002, the Company entered into a Heads of Agreement to acquire a participating interest in the reserves and upstream production of the proposed joint venture known as the Tangguh LNG Project of Indonesia ("Tangguh LNG Project"). The Heads of Agreement provides for the Company to acquire from BP an equivalent 12.5% stake in the Tangguh LNG Project for approximately US$275 million through the acquisition of certain interests in PSCs. The Tangguh LNG Project comprises three PSC areas: the Berau PSC, the Muturi PSC and the Wiriagar PSC. The Tangguh LNG Project partners have signed a conditional 25-year LNG Supply Contract to provide up to 2.6 million tonnes per annum of LNG to the Fujian LNG terminal project in China, beginning in 2007. Subsequent to 31 December 2002, the Company completed the acquisition (which was effective as of 1 January 2003) for a consideration of US$275 million.

In addition, a repurchase agreement was entered into whereby put options and call options are granted to the Company and the sellers, respectively, to sell or to repurchase the interests in the abovementioned PSCs. The options are exercisable if

1) the LNG Supply Contract is terminated due to the non-satisfaction of the conditions precedent to the LNG Supply Contract; or

2) the LNG Supply Contract is otherwise legally ineffective

on or before 31 December 2004. The exercise prices of the options are determined based on the original consideration paid plus adjustments stipulated in the repurchase agreement.

37. COMMITMENTS (continued)

(vi) Financial instruments

As at 31 December 2002, the Group had currency swap contracts with a financial institution to sell United States dollars in exchange for Japanese Yen in order to hedge against future repayments of certain Japanese Yen denominated loans. The hedged Japanese Yen loans bore interest at fixed rate of 4.5% per annum. The interest stipulated in the swap contract for the United States dollars was floating LIBOR rate.

The details are as follows:

	2002		2001	
	Notional contract amount (JPY'000)	**Weighted average contractual exchange rate (JPY/US$)**	Notional contract amount (JPY'000)	Weighted average contractual exchange rate (JPY/US$)
Year				
2002	**–**	**–**	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

38. CONCENTRATION OF CUSTOMERS

A substantial portion of the oil and gas sales of the Group is made to a small number of customers on an open account basis.

	2002	2001
	RMB'000	RMB'000
China Petroleum & Chemical Corporation	**6,890,877**	6,282,532
PetroChina Company Limited	**1,187,571**	1,320,587
Castle Peak Power Company Limited	**1,247,639**	1,205,649

39. ADDITIONAL FINANCIAL INFORMATION

As at 31 December 2002, net current assets and total assets less current liabilities of the Group amounted to approximately RMB17,352,044,000 and RMB53,961,241,000 (2001: RMB15,638,483,000 and RMB39,927,972,000), resepectively.

As at 31 December 2002, net current assets and total assets and total assets less current liabilities of the Company amounted to approximately RMB10,584,649,000 and RMB24,583,463,000 (2001: RMB11,131,883,000 and RMB21,858,310,000), respectively.

40. SUBSEQUENT EVENTS

(i) Material acquisition

Subsequent to the year end, on 7 March 2003, the Company entered into an agreement with BG International Limited ("BG"), a wholly-owned subsidiary of BG Group, to acquire from BG a 1/12th (8.33%) interest in the North Caspian Sea Project (the "Project") in Kazakhstan for US$615 million, (subject to certain adjustments). The partners of the Project include ENI-Agip (operator), BG Group, ConocoPhillips, ExxonMobil, INPEX, Shell and TotalFinaElf. Completion of the acquisition is subject to a number of conditions including the wavier of certain preemptive rights and receipt of governmental approvals.

(ii) Share options

On 24 February 2003, the board of directors approved to grant options in respect of 8,410,000 shares to the Company's senior management under the share option scheme approved in June 2002. The exercise price for the options is HK$10.54 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 underlying the options shall vest on the first anniversary of the date of the grant;

– one-third of the shares underlying the options shall vest on the second anniversary of the date of the grant; and

– one-third of the shares underlying the options share vest on the third anniversary of the date of the grant.

