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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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**If you are in any doubt** as to any aspect of this circular, or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional advisor.

**If you have sold or transferred** all your shares in **CNOOC Limited**, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.



**CNOOC LIMITED**  
**(中國海洋石油有限公司)**

*(Incorporated in Hong Kong with limited liability under the Companies Ordinance)*

**(Stock code: 883)**

**DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTIONS  
WITH CNOOC FINANCE CORPORATION LIMITED**

**Independent Financial Adviser to the Independent Board Committee**

**CAZENOVE**

Cazenove Asia Limited

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A letter from the Board of Directors of the Company is set out on pages 4 to 11 of this circular.

A letter from the Independent Board Committee is set out on page 12 of this circular.

A letter from Cazenove, the independent financial adviser, containing its advice to the Independent Board Committee and Independent Shareholders is set out on pages 13 to 19 of this circular.

A notice convening an extraordinary general meeting of CNOOC Limited to be held at Island Shangri-la Hong Kong, Two Pacific Place, Supreme Court Road, Hong Kong on 28 April 2004 at 11:00 am (or so soon thereafter as the annual general meeting of CNOOC Limited convened on the same day at 10:30 am shall have concluded or adjourned) is set out on pages 24 to 25 of this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible to the registered office of CNOOC Limited at 65/F, Bank of China Tower, 1 Garden Road, Hong Kong in any event not less than 48 hours before the time appointed for holding of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting should you so desire.

8 April 2004

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## DEFINITIONS

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*In this circular, the following expressions have the following meanings unless the context requires otherwise:*

|                     |  |
|---------------------|--|
| “Announcement”      | the announcement of the Company dated 8 April 2004 relating to the discloseable and Continuing Connected Transactions  |
| “associates”        | has the meaning ascribed to it in the Listing Rules  |
| “Board”             | the board of Directors   |
| “Cazenove”          | Cazenove Asia Limited, a deemed licensed corporation under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), the independent financial adviser to the Independent Board Committee |
| “Chairman”          | the chairman of the Board  |
| “Circular”          | the circular issued by the Company dated 8 April 2004 in respect of the discloseable and Continuing Connected Transactions between the Group and CNOOC Finance   |
| “CNOOC”             | 中國海洋石油總公司 (China National Offshore Oil Corporation), a PRC State-owned enterprise and the indirect controlling shareholder of the Company  |
| “CNOOC BVI”         | CNOOC (BVI) Limited, a company incorporated in the British Virgin Islands with limited liability, a wholly-owned indirect subsidiary of CNOOC and the controlling shareholder of the Company                 |
| “CNOOC China”       | CNOOC China Limited, a wholly foreign-owned enterprise established under the laws of the PRC, which is wholly owned by the Company   |
| “CNOOC Engineering” | 海洋石油工程股份有限公司 (Offshore Oil Engineering Company Limited) a joint stock limited company established under the Company Law of the PRC   |
| “CNOOC Finance”     | CNOOC Finance Corporation Limited, a limited liability company established under the Company Law of the PRC and a subsidiary of CNOOC  |

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## DEFINITIONS

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|---|--|
| “CNOOC Oil & Gas Utilization”             | 中海油氣開發利用公司(CNOOC Oil & Gas Development and Utilization Company), a PRC State-owned enterprise  |
| “Company”                                 | CNOOC Limited, a limited company incorporated in Hong Kong whose shares are listed on the Stock Exchange   |
| “Continuing Connected Transactions”       | the continuing connected transactions which will be entered into between the Group and CNOOC Finance in relation to the financial services provided by CNOOC Finance to the Group, pursuant to the Framework Agreement   |
| “Director(s)”                             | the director(s) of the Company   |
| “EGM”                                     | an extraordinary general meeting of the Company to be held to approve the discloseable and Continuing Connected Transactions, the notice of which is set out on pages 24 to 25 of this circular  |
| “Framework Agreement”                     | the Framework Agreement dated 8 April 2004 between the Company and CNOOC Finance   |
| “Group”                                   | the Company and its subsidiaries   |
| “HK\$”                                    | Hong Kong dollars, the lawful currency of Hong Kong  |
| “Hong Kong”                               | the Hong Kong Special Administrative Region of the PRC   |
| “Independent Shareholders”                | Shareholders other than CNOOC BVI and its associates   |
| “Independent Board Committee”<br>or “IBC” | the independent committee of the Board comprised of Chiu Sung Hong, Dr. Kenneth S. Courtis and Dr. Erwin Schurtenberger, being the independent non-executive Directors, established to advise the Independent Shareholders in respect of the Continuing Connected Transactions |
| “Latest Practicable Date”                 | 1 April 2004, being the latest practicable date before the printing of this circular for ascertaining certain information for the purpose of inclusion in this circular  |

