CHAIRMAN'S STATEMENT

During the first half of 2003, the Company experienced strong international oil price and serious impact of the Severe Acute Respiratory Syndrome (SARS) in China. Thanks to the collaborative effort of our staff, the Company maintained its momentum of rapid development with stable increase in production. Benefiting from the strong international oil price, the Company saw remarkable growth in oil and gas revenues, and our cost remained competitive, leading to a significant increase in the net profit. In February 2003, the Company continued to implement its natural gas strategy by completing the acquisition of equity interests in the Tangguh LNG Project in Indonesia. In May 2003, the Company took the opportunity of the low interest rate environment to issue two tranches of 10-year and 30-year guaranteed notes with a value of US$200 million and US$300 million respectively, optimizing the Company's capital structure. In addition, we also maintained an active exploration and development program during the period, marked with a number of successful discoveries and appraisals. Our oil and gas development projects also proceeded on schedule.

REVIEW OF OPERATIONS

For the six months ended 30 June 2003, the Company recorded stable production growth. Our oil and gas production reached 352,780 barrels-of-oil-equivalent per day, representing an increase of 14.8% over the same period last year. Net crude oil production reached 307,103 barrels per day, while net natural gas production totaled 263.2 million cubic feet per day, representing a 15.0% and 10.4% increase over the first half of 2002 respectively. The realized oil price was US$28.56 per barrel, up 30.9% from last year. The realized natural gas price was US$2.93 per thousand cubic feet.

Owing to the stable production growth and strong oil price, the Company's oil and gas sales reached RMB14.18 billion during the first half of this year, representing a remarkable increase of 47.3% compared to RMB9.63 billion of the same period last year. Coupled with the revenues from trading and other activities, the Company achieved a total revenue of RMB17.90 billion, representing a significant increase of 68.3% from RMB10.64 billion last year. The reported profit before tax was RMB8.74 billion, up 75.1% from RMB4.99 billion in 2002, and the reported net profit was RMB6.33 billion, representing a sharp increase of 75.0% compared with RMB3.62 billion in the previous year. During the period, the basic and diluted earnings per share of the Company were RMB0.77. According to the Company's dividend policy and considering the future trend of the oil prices, current cash position and future needs of investment capital, the Board of Directors has decided to pay out an interim dividend of HK$0.14 per share and a special interim dividend of HK$0.18 per share.

During the first half of 2003, the Company recorded seven wildcat discoveries through its successful exploration activities, including five crude oil discoveries in the Bohai Bay. These five discoveries include the independent discoveries of Bozhong 34-1S (discovered and appraised during the period), Bozhong 34-1 and Bozhong 3-2 fields, and the Caofeidian 11-5 and Penglai 19-9 discoveries made by our PSC partners, demonstrating the enormous potential of the Bohai Bay. In Eastern South China Sea, we have made two independent gas discoveries, Liuhua 19-5 and Panyu 35-1, reflecting the successful explorations in the area. During the period, the appraisal of 5 discoveries were completed, namely the Jinzhou 25-1S, Bozhong 34-1S, and Panyu 30-1, which are independent discoveries, Caofeidian 12-1 and Caofeidian 12-1S, which are discoveries made by our PSC partners. Among the appraisal successes, Panyu 30-1 and the surrounding gas discoveries were the Company's major natural gas discoveries in the Eastern South China Sea area, showcasing the area's prospects for explorations and strengthening the Company's dominant position in the natural gas business in the Pearl River Delta Region.

The Company continued to focus on the development of oil and gas fields during the period, with a number of projects proceeding on schedule. Dongfang 1-1, the Company's largest independent gas field, was expected to be on stream soon, while the Panyu 4-2/5-1 oilfield would also be on stream in the second half. In addition, the Caofeidian 11-1/2, Bozhong 25-1 and Xihu Trough Chunxiao projects were also proceeding on schedule.

The Company is highly committed to health, safety and environmental protection. During the period, the management succeeded in overcoming the impact of SARS by implementing a comprehensive health, safety and environmental system for the Company's operations, and no employees or their family members fell victim to the epidemic. In addition, the Company achieved double zero record in both the recordable accident rate and the work hours lost rate, bringing a huge encouragement for us to continue our persistent health, safety and environmental policies.

OUTLOOK

In the second half of 2003, maximizing shareholders' return will remain to be the mission of the management and our staff as a whole. We will also stick to our development strategy to achieve our production and operations targets for the year. Our key tasks in the second half of the year include:

– Focus on hitting our oil and gas production targets for the year while controlling the costs. We will also strive to maintain our current competitive cost structure.

– Continue our active exploration program in offshore China and optimize our exploration plans and targets, so as to increase reserves through maintaining the growth of oil reserves in Bohai Bay and the momentum of gas explorations in Eastern South China Sea.

– Continue to closely control the progress, costs and quality of our existing development projects, especially for the Dongfang 1-1 and the Panyu 4-2/5-1 project which will be on stream during the second half of the year, so as to achieve the Company's development target.

– Health, safety and environment issues will remain our top priorities. We are deeply committed to the health of our staff and we will achieve a perfect synergy between the Company and our staff.

Wei Liucheng
Chairman & Chief Executive Officer

Hong Kong, 4 September 2003

KEY FIGURES

	Six months ended 30 June 2003	2002
Net profit, million RMB	**6,334.5**	3,618.9
Earnings per share, RMB	**0.77**	0.44
EBITDE, million RMB[(1)]	**11,344.2**	7,481.8
Total Oil and Gas Sales, million RMB	**14,184.8**	9,628.9
Total Revenue, million RMB	**17,904.2**	10,640.4
Net Production		
Oil, million barrels	**55.6**	48.4
Gas, billion cubic feet	**47.6**	43.1
Total, million barrels-of-oil-equivalent	**63.9**	55.6
Daily Net Production		
Oil, barrels	**307,103**	267,130
Gas, million cubic feet	**263.2**	238.0
Total, barrels-of-oil-equivalent	**352,780**	307,334

Note:

(1) EBITDE refers to earnings before interest income, interest expenses, income tax, depreciation, depletion and amortisation, dismantlement, exploration expenses and exchange gains & losses.