(iii) Dividends

On 27 March 2003, the board of directors proposed a final dividend of HK$0.15 per share, totaling HK$1,232,124,848 (equivalent of RMB1,307,407,676) and a special dividend of HK$0.15 per share, totaling HK$1,232,124,848 (equivalent to RMB1,307,407,676) to its shareholders for the year ended 31 December 2002. The proposed dividend distribution is subject to shareholders' approval in their forth coming annual general meeting.

41. SIGNIFICANT DIFFERENCES BETWEEN HONG KONG GAAP AND US 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 ("US GAAP").

(a) Net profit and net 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 year ended 31 December 2002 was approximately RMB9,156,000 (2001: RMB9,156,000). Under US 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 US GAAP.

41. SIGNIFICANT DIFFERENCES BETWEEN HONG KONG GAAP AND US GAAP (continued)

(a) Net profit and net equity (continued)

(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 US GAAP, such investments are also measured at fair value and classified in accordance with Statement of Financial Accounting Standards ("SFAS") No.115. Under US GAAP, related unrealised gains and losses on available-for-sale securities are excluded from current period earnings and included in other comprehensive income.

(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 US 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.

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. The impairment was determined based on the difference between the carrying value of the assets and the present value of future cash flows. 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.

For the year ended 31 December 2002, there were no impairment losses recognised under Hong Kong GAAP and US GAAP.

41. SIGNIFICANT DIFFERENCES BETWEEN HONG KONG GAAP AND US GAAP (continued)

(a) Net profit and net equity (continued)

(iv) Stock compensation plans

As described in Note 32 to the financial statements, as at 31 December 2002, the Group had two stock option plans. The Group applies Accounting Principles Board Opinion 25 and related Interpretations in accounting for these stock option plans. Accordingly, compensation costs that have been recognised for the stock option plans were RMB5,631,500 for the year ended 31 December 2002 (2001: RMB2,755,000). Had compensation costs for the Group's stock option plans been determined based on the fair value at the grant dates for awards under the plans consistent with the method of SFAS No. 123, the Group's net income and earnings per share for the year ended 31 December 2002 would have been reduced to the pro forma amounts indicated below:

	As reported	Pro forma	
		2002	2001
	RMB'000	**RMB'000**	RMB'000
Net income	9,088,371	**9,085,917**	7,912,150
Earnings per share			
– Basic	RMB1.11	**RMB1.11**	RMB1.00
– Diluted	RMB1.11	**RMB1.11**	RMB1.00

Weighted average fair value of the options at the grant dates for awards under the plans was RMB3.10 per share which was estimated using the Black-Scholes model with the following assumptions: dividend yield of 2.0%, an expected life of five years; expected volatility of 44%; and risk-free interest rates of 5.25%. Weighted average exercise price of the stock options was HK$6.09 per share.

(v) Provision for dismantlement

HK GAAP require the provision of dismantlement 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 US GAAP, the provisions for dismantlement are provided on a unit-of-production basis over field lives, there is no corresponding tangible fixed asset.

The impact on the consolidated balance sheet as at 31 December 2002 is summarised below:

Increase (Decrease) in caption heading	**31 December 2002**
	RMB'000
Property, plant and equipment, net	**(863,093)**
Provision for dismantlement	**(240,077)**
Deferred tax liabilities	**(186,904)**
Reserves	**(436,112)**

41. SIGNIFICANT DIFFERENCES BETWEEN HONG KONG GAAP AND US GAAP (continued)

(a) Net profit and net equity (continued)

Effects on net profit and net equity of differences between Hong Kong GAAP and US GAAP are summarised below:

	Net profit	
	2002	2001
	RMB'000	RMB'000
As reported under Hong Kong GAAP	**9,232,827**	7,957,631
Impact of US GAAP adjustments:		
– Reversal of additional depreciation, depletion and amortisation arising from the revaluation surplus on land and buildings	**9,156**	9,156
– Unrealised holding gains from available-for-sale marketable securities	**(36,965)**	(43,796)
– Realised holding gains from available-for-sale marketable securities	**26,940**	–
– Additional dismantlement based on unit-of-production method	**(197,079)**	–
– Impact of income tax	**59,124**	–
– Recognition of stock compensation cost	**(5,632)**	(2,755)
As restated under US GAAP	**9,088,371**	7,920,236
Net income per share under US GAAP		
– Basic	**RMB 1.11**	RMB 1.00
– Diluted	**RMB 1.11**	RMB 1.00