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## DEFINITIONS

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|                  |   |
|------------------|---|
| “Listing Rules”  | the Rules Governing the Listing of Securities on the Stock Exchange                                     |
| “PBOC”           | the People’s Bank of China, the central bank of the PRC   |
| “PRC”            | the People’s Republic of China  |
| “Proposed Cap”   | shall have the meaning ascribed thereto in paragraph (e) of the section headed “Conditions of Approval” |
| “RMB”            | Renminbi, the lawful currency of the PRC  |
| “SFO”            | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)                             |
| “Shareholder(s)” | the holder(s) of the shares in the Company  |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited   |

*For the purpose of this Circular, unless otherwise indicated, the exchange rate at HK\$1 = RMB1.06 has been used, where applicable, for purpose of illustration only and does not constitute a representation that any amount have been, could have been or may be exchanged.*

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## LETTER FROM THE BOARD

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### CNOOC LIMITED (中國海洋石油有限公司)

*(Incorporated in Hong Kong with limited liability under the Companies Ordinance)*

*Board of Directors*

Fu Chengyu (*Chairman*)

Jiang Longsheng

Zhou Shouwei

Luo Han

Chiu Sung Hong\*

Dr. Kenneth S. Courtis\*

Dr. Erwin Schurtenberger\*

Evert Henkes\*

*Registered Office*

65/F, Bank of China Tower

1 Garden Road

Hong Kong

\* *Independent non-executive Director*

8 April 2004

*To the Shareholders*

Dear Sir or Madam,

#### **DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTIONS WITH CNOOC FINANCE CORPORATION LIMITED**

#### **1. INTRODUCTION**

With reference to the Announcement, the Directors would like to seek the Independent Shareholders' approval of the Framework Agreement, the Continuing Connected Transactions and the Proposed Cap.

The main purposes of this Circular are (i) to provide you with further information relating to the discloseable and Continuing Connected Transactions, (ii) to set out the letter of advice from Cazenove to the IBC and recommendation and opinion of the IBC as advised by Cazenove in relation to the Continuing Connected Transactions and (iii) to seek your approval at the EGM of the ordinary resolution in relation to the Framework Agreement, the Continuing Connected Transactions and the Proposed Cap.

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## LETTER FROM THE BOARD

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### 2. FRAMEWORK AGREEMENT

The Company entered into the Framework Agreement with CNOOC Finance on 8 April 2004.

Pursuant to the Framework Agreement, the Group will from time to time utilize the financial services available from CNOOC Finance. Such services include placing of the Group's cash deposits with CNOOC Finance, and settlement services for transactions between the Group and other entities including CNOOC and its subsidiaries. The Group and CNOOC Finance will enter into separate written agreements in relation to the provision of specific financial services as necessary, pursuant to the Framework Agreement. The Company will comply with the Listing Rules for the transactions entered into pursuant to such separate written agreements.

Such financial services will be provided to the Group based on the pricing policies of CNOOC Finance. Such pricing policies are subject to PBOC guidelines, including the interest rates and foreign exchange rates, as well as guidelines published by PRC self-regulatory bodies, such as associations of finance companies. Based on these guidelines, CNOOC Finance has limited discretion in setting its prices.