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2003

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

	Notes	Six months ended 30 June 2003 (unaudited)	2002 (unaudited)
REVENUE			
Oil and gas sales	*4*	**14,184,773**	9,628,871
Marketing revenue	*4*	**3,582,015**	794,063
Other income		**137,369**	217,464
		17,904,157	10,640,398
EXPENSES			
Operating expenses		**(1,973,851)**	(1,584,014)
Production taxes		**(614,669)**	(420,921)
Exploration expenses		**(391,732)**	(634,859)
Depreciation, depletion and amortisation		**(2,144,369)**	(1,590,079)
Dismantlement		**(67,477)**	(59,810)
Crude oil and product purchases	*4*	**(3,543,138)**	(772,094)
Selling and administrative expenses		**(500,809)**	(358,105)
Others		**(103,416)**	(166,711)
		(9,339,461)	(5,586,593)
PROFIT FROM OPERATING ACTIVITIES		**8,564,696**	5,053,805
Interest income		**91,862**	79,498
Interest expenses	*5*	**(109,312)**	(138,213)
Exchange gains/(losses), net		**19,553**	(146,269)
Investment income		**57,067**	102,287
Share of profits of an associate		**125,208**	38,577
Non-operating (loss)/income, net		**(6,339)**	2,417
PROFIT BEFORE TAX		**8,742,735**	4,992,102
Tax	*6*	**(2,408,259)**	(1,373,241)
NET PROFIT		**6,334,476**	3,618,861
EARNINGS PER SHARE	*7*		
Basic		**RMB0.77**	RMB0.44
Diluted		**RMB0.77**	RMB0.44
DIVIDENDS	*13*		
Interim dividend declared		**1,220,132**	958,314
Special interim dividend declared		**1,568,741**	–
		2,788,873	958,314

CONSOLIDATED BALANCE SHEET

30 June 2003

(All amounts expressed in thousands of Renminbi)

	Notes	30 June 2003 (unaudited)	31 December 2002 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment, net	*8*	**39,088,432**	36,071,820
Investment in an associate		**602,585**	537,377
		39,691,017	36,609,197
CURRENT ASSETS			
Accounts receivable, net	*9*	**2,747,591**	3,063,266
Inventories and supplies		**839,899**	848,605
Due from related companies		**695,579**	453,290
Other current assets		**926,603**	1,060,955
Short term investments		**11,150,763**	6,531,278
Time deposits with maturities over three months		**1,770,000**	4,690,000
Cash and cash equivalents		**9,913,274**	7,839,114
		28,043,709	24,486,508
TOTAL ASSETS		**67,734,726**	61,095,705
NON-CURRENT LIABILITIES			
Long term bank loans		**902,969**	941,093
Long term guaranteed notes	*10*	**8,071,378**	4,071,184
Provision for dismantlement		**2,283,668**	2,239,320
Deferred tax liabilities		**5,617,826**	6,141,156
		16,875,841	13,392,753
CURRENT LIABILITIES			
Accounts payable	*11*	**2,689,210**	2,659,743
Other payables and accrued liabilities		**1,771,738**	1,712,408
Current portion of long term bank loans		**9,404**	297,518
Due to related companies		**216,187**	231,592
Due to the parent company		**172,823**	270,438
Tax payable		**1,711,271**	1,962,765
		6,570,633	7,134,464
CAPITAL AND RESERVES			
Issued capital	*12*	**876,978**	876,978
Reserves		**43,411,274**	39,691,510
		44,288,252	40,568,488
TOTAL EQUITY AND LIABILITIES		**67,734,726**	61,095,705

STATEMENT OF CHANGES IN EQUITY

30 June 2003

(All amounts expressed in thousands of Renminbi)

	Issued share capital	Share premium	Revaluation reserve	Cumulative translation reserve	Statutory reserve	Retained earnings	Total
Unaudited							
Balances at 1 January 2002	876,978	20,761,205	274,671	(5,648)	1,535,360	10,166,097	33,608,663
Net profit for the period	–	–	–	–	–	3,618,861	3,618,861
Dividends *(Note 13)*	–	–	–	–	–	(1,306,740)	(1,306,740)
Foreign currency translation differences	–	–	–	1,969	–	–	1,969
Balances at 30 June 2002	876,978	20,761,205	274,671	(3,679)	1,535,360	12,478,218	35,922,753
Unaudited							
Balances at 1 January 2003	876,978	20,761,205	274,671	(13,596)	2,232,410	16,436,820	40,568,488
Net profit for the period	–	–	–	–	–	6,334,476	6,334,476
Dividends *(Note 13)*	–	–	–	–	–	(2,614,815)	(2,614,815)
Foreign currency translation differences	–	–	–	103	–	–	103
Balances at 30 June 2003	876,978	20,761,205	274,671	(13,493)	2,232,410	20,156,481	44,288,252

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

30 June 2003

(All amounts expressed in thousands of Renminbi)

	Six months ended 30 June	
	2003	2002
	(unaudited)	(unaudited)
Net cash inflow from operating activities	**8,582,401**	4,349,312
Net cash used in investing activities	**(7,399,991)**	(4,476,833)
Net cash inflow/(outflow) before financing	**1,182,410**	(127,521)
Net cash inflow from financing	**891,750**	1,571,920
Net increase in cash and cash equivalents	**2,074,160**	1,444,399
Cash and cash equivalents at beginning of the period	**7,839,114**	6,393,724
Effect of exchange rate changes	**–**	1,969
Cash and cash equivalents at end of the period	**9,913,274**	7,840,092

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

1. ORGANISATION AND PRINCIPAL ACTIVITIES

CNOOC Limited (the "Company") was incorporated in Hong Kong Special Administrative Region ("Hong Kong"), the People's Republic of China (the "PRC") on 20 August 1999 to hold its interests in certain entities whereby creating a group comprising the Company and its subsidiaries. During the period ended 30 June 2003, 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 and natural gas, and other petroleum products.