	Net equity	
	2002	2001
	RMB'000	RMB'000
As reported under Hong Kong GAAP	**40,568,488**	33,310,506
Impact of US GAAP adjustments:		
– Reversal of revaluation surplus on land and buildings	**(274,671)**	(274,671)
– Reversal of additional accumulated depreciation, depletion and amortisation charges arising from the revaluation surplus on land and buildings	**25,895**	16,739
– Cumulative adjustment for provision for dismantlement	**(436,112)**	–
As restated under US GAAP	**39,883,600**	33,052,574

There are no significant GAAP differences that affect classifications within the balance sheet or income statement but do not affect net income or shareholders' equity.

41. SIGNIFICANT DIFFERENCES BETWEEN HONG KONG GAAP AND US GAAP (continued)

(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 that under US GAAP are included in comprehensive income and excluded from net income.

	2002 **RMB'000**	2001 RMB'000
Net income under US GAAP	**9,088,371**	7,920,236
Other comprehensive income:		
Foreign currency translation adjustments	**(7,948)**	702
Unrealised gains on short-term investments	**36,965**	43,796
Less: reclassification adjustment for realised gains included in net income	**(26,940)**	–
Comprehensive income under US GAAP	**9,090,448**	7,964,734

Roll forward of accumulated other comprehensive income components are as follows:

	Foreign currency translation adjustments RMB'000	**Unrealised gains on short-term investments** RMB'000	**Accumulated other comprehensive income** RMB'000
Balance at 1 January 2001	(6,350)	–	(6,350)
Current year change	702	43,796	44,498
Balance at 1 January 2002	(5,648)	43,796	38,148
Reversal of current year realised gains	–	(26,940)	(26,940)
Current year change	(7,948)	36,965	29,017
Balance at 31 December 2002	(13,596)	53,821	40,225

(c) Derivative instruments

The Group had a currency swap contract with a financial institution to sell United States dollars in exchange for Japanese Yen in order to hedge certain Japanese Yen denominated loan repayments in the future. In accordance with SFAS No. 133, the derivative contract was recorded as "other current liabilities" in the consolidated balance sheet at fair value. For the year ended 31 December 2002, the Group recognised related changes in fair value, a gain of RMB14,485,000 (2001: RMB29,134,000), and included the amount in "exchange (loss)/gain, net" in the consolidated income statement.

41. SIGNIFICANT DIFFERENCES BETWEEN HONG KONG GAAP AND US GAAP (continued)

(d) Accounting for asset retirement obligations

On 15 August 2001, SFAS No. 143 "Accounting for asset retirement obligation" ("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.

(e) Use of estimates in the preparation of financial statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. The most significant estimates pertain to proved oil and gas reserve volumes and the future development, provision for dismantlement as well as estimates relating to certain oil and gas revenues and expenses. Actual amounts could differ from those estimates and assumptions.

(f) Deferred income taxes

Under Hong Kong GAAP, the Group provides deferred taxes for timing differences only to the extent that it is probable a liability or asset will crystallise in the foreseeable future. US GAAP requires full provision for deferred taxes under the asset and liability method on all temporary differences. In August 2002, a revised accounting standard SSAP12 "Income Taxes" was issued in Hong Kong. The revised standard is effective for accounting periods beginning on or after 1 January 2003 and requires full provision for deferred taxes similar to US GAAP.

For Hong Kong GAAP purposes, deferred taxes are provided using the liability method whereby it is calculated using tax rates estimated to be applicable when timing differences reverse.

For US GAAP purposes, deferred tax assets and liabilities are recognised for the expected future tax consequences of existing differences between financial reporting and tax reporting bases of assets and liabilities, and loss or tax credit carry forwards using enacted tax rates expected to be in effect when these differences are realised. Valuation allowances are recorded for deferred tax assets for which it is more likely than not that such assets will be realised.

For the year ended 31 December 2002, there was no difference on the amounts of deferred income taxes recognised under Hong Kong GAAP and US GAAP.

(g) Segment reporting

The Group's segment information is based on the segmental operating results regularly reviewed by the Group's chief operating decision maker. The accounting policies used are the same as those used in the preparation of the Group's consolidated Hong Kong GAAP financial statements.

42. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2003.