The Framework Agreement is for a term of 3 years, renewable for a further term of 3 years. Upon the renewal of the Framework Agreement, the Company must comply with all applicable discloseable and connected transaction requirements of the Listing Rules, including the approval of the Independent Shareholders.

### 3. INFORMATION RELATING TO CNOOC FINANCE

CNOOC Finance is a non-bank finance company established in June 2002. Before its establishment, the services provided by CNOOC Finance to the Group were provided by other financial institutions in the PRC. The operations of CNOOC Finance are subject to the on-going supervision of the PBOC.

The registered capital of CNOOC Finance is RMB1,415,000,000 (approximately HK\$1,334,905,700). CNOOC Finance is managed by its board of directors, and Mr. Fu Chengyu, Chairman and Chief Executive Officer of the Company, is also chairman of CNOOC Finance. CNOOC, CNOOC China, CNOOC Oil & Gas Utilization and CNOOC Engineering respectively hold a 62.90%, 31.80%, 3.53% and 1.77% interest in CNOOC Finance.

The business scope of CNOOC Finance includes taking deposits with durations over three months from CNOOC member companies, issuing debt securities, engaging in lending and borrowing between finance companies, providing loans and lease financing to CNOOC member companies, providing cashing and factoring services to CNOOC member companies, investing in marketable securities, in equity interests of finance companies and in equity

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## LETTER FROM THE BOARD

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interests of CNOOC member companies, providing financial advisory services, credit worthiness verification services and other consultancy and agency service, and settling accounts among CNOOC member companies.

Pursuant to the relevant PBOC regulations, “CNOOC member companies” includes CNOOC, any subsidiary of which CNOOC owns an equity interest of 51% or more, any company of which CNOOC and its subsidiaries own, individually or in the aggregate, an equity interest of over 20% and any company in which CNOOC and its subsidiaries are, individually or in the aggregate, the largest equity interest holder.

#### **4. DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTIONS WITH CNOOC FINANCE**

CNOOC is the indirect controlling shareholder of the Company with a beneficial interest of approximately 70.61% of the existing issued share capital of the Company.

CNOOC Finance is a subsidiary of CNOOC and is a connected person of the Company under the Listing Rules. Accordingly, the transactions with CNOOC Finance contemplated by the Framework Agreement constitute continuing connected transactions for the purposes of the Listing Rules, and are subject to the approval of the Independent Shareholders.

The Continuing Connected Transactions also constitute discloseable transactions under Chapter 14 of the Listing Rules.

#### **5. REASONS FOR AND BENEFIT OF THE DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTIONS**

The pricing policy of CNOOC Finance and commercial banks in China are subject to PBOC guidelines. Therefore, the charges by CNOOC Finance for its financial services to CNOOC member companies are comparable to those charged by PRC banks for similar services.

In addition, CNOOC Finance tends to be more efficient in terms of processing transactions than PRC banks that perform similar services for the Group as less time is required to settle funds between the accounts of members of the Group held with CNOOC Finance.

The Board considers (a) the discloseable and Continuing Connected Transactions to be on normal commercial terms and in the ordinary and usual course of the business of the Company and (b) it to be beneficial to the Group to enter into the discloseable and Continuing Connected Transactions with CNOOC Finance as these transactions will facilitate the operations of the Group.



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## LETTER FROM THE BOARD

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### 6. APPROVAL BY INDEPENDENT SHAREHOLDERS

The Continuing Connected Transactions constitute continuing connected transactions for the purposes of the Listing Rules, and are subject to the approval of the Independent Shareholders by poll at the EGM.

All connected persons or shareholders with a material interest in the transaction and its associates shall abstain from voting in approving the Continuing Connected Transactions.