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

As at 30 June 2003, the Company had direct or indirect interests in the following principal subsidiaries and an associate:

Name of entity	Place and date of incorporation/ establishment	Percentage of equity interest attributable to the Group	Nominal value of issued and paid-up capital	Principal activities
Directly-held subsidiaries:				
CNOOC China Limited	Tianjin, the PRC 15 September 1999	100%	RMB10 billion	Offshore petroleum exploration, development, production, and sales in the PRC
CNOOC International Limited	British Virgin Islands 23 August 1999	100%	US$2	Investment holding
China Offshore Oil (Singapore) International Pte Ltd.	Singapore 14 May 1993	100%	S$3 million	Sales and marketing of petroleum outside the PRC
CNOOC Finance (2002) Limited	British Virgin Islands 24 January 2002	100%	US$1,000	Bond issuance
CNOOC Finance (2003) Limited	British Virgin Islands 2 April 2003	100%	US$1,000	Bond issuance
Indirectly-held subsidiaries:				
CNOOC Southeast Asia Limited	Bermuda 16 May 1997	100%	US$12,000	Investment holding
Malacca Petroleum Limited	Bermuda 2 November 1995	100%	US$12,000	Offshore petroleum exploration, development and production in Indonesia
OOGC Malacca Limited	Bermuda 2 November 1995	100%	US$12,000	Offshore petroleum exploration, development and production in Indonesia

NOTES TO INTERIM FINANCIAL STATEMENTS

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

1. ORGANISATION AND PRINCIPAL ACTIVITIES (CONTINUED)

Name of entity	Place and date of incorporation/ establishment	Percentage of equity interest attributable to the Group	Nominal value of issued and paid-up capital	Principal activities
Indirectly-held subsidiaries (Continued):				
OOGC America, Inc.	State of Delaware, the United States of America 2 September 1997	100%	US$1,000	Investment holding
CNOOC ONWJ Ltd.	Labuan, F.T., Malaysia 27 March 2002	100%	US$1	Offshore petroleum exploration, development and production in Indonesia
CNOOC SES Ltd.	Labuan, F.T., Malaysia 27 March 2002	100%	US$1	Offshore petroleum exploration, development and production in Indonesia
CNOOC Poleng Ltd.	Labuan, F.T., Malaysia 27 March 2002	100%	US$1	Offshore petroleum exploration, development and production in Indonesia
CNOOC Madura Ltd.	Labuan, F.T., Malaysia 27 March 2002	100%	US$1	Offshore petroleum exploration, development and production in Indonesia
CNOOC Blora Ltd.	Labuan, F.T.,Malaysia 27 March 2002	100%	US$1	Onshore petroleum exploration, development and production in Indonesia
Associate:				
Shanghai Petroleum and Natural Gas Company Limited	Shanghai, the PRC 7 September 1992	30%	RMB900 million	Offshore petroleum exploration, development, production and sales in South Yellow Sea and East China Sea

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

2. PRINCIPAL ACCOUNTING POLICIES

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

The principal accounting policies and basis of presentation used in the preparation of the interim financial statements are the same as those used in the annual audited financial statements for the year ended 31 December 2002, except for the changes in accounting policies following the adoption of the revised SSAP 12 (Revised) "Income Taxes" issued by the Hong Kong Society of Accountants.

SSAP 12 (Revised) prescribes the basis for accounting for current and deferred income taxes. The principal impact of the revision of this SSAP on the consolidated financial statements is that it requires full provision for deferred taxes under the asset and liability method on all temporary differences.

There was no significant impact on the Group's financial statements upon the adoption of SSAP 12 (Revised).

3. ACQUISITION

During the period, the Company acquired from British Petroleum ("BP") an equivalent of 12.5% stake in the proposed joint venture known as the Tangguh LNG Project of Indonesia ("Tangguh LNG Project") for approximately US$275 million through the acquisition of certain interests in production sharing contracts ("PSCs") which was effective as at 1 January 2003 (the "Tangguh Acquisition"). 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 Liquefied Natural Gas ("LNG") Supply Contract (the "LNG Supply Contract") to provide up to 2.6 million tonnes per annum of LNG to the Fujian LNG terminal project in the PRC, beginning in 2007. The Company completed the Tangguh Acquisition on 8 February 2003. CNOOC has an equity interest in the Fujian LNG terminal project.

In addition, a repurchase agreement (the "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 above-mentioned 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 on or before 31 December 2004; 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.

The consideration paid of approximately US$275 million (equivalent to approximately RMB2,276,578,000) has been included in property, plant and equipment as at 30 June 2003.

NOTES TO INTERIM FINANCIAL STATEMENTS

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

4. OIL AND GAS SALES AND MARKETING REVENUE

Oil and gas sales represent the invoiced value of sales of oil and gas attributable to the interests of the Group, net of royalties and government share of allocable share oil 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.

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

5. INTEREST EXPENSES

An amount of approximately RMB44,348,000 (2002: RMB37,806,457) accretion expense for provision for dismantlement is recognised during the period.