**As at the Latest Practicable Date, CNOOC BVI, which is a wholly-owned indirect subsidiary of CNOOC, owned approximately 70.61% of the issued capital of the Company. CNOOC BVI will abstain from voting in respect of the ordinary resolution to approve the Continuing Connected Transactions at the EGM because of its interest in these transactions.**

An Independent Board Committee of the Company has been appointed to advise the Independent Shareholders on whether or not the terms of the Continuing Connected Transactions are in the interest of the Company and are fair and reasonable so far as the Independent Shareholders are concerned. An independent financial adviser, Cazenove, has been appointed to advise the Independent Board Committee of the Company regarding the terms of the Continuing Connected Transactions. A letter from Cazenove containing its advice to the IBC is set out on pages 13 to 19 of this Circular.

### 7. CONDITIONS OF APPROVAL

The approval of the Independent Shareholders for the Continuing Connected Transactions is subject to the following conditions:

*(a) Arm's Length Basis*

The Continuing Connected Transactions shall be:

- (i) entered into by the Company in the ordinary and usual course of business; and
- (ii) either:
  - (A) on normal commercial terms; or
  - (B) where there is no available comparison to judge whether they are on normal commercial terms, on terms no less favourable than those available to or from independent third parties;

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## LETTER FROM THE BOARD

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- (C) on terms that are fair and reasonable so far as the Independent Shareholders are concerned; and
- (D) if applicable, with the annual aggregate value of each category of connected transactions not exceeding the relevant cap set out in paragraph (e) below.

*(b) Disclosure*

The Company shall disclose brief details of the Continuing Connected Transactions in each year in the annual report and accounts of the Company for that year, as required by Rule 14A.45(1) to (5) of the Listing Rules, namely:

- (i) the date or period of the transaction;
- (ii) the parties thereto and a description of their connected relationship;
- (iii) a brief description of the transaction and the purpose of the transaction;
- (iv) the total consideration and the terms; and
- (v) the nature and extent of the interest of the connected person in the transaction.

*(c) Independent non-executive Directors' review*

The independent non-executive Directors shall review annually the Continuing Connected Transactions and confirm, in the annual report and accounts of the Company for the year in question, that such transactions have been conducted in the manner stated in conditions (i) and (ii) in paragraph (a) above.

*(d) Auditor's review*

The auditors of the Company shall review the Continuing Connected Transactions annually and shall provide the Directors with a letter stating that the transactions:

- (i) have received the approval of the Directors;
- (ii) have been entered into in accordance with the pricing policies as stated in the relevant agreements, where applicable;

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## LETTER FROM THE BOARD

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- (iii) have been entered into in accordance with the terms of the agreements governing the transactions; and
- (iv) if applicable, have not exceeded the cap specified in paragraph (e) below.

The letter of the auditors is to be addressed to the Directors and a copy of which is to be provided to the Stock Exchange at least 10 business days prior to the bulk print of the Company's annual report. In the event that, for whatever reason, the auditors decline to accept the engagement or are unable to provide that letter, the Directors shall contact the Stock Exchange immediately.

For the purpose of the above review by the auditors, each party to the Continuing Connected Transactions has undertaken to the Company that it will provide its auditors with access to its accounting records.

*(e) Cap*

The maximum outstanding balance for deposits (including interest receipts in respect of these deposits) placed with CNOOC Finance for the Continuing Connected Transactions, during the term of the Framework Agreement, will not exceed RMB6,800 million from time to time.

*(f) Undertaking*

The Company will undertake that if:

- (i) any of the material terms of the Framework Agreement are altered (unless as provided for under the terms of the relevant agreement or arrangement) or if the Company enters into any new agreements or arrangements with any connected persons (within the meaning of the Listing Rules and subject to the requirements set out in the Listing Rules) in the future or if the cap referred to above are exceeded, the Company will comply with the provisions of the Listing Rules dealing with connected transactions; and
- (ii) any of the percentage ratios (other than the profit ratio) (as set out in Rule 14.07 of the Listing Rules) is on an annual basis more than 25% or the aggregate consideration under the Continuing Connected Transactions in any year is to be greater than the higher of HK\$10,000,000, the transaction(s) and the aggregate consideration will be subject to review and re-approval by the Independent Shareholders at the annual general meeting following the initial approval and at each subsequent annual general meeting so long as the transaction(s) continue(s). The independent non-executive Directors will be required to opine in the annual report whether or not the Company should continue with the Continuing Connected Transaction(s).