6. TAX

(i) Income tax

The Company and its subsidiaries are subject to income taxes on an entity basis on profit arising in or derived from the tax jurisdictions in which they are domiciled and operated. The Company is not liable for profits tax in Hong Kong as it does not have any assessable income currently sourced from Hong Kong.

The Company's subsidiary, CNOOC China Limited, is a wholly foreign-owned enterprise established in the PRC. It is exempt from the 3% local surcharge and is subject to an enterprise income tax of 30% under the prevailing tax rules and regulations.

The Company's subsidiary in Singapore, China Offshore Oil (Singapore) International Pte Ltd., is subject to income tax at rates of 10% and 22%, for its oil trading activities and other income-generating activities, respectively. The Company's subsidiary owning interests in oil and gas properties in Indonesia along the Malacca Strait is subject to corporate and dividend tax at the rate of 44%. The Company's subsidiaries owning interests in oil and gas properties in Indonesia acquired from Repsol YPF, S.A. are subject to corporate and dividend tax at the rate of 43.125% instead of the standard rate of 48% after the application of the Malaysian Tax Treaty as recognised by the Indonesian tax authorities. All of the Company's other subsidiaries are not subject to any income taxes in their respective jurisdictions for the period presented.

(ii) Other taxes

CNOOC China Limited is required to pay the following taxes:

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

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

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

7. EARNINGS PER SHARE

	Six months ended 30 June	
	2003 (unaudited)	2002 (unaudited)
Earnings:		
Net profit for the period and earnings for the purpose of basic and diluted earnings per share	**RMB6,334,476,000**	RMB 3,618,861,000
Number of shares:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**8,214,165,655**	8,214,165,655
Effect of dilutive potential ordinary shares under the share option scheme	**5,705,152**	2,378,206
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**8,219,870,807**	8,216,543,861
Earnings per share – Basic	**RMB0.77**	RMB0.44
– Diluted	**RMB0.77**	RMB0.44

8. PROPERTY, PLANT AND EQUIPMENT, NET

During the period, additions to the Group's property, plant and equipment amounted to approximately RMB3,656,478,000 (2002: RMB7,457,609,000).

During the period, the Company finalised the purchase price allocation for the oil and gas properties acquired as a result of the acquisition of the subsidiaries from Repsol YPF, S.A. in April 2002 and an adjustment of approximately RMB707 million was made to reduce the fair value of the oil and gas properties acquired with a corresponding adjustment made to reduce the deferred tax liabilities.

9. ACCOUNTS RECEIVABLE, NET

The customers are required to make payment within 30 days after the delivery of oil and gas. As at 30 June 2003 and 31 December 2002, substantially all of the accounts receivable were aged within six months.

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

10. 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 of 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.

On 21 May 2003, CNOOC Finance (2003) Limited, a company incorporated in the British Virgin Islands on 2 April 2003 and a wholly-owned subsidiary of the Company, issued US$200,000,000 of principal amount of 4.125% guaranteed notes due in 2013 and US$300,000,000 of principal amount of 5.500% guaranteed notes due in 2033. The obligations of CNOOC Finance (2003) Limited in respect of the notes are unconditionally and irrevocably guaranteed by the Company.

11. ACCOUNTS PAYABLE

As at 30 June 2003 and 31 December 2002, substantially all of the accounts payable were aged within six months.

12. SHARE CAPTIAL

	Number of shares	**Share capital** HK$'000	**Issued share capital** Equivalent of RMB'000
Authorised:			
Ordinary shares of HK$0.10 each			
As at 30 June 2003 and 31 December 2002	15,000,000,000	1,500,000	
Issued and fully paid:			
Ordinary shares of HK$0.10 each			
As at 1 January 2002 and			
31 December 2002 (audited)	8,214,165,655	821,417	876,978
Ordinary shares of HK$0.10 each			
As at 30 June 2003 (unaudited)	8,214,165,655	821,417	876,978

13. DIVIDENDS

On 27 March 2003, the board of directors proposed a final dividend of HK$0.15 per share (2002: HK$0.15 per share), totalling HK$1,232,124,848 (equivalent to approximately RMB1,307,407,676) (2002: RMB1,306,739,684) and a special dividend of HK$0.15 per share, totalling HK$1,232,124,848 (equivalent to approximately RMB1,307,407,676) (2002: Nil) to its shareholders for the year ended 31 December 2002. The dividend distribution was approved by the shareholders in the annual general meeting held on 29 May 2003. Subsequent to 30 June 2003, on 4 September 2003, the board of directors declared an interim dividend of HK$0.14 per share (2002: HK$0.11 per share), totalling HK$1,149,983,192 (equivalent to approximately RMB1,220,132,166) (2002: RMB958,314,000) and a special interim dividend of HK$0.18 per share, totalling HK$1,478,549,818 (equivalent to approximately RMB1,568,741,357) (2002: Nil).

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

14. SHARE OPTION SCHEME

The Company has adopted share option schemes which provide for the grant of options to the Company's senior management. Under these share option schemes, the remuneration committee of the Company's board of directors will from time to time propose for the board's approval for the recipient of and the number of shares underlying each option. These schemes 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 schemes 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:

   (i) 50% of the shares underlying the option shall vest 18 months after the date of the grant; and

   (ii) 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:

   (i) one-third of the shares underlying the option shall vest on the first anniversary of the date of the grant;

   (ii) one-third of the shares underlying the option shall vest on the second anniversary of the date of the grant; and

   (iii) 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 2001 Share Option Scheme shall end not later than 10 years from 27 August 2001.

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

14. SHARE OPTION SCHEME (CONTINUED)

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 in the Company. 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 of share options 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 Stock Exchange of Hong Kong Limited (the "HKSE") as stated in the HKSE's quotation sheet 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 sheet on the date of grant of the option.

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 2002 Share Option Scheme. The exercise price for the options is HK$10.54 per share. Options granted under the 2002 Share Option Scheme may be exercised, in whole or in part, in accordance with the following vesting schedule:

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 2002 Share Option Scheme, the 2001 Share Option Scheme and the Pre-Global Offering Share Option Scheme had been exercised since the respective dates of grant and up to the date when the board of directors approved the financial statements.

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

15. RELATED PARTY TRANSACTIONS

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

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

(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.

The materials, utilities and ancillary services are provided:

– at state-prescribed prices;

– where there is no state-prescribed price, at 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, at the cost to CNOOC's affiliates of providing the relevant materials, utilities and services, including the cost of sourcing or purchasing from third parties, plus a margin of not more than 5% before any applicable taxes.

(ii) Technical services

CNOOC China Limited has entered into technical service agreements with certain affiliates of CNOOC. According to the agreements, the Group uses the technical services 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.

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

15. RELATED PARTY TRANSACTIONS (CONTINUED)

(iii) Research and development services

Under the terms of a general research and development services agreement with CNOOC's subsidiaries, China Offshore Oil Research Centre (the "Centre"), the Group pays the Centre for a term of three years from 31 December 2002, with an annual amount of RMB110,000,000. In addition, the Group also pays the Centre for research and development for particular projects. The provision of the services include the following:

– geophysical exploration services;

– seismic data processing;

– comprehensive exploration research services; and

– information technology services.

(iv) Lease and property management services

The Group has entered into lease and property management agreements with affiliates of CNOOC for the leasing of various office, warehouse and residential premises. Lease charges are based on the prevailing market rates.

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

The Group sells crude oil, condensate oil and liquefied petroleum gas to CNOOC's affiliates which engage in the downstream petroleum business at the international market price. For the six months ended 30 June 2003, the total sales amounted to approximately RMB3,710,034,000 (2002: RMB1,950,303,340).

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

15. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	Six months ended 30 June	
	2003	2002
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Materials, utilities and ancillary services	**379,123**	271,589
Technical services	**1,368,109**	917,641
Research and development services	**65,454**	100,544
Lease and property management services	**25,798**	27,033
	1,838,484	1,316,807
Included in:		
Exploration expenses	**195,186**	238,229
Operating expenses	**421,573**	301,740
Selling and administrative expenses	**74,889**	104,847
Capitalised under property, plant and equipment	**1,146,836**	671,991
	1,838,484	1,316,807

During the period, the Group had placed certain deposits with CNOOC Finance Corporation Limited ("CNOOC Finance"), a subsidiary of CNOOC. CNOOC Finance is a non-bank finance company supervised by the People's Bank of China (the "PBOC") and the Company is one of its customers. In PRC, deposit rate is set by PBOC which is applicable to all financial institutions. The interest rates offered by CNOOC Finance were the same as the rates promulgated by the PBOC which were applicable to account deposits with PRC banks or finance companies and ranged from 1.44% to 1.89% per annum. There were no deposits placed with CNOOC Finance as at 30 June 2003.

During the period, the Company, through its wholly-owned subsidiary, China Offshore Oil (Singapore) International Pte Ltd., imported oil into the PRC for trading, using CNOOC's import licence. For the six months ended 30 June 2003, the total sales to third parties through such arrangements amounted to approximately RMB558 million (2002: Nil). The commission paid by the third party customers to CNOOC for the period amounted to approximately RMB3 million (2002: Nil).

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

16. COMMITMENTS AND CONTINGENCIES

(i) Capital commitments

As at 30 June 2003, the Group had the following capital commitments, principally for the construction and purchase of oil and gas properties and equipment:

	30 June 2003 (unaudited) RMB'000	31 December 2002 (audited) RMB'000
Contracted for	**3,720,910**	1,715,173
Authorised, but not contracted for	**15,980,575**	9,060,722

As at 30 June 2003, the Group had unutilised banking facilities amounting to approximately RMB32,370,624,000 (2002: RMB31,646,389,000).

(ii) General research and development commitments

As referred to note 15 (iii) to the financial statements, the remaining commitments for research and development services to be provided by the Centre as at 30 June 2003 amounted to approximately RMB275,000,000 (2002: RMB330,000,000).

(iii) Operating lease commitments

Operating lease commitments as at 30 June 2003 amounted to approximately RMB40,264,000 (2002: RMB50,645,000) and were due as follows:

	30 June 2003 (unaudited) RMB'000	31 December 2002 (audited) RMB'000
Commitments due:		
– Within one year	**33,990**	47,017
– After one year, but within two years	**5,255**	2,131
– After two year, but within three years	**1,019**	1,497
	40,264	50,645

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

16. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

On 15 May 2003, the Company entered into an equity sale and purchase agreement (the "Agreement") with the existing North West Shelf partners to acquire an interest in the upstream production and reserves of Australia's North West Shelf Project (the "NWS Project"). Under the Agreement, the Company will acquire an interest of approximate 5.3% in the NWS Project and a 25% stake in the China LNG Joint Venture, a new joint venture to be established within the NWS Project. According to the Agreement, the Company has the right to acquire more interest in the NWS Project should the final quantity of LNG committed under the LNG supply agreement to the facilities in Guangdong Province be increased. The total consideration of the acquisition is US$348 million, subject to certain conditions, including the LNG supply agreement to Guangdong becoming unconditional, have been fulfilled. CNOOC has an equity interest in the Guangdong Province LNG project.

(v) Financial instruments

As at 30 June 2003, the Group had currency swap contracts with a financial institution for the sale of United States dollars ("US$") in an exchange for Japanese Yen ("JPY") in order to hedge certain JPY denominated loan repayments in the future.