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## LETTER FROM THE BOARD

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CNOOC Finance was established in June 2002. Between June 2002 and March 2004, the maximum outstanding balance for deposits (including interest receipts in respect of these deposits) was RMB6,600 million from time to time, close to the Proposed Cap. The Company foresees that during the term of the Framework Agreement, the Group may continue to maintain similar level of deposits with CNOOC Finance.

The Proposed Cap was determined by reference to the Group's historical cash flow movements and level of deposits. The average month-end RMB deposits of the Group during 2003 were approximately RMB10 billion. On average, around half of the Group's total cash outflows for the three year ended 31 December 2003 were applied for settlements between the Group and other group companies of CNOOC. Such settlements relate to the Company's ongoing connected transactions which were disclosed in the announcement of the Company dated 5 December 2002 and were approved by the Shareholders at the extraordinary general meeting held on 23 December 2002. The Company considers that intra-group settlements and other banking services are more efficiently executed by CNOOC Finance than other financial institutions. With the remaining cash deposited with a number of other independent financial institutions, the Company is of the view that the Proposed Cap could help diversify the Group's risks in relation to its deposits. CNOOC Finance does not charge a fee for the settlement services provided to the Group. The Directors (including the independent non-executive Directors) are of the opinion that the Proposed Cap is fair and reasonable.

### 8. EGM

You will find on pages 24 to 25 of this Circular a notice of the EGM to be held at Island Shangri-la Hong Kong, Two Pacific Place, Supreme Court Road, Hong Kong on 28 April 2004 at 11:00 am (or so soon thereafter as the annual general meeting of CNOOC Limited convened on the same day at 10:30 am shall have concluded or adjourned).

Whether or not you are able to attend the EGM in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the registered office of the Company at 65/F, 1 Garden Road, Hong Kong as soon as possible but in any event no later than 48 hours before the time appointed for the holding of EGM. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM should you wish.

### 9. RECOMMENDATION

Your attention is drawn to (i) the letter from the IBC set out on page 12 of this circular which contains the recommendation of the IBC to the Independent Shareholders concerning the Continuing Connected Transactions and (ii) the letter from Cazenove set out from pages 13 to 19 of this circular which contains its recommendations to the IBC on the Continuing Connected Transactions and the principal factors and reasons considered by Cazenove in arriving at its recommendations.

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## LETTER FROM THE BOARD

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The IBC, having taken into account the advice of Cazenove, considers that the terms of the Continuing Connected Transactions are fair and reasonable so far as the Independent Shareholders are concerned and that the Continuing Connected Transactions are in the interests of the Company and the Shareholders as a whole. Accordingly, it unanimously recommends that the Independent Shareholders vote in favour of the ordinary resolution to be proposed at the EGM to approve the Continuing Connected Transactions.

### 10. ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the Appendix and the notice of the EGM set out in this circular.

Yours faithfully,  
By Order of the Board  
**CNOOC Limited**  
**Fu Chengyu**  
*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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### **CNOOC LIMITED** **(中國海洋石油有限公司)**

*(Incorporated in Hong Kong with limited liability under the Companies Ordinance)*

8 April 2004

*To the Independent Shareholders*

Dear Sir or Madam,

#### **CONTINUING CONNECTED TRANSACTIONS WITH CNOOC FINANCE CORPORATION LIMITED**

We refer to the Circular dated 8 April 2004 of the Company of which this letter forms part. Terms defined in the Circular shall have the same meanings when used herein unless the context requires otherwise.

We have been appointed by the Board to constitute the IBC to consider and advise the Independent Shareholders as to the fairness and reasonableness in relation to the Continuing Connected Transactions to be entered into between the Group and CNOOC Finance, information of which are set out in the letter from the Board in the Circular. Cazenove has been retained as the independent financial adviser to advise the IBC in this respect. We wish to draw your attention to the letter from Cazenove as set out on pages 13 to 19 of the Circular.