The details of the exchange are as follows:

	30 June 2003		30 June 2002	
	Notional contract amount (JPY '000)	**Weighted contractual exchange rate (JPY/US$)**	Notional contract amount (JPY '000)	Weighted contractual exchange rate (JPY/US$)
Year				
2002	–	–	135,735	95.00
2003	**135,735**	**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

17. SEGMENT INFORMATION

The Group is involved in the upstream operating activities of the petroleum industry which comprises production sharing contracts with foreign partners, and independent operations and trading business. These segments are determined primarily because the senior management makes key operating decisions and assesses performance of the segments separately.

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

17. SEGMENT INFORMATION (CONTINUED)

The following tables present revenue and profit information for the Group's business segments.

	Independent operations Six months ended 30 June		Production sharing contracts Six months ended 30 June		Trading business Six months ended 30 June		Unallocated Six months ended 30 June		Consolidated Six months ended 30 June	
	2003 RMB'000	2002 RMB'000	**2003 RMB'000**	2002 RMB'000	**2003 RMB'000**	2002 RMB'000	**2003 RMB'000**	2002 RMB'000	**2003 RMB'000**	2002 RMB'000
Unaudited										
Segment revenue										
Sales to external customers:										
Oil and gas sales	**5,610,606**	4,668,458	**8,574,167**	4,960,413	**–**	–	**–**	–	**14,184,773**	9,628,871
Marketing revenues	**–**	–	**–**	–	**3,582,015**	794,063	**–**	–	**3,582,015**	794,063
Other income	**5,941**	141,736	**131,428**	71,460	**–**	–	**–**	4,268	**137,369**	217,464
Total	**5,616,547**	4,810,194	**8,705,595**	5,031,873	**3,582,015**	794,063	**–**	4,268	**17,904,157**	10,640,398
Unaudited										
Segment results										
Net profit	**3,576,018**	2,239,237	**4,913,990**	2,605,239	**38,877**	21,969	**(2,194,409)**	(1,247,584)	**6,334,476**	3,618,861

Approximately 68% of the total revenue of the Group is contributed by the PRC customers. The Group's activities are conducted primarily in the PRC and Indonesia.

18. ADDITIONAL FINANCIAL INFORMATION

As at 30 June 2003, net current assets and total assets less current liabilities of the Group amounted to approximately RMB21,473,076,000 and RMB61,164,093,000 (2002: RMB17,352,044,000 and RMB53,961,241,000), respectively.

19. SUBSEQUENT EVENTS

Subsequent to 30 June 2003, the Company increased its interest in Qinhuangdao 32-6, a PSC oilfield in Bohai Bay, from 51% to 75.5% by acquiring the 24.5% interest of BP China Exploration and Production Company for a consideration of US$150 million, subject to working capital adjustments. The acquisition was completed in July 2003.

In addition, the Company also acquired the remaining 49% interest in Liuhua 11-1, a PSC oilfield in Southeastern China, from BP China Exploration and Production Company and Kerr-McGee China Petroleum Limited respectively, for a total consideration of US$40 million, subject to working capital adjustments. The acquisitions were completed in July 2003.

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

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

The accounting policies adopted by the Group conform to Hong Kong GAAP, which differ in certain respects from generally accepted accounting principles in the United States of America ("U.S. GAAP").

(a) Net profit and equity

(i) Revaluation of land and buildings

The Group revalued certain land and buildings on 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 are based on the revalued amount. Additional depreciation arising from the revaluation for the six months ended 30 June 2003 was approximately RMB4,578,000 (2002: RMB4,578,000). Under U.S. GAAP, property, plant and equipment are required to be stated at cost. Accordingly, no additional depreciation, depletion and amortisation from the revaluation are recognised under U.S. GAAP.

(ii) Short term investments

According to Hong Kong GAAP, available-for-sale investments in marketable securities are measured at fair value and related unrealised holding gains and losses are included in current period earnings. According to U.S. GAAP, such investments are also measured at fair value and classified in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115. Under U.S. GAAP, related unrealised gains and losses 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 U.S. GAAP, long-lived assets are assessed for possible impairment in accordance with SFAS No. 144, "Accounting for the impairment or disposal of long-lived assets". SFAS No. 144 requires the Group 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 as held and used until it is disposed of.

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

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

(a) Net profit and equity (continued)

(iii) Impairment of long-lived assets (continued)

SFAS No. 144 also 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.

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

For the six months period ended 30 June 2003, there were no impairment losses recognised under Hong Kong GAAP and U.S. GAAP and no reversal of the recovery of previous impairment charges has been recorded under Hong Kong GAAP.

(iv) Stock compensation schemes

As described in note 14 to the interim financial statements, as at 30 June 2003, the Group had three stock option schemes. The Group applies Accounting Principles Board Opinion 25 and related Interpretations in accounting for these stock option schemes. Accordingly, compensation costs recognised for the stock option schemes amounted to RMB1,316,000 for the six months ended 30 June 2003 (2002: RMB1,376,000).

(v) Provision for dismantlement

Hong Kong GAAP requires 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.

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

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

(a) Net profit and equity (continued)

(v) Provision for dismantlement (continued)

On 15 August 2001, SFAS No. 143 "Accounting for asset retirement obligation" was released and is effective for the fiscal years beginning after 15 June 2002. SFAS No. 143 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 SFAS No. 143, the liability is discounted and accretion expense is recognised using the credit-adjusted risk-free interest rate in effect when the liability is initially recognised.

The Company adopted SFAS No. 143 on 1 January 2003, which resulted in an increase in net property of RMB863,093,000, an increase in the provision for dismantlement of RMB240,077,000 and an increase in deferred income tax liabilities of RMB186,904,000 to recognise the cumulative effect of retrospectively applying the new accounting standard.

This adjustment is due to the difference in the method of accruing for dismantlement costs under SFAS No. 143 compared with the method required by SFAS No. 19 "Financial accounting and reporting by oil and gas producing companies", the accounting standard that the Company has been adopted since its establishment. Under SFAS No. 19, the dismantlement costs are accrued on a unit-of-production basis of accounting as the oil and gas is produced. The SFAS No. 19 method matches the accruals with the revenues generated from production and results in most of the costs being accrued early in field life, when production is at the highest level. Because SFAS No. 143 requires accretion of the liability as a result of the passage of time using an interest method of allocation, the majority of the costs will be accrued towards the end of field life, when production is at the lowest level. The cumulative income adjustment described above resulted from reversing the higher liability accumulated under SFAS No. 19 in order to adjust it to the lower present value amount resulting from transition to SFAS No. 143. This amount being reversed in transition, which was previously charged to the income statement under SFAS No. 19, will again be charged to the income statement under SFAS No. 143 in future years.

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

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

(a) Net profit and equity (continued)

(v) Provision for dismantlement (continued)

A summary of the changes in the asset retirement obligation during the six months ended 30 June 2003 is included in the table below:

	30 June 2003 (unaudited) RMB'000
Asset retirement obligation upon adoption of SFAS No. 143 on 1 January 2003	**2,239,320**
Accretion expense	**44,348**
Asset retirement obligation at 30 June 2003	**2,283,668**

The pro forma effects of the application of SFAS No. 143 as if it had been adopted on 1 January 2002 (rather than 1 January 2003) are presented below:

	As reported 30 June 2003 (unaudited) RMB'000	Pro forma 30 June 2002 (unaudited) RMB'000
Net income	**6,292,242**	3,616,605
Net income per share	**RMB0.77**	RMB0.44

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

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

(a) Net profit and equity (continued)

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

	Net profit Six months ended 30 June	
	2003 (unaudited) RMB'000	2002 (unaudited) RMB'000
As reported under Hong Kong GAAP	**6,334,476**	3,618,861
Impact of U.S. GAAP adjustments:		
– Reversal of additional depreciation, depletion and amortisation charges arising from the revaluation surplus on land and buildings	**4,578**	4,578
– Unrealised gains from available-for-sale investments in marketable securities	**(55,734)**	(5,458)
– Realised holding gains from available-for-sale marketable securities	**10,238**	–
– Recognition of stock compensation cost	**(1,316)**	(1,376)
Income before cumulative effect of change in accounting policy for dismantlement liabilities	**6,292,242**	3,616,605
Cumulative effect of change in accounting policy for dismantlement liabilities	**436,112**	–
Net profit as restated under U.S. GAAP	**6,728,354**	3,616,605
Net profit per share under U.S. GAAP		
– Basic		
Before cumulative effect of change in accounting policy for dismantlement liabilities	**RMB0.77**	RMB0.44
Cumulative effect of change in accounting policy for dismantlement liabilities	**RMB0.05**	–
	RMB0.82	RMB0.44
– Diluted		
Before cumulative effect of change in accounting policy for dismantlement liabilities	**RMB0.77**	RMB0.44
Cumulative effect of change in accounting policy for dismantlement liabilities	**RMB0.05**	–
	RMB0.82	RMB0.44

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

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

(a) Net profit and equity (continued)

	Equity	
	30 June 2003 (unaudited) RMB'000	31 December 2002 (audited) RMB'000
As reported under Hong Kong GAAP	**44,288,252**	40,568,488
Impact of U.S. GAAP adjustments:		
– Reversal of revaluation surplus on land and buildings	**(274,671)**	(274,671)
– Reversal of additional depreciation, depletion and amortisation charges arising from the revaluation surplus on land and buildings	**30,473**	25,895
– Cumulative adjustment for provision for dismantlement liabilities	**–**	(436,112)
As restated under U.S. GAAP	**44,044,054**	39,883,600

(b) Comprehensive income

According to SFAS No. 130 "Reporting comprehensive income", it is required to include a statement of other comprehensive income for revenues and expenses, gains and losses that under U.S. GAAP, are included in comprehensive income and excluded from net income.

	Six months ended 30 June	
	2003 (unaudited) RMB'000	2002 (unaudited) RMB'000
Net income under U.S. GAAP	**6,728,354**	3,616,605
Other comprehensive income:		
Foreign currency translation adjustments	**103**	1,969
Unrealised gains on short term investments	**55,734**	5,458
Less: Reclassification adjustment for realised gains included in net income	**(10,238)**	–
	6,773,953	3,624,032

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

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

(c) Derivative financial instruments

The Group had a currency swap contract with a financial institution to sell US$ in exchange for JPY in order to hedge certain JPY denominated loan repayments in the future. In accordance with SFAS No. 133 "Accounting for derivatives instruments and hedging activities", the derivative contract was recorded as "Other payables and accrued liabilities" in the accompanying consolidated balance sheet at fair value. For the six months ended 30 June 2003, the Group recognised related changes in fair value, a gain of RMB1,500,000 (2002: RMB10,000,000), and included the amount in "Exchange gains/(losses), net" in the consolidated income statement.

21. APPROVAL OF INTERIM FINANCIAL STATEMENTS

The interim financial statements for the six months ended 30 June 2003 were approved and authorised for issue by the board of directors on 4 September 2003.

INDEPENDENT REVIEW REPORT

ERNST & YOUNG
安永會計師事務所

To the board of directors
CNOOC Limited (the "Company")

We have been instructed by the Company to review the interim financial report of the Company and its subsidiaries (collectively as the "Group") for the six months ended 30 June 2003 set out on pages 5 to 29.

RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors. It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

REVIEW WORK PERFORMED

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

REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2003.

Ernst & Young
Certified Public Accountants

Hong Kong
4 September 2003

DIRECTORS' INTERESTS

As at 30 June 2003, the interests of the Directors and the chief executive of the Company in the equity securities of the Company and its associated corporations (all within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or disclosed in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules") were detailed below.

	Personal Interests	Family Interests	Corporate Interest	Other Interests	Total Interests	Total Interests as % of the relevant issued share capital
Shares in the Company						
So Chak Kwong	30,000	–	–	–	30,000	0.00

As at 30 June 2003, the Directors and employees of the Group had the following personal interests in options to subscribe for shares in the Company granted under the share option schemes of the Company:

Name of Grantee	No. of shares involved in the options outstanding at the beginning of the period	No. of shares involved in the options outstanding at the end of the period	Date of Grant	Closing price per share immediately before the date on which the options were granted (HK$)	Exercise Price (HK$)
Directors:					
Wei Liucheng	500,000	500,000	12 March 2001	–	5.95
	500,000	500,000	27 Aug 2001	7.30	6.16
	–	500,000	24 Feb 2003	10.45	10.54
Fu Chengyu	350,000	350,000	12 March 2001	–	5.95
	350,000	350,000	27 Aug 2001	7.30	6.16
	–	230,000	24 Feb 2003	10.45	10.54
Jiang Longsheng	280,000	280,000	12 March 2001	–	5.95
	230,000	230,000	27 Aug 2001	7.30	6.16
	–	230,000	24 Feb 2003	10.45	10.54
Zhou Shouwei	280,000	280,000	12 March 2001	–	5.95
	350,000	350,000	27 Aug 2001	7.30	6.16
	–	350,000	24 Feb 2003	10.45	10.54
Luo Han	280,000	280,000	12 March 2001	–	5.95
	230,000	230,000	27 Aug 2001	7.30	6.16
	–	230,000	24 Feb 2003	10.45	10.54
Employees:					
Other Employees	2,930,000	2,930,000	12 March 2001	–	5.95
	7,160,000	7,160,000	27 Aug 2001	7.30	6.16
	–	6,870,000	24 Feb 2003	10.45	10.54

As at 30 June 2003, no options granted under the share option schemes of the Company have been exercised.

All the interests stated above represent long positions. As at 30 June 2003, no short positions were recorded in the Register of Directors' and Chief Executives' Interests and Short Positions required to be kept under section 352 of the SFO.

Other than those disclosed above, no right to subscribe for equity or debt securities of the Company has been granted by the Company to, nor have any such rights been exercised by, any person during the half year ended 30 June 2003.

SUBSTANTIAL INTERESTS IN SHARE CAPITAL

The register maintained by the Company pursuant to the SFO recorded that, as at 30 June 2003, the following corporations had interests (as defined in the SFO) in the Company set opposite their respective names:

	Ordinary Shares	Percentage of Total Issued Shares
(i) CNOOC (BVI) Limited ("CNOOC (BVI)")	5,800,000,000	70.61%
(ii) Overseas Oil & Gas Corporation, Limited ("OOGC")	5,800,000,000	70.61%
(iii) China National Offshore Oil Corporation ("CNOOC")	5,800,000,000	70.61%

CNOOC (BVI) is a wholly-owned subsidiary of OOGC, which is a wholly-owned subsidiary of CNOOC. Accordingly, CNOOC (BVI)'s interests are recorded as the interests of OOGC and CNOOC.

All the interests stated above represent long positions. As at 30 June 2003, no short positions were recorded in the Register of Interests in Shares and Short Positions required to be kept under section 336 of the SFO.

INFORMATION ON SHARE OPTION SCHEMES

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.

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 in the Company. 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 sheet 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 sheet on the date of grant of the option.

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 2002 Share Option Scheme. The exercise price for the options is HK$10.54 per share. Options granted under the 2002 Share Option Scheme may be exercised, in whole or in part, in accordance with the following vesting schedule:

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.

The Directors are of the view that calculation of the value of the share options granted by the Company during the period depends on a number of variables and can only be made subject to a number of theoretical bases and speculative assumptions. As such, the value of the share options is not presented in this report.

AUDIT COMMITTEE

The audit committee has reviewed together with the management the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters. The interim results for the six months ended 30 June 2003 are unaudited, but have been reviewed in accordance with Statement of Auditing Standards 700 "Engagement to review interim financial reports", issued by the Hong Kong Society of Accountants, by Ernst & Young. The interim financial report has been reviewed by the audit committee.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2003, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities.

CODE OF BEST PRACTICE

None of the directors is aware of any information that would reasonably indicate that the Company is not, or was not, for any part of the six months ended 30 June 2003, in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules, except that the non-executive Directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's articles of association.

REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 19 September 2003 (Friday) to 25 September 2003 (Thursday) (both days inclusive) during which no transfer of shares can be registered. In order to qualify for the interim dividend and the special interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's registrar, Hong Kong Registrars Limited, Room 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4.00 pm on 18 September 2003 (Thursday).

By order of the Board
Cao Yunshi
Company Secretary

Hong Kong, 4 September 2003

FORWARD-LOOKING STATEMENTS

Certain statements contained in this Interim Report may be viewed as "forward-looking statements" within the meaning of the U.S. Securities Act of 1933, as amended, and the U.S. Securities Exchange Act of 1934, as amended. Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual performance, financial condition or results of operations of the Company to be materially different from any future performance, financial condition or results of operations implied by such forward-looking statements. Further information regarding these risks, uncertainties and other factors is included in the Company's most recent Annual Report on Form 20-F filed with the U.S. Securities and Exchange Commission (the "SEC") and in the Company's other filings with the SEC.