Having taken into account the information set out in the letter from the Board, and the principal factors, reasons and recommendations set out in the letter from Cazenove, we consider the terms of the Continuing Connected Transactions to be fair and reasonable insofar as the Independent Shareholders are concerned and believe that the Continuing Connected Transactions are in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders should vote in favour of the resolution to be proposed at the EGM to approve the Continuing Connected Transactions.

Yours faithfully,

*Independent Board Committee*

**Dr. Kenneth S. Courtis**

*Independent Non-executive Director*

**Chiu Sung Hong**

*Independent Non-executive Director*

**Dr. Erwin Schurtenberger**

*Independent Non-executive Director*

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## LETTER FROM CAZENOVE

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*The following is the full text of the letter from Cazenove setting out its advice to the Independent Board Committee and the Independent Shareholders of the Company in relation to the Continuing Connected Transactions.*

CAZENOVE

Cazenove Asia Limited

8 April 2004

The Independent Board Committee and  
the Independent Shareholders  
CNOOC Limited  
65/F, Bank of China Tower  
1 Garden Road  
Hong Kong

Dear Sirs,

### **DISCLOSEABLE AND CONTINUING CONNECTED TRANSACTIONS**

We refer to our engagement as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders with respect to the Continuing Connected Transactions. This letter has been prepared for inclusion in the circular dated 8 April 2004 (the “Circular”) issued to the Shareholders and capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

The Company entered into the Framework Agreement with CNOOC Finance on 8 April 2004. As at the Latest Practicable Date, CNOOC was indirectly interested in approximately 70.61% of the existing issued share capital of the Company. Accordingly, CNOOC is a controlling shareholder of the Company under the Listing Rules, and it and its associates (as defined in the Listing Rules) are regarded as connected persons of the Company under the Listing Rules. CNOOC Finance is a subsidiary of CNOOC and is therefore regarded as connected persons of the Company under the Listing Rules. For details, please refer to the letter from the Board (the “Letter from the Board”) set out in the Circular. Since the Continuing Connected Transactions are not exempted from the requirements in respect of connected transactions under Chapter 14A of the Listing Rules, the Continuing Connected Transactions shall be subject to disclosure and independent shareholders’ approval requirements under Chapter 14A of the Listing Rules. The Independent Board Committee has been formed to advise the Independent Shareholders on whether the terms and conditions of the Continuing Connected Transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM CAZENOVE

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We, Cazenove Asia Limited, have been appointed as independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether or not (i) the Continuing Connected Transactions are on normal commercial terms and will be carried out in the ordinary and usual course of business of the Company; (ii) the terms of the Continuing Connected Transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (iii) the Independent Shareholders should approve the Continuing Connected Transactions.

In formulating our opinion with regard to the Continuing Connected Transactions, we have relied on the information supplied, representations made and opinions expressed by the Company, its Directors, advisers and representatives, for which they are solely responsible. We have assumed that all such information and representations and those contained or referred to in the Circular were true, accurate and complete at the time they were made and continue to be so at the date of this letter. We have also assumed that all statements of belief, opinion and intention of the Directors and the Company's advisers as set out or referred to in the Circular were reasonably made after due and careful enquiry. We have been advised by the Company, its Directors, its advisers and representatives that there were no material facts the omission of which would make any statement or opinion contained in the Circular, including this letter, untrue or misleading.

We consider that we have been provided with, and we have reviewed, sufficient information to enable us to reach an informed view regarding the Continuing Connected Transactions and to justify reliance on the accuracy of the information provided to us and those contained in the Circular so as to provide a reasonable basis for our advice. We have no reason to suspect that any material facts or information have been omitted or withheld from the information supplied or opinions expressed to us nor to doubt the truth, accuracy and completeness of the information and representations provided, or the reasonableness of the opinions expressed, to us by the Company, its Directors, advisers and representatives. We have not, however, carried out any independent verification of the information provided to us by the Company, its Directors, advisers and representatives, nor have we conducted any independent in-depth investigation into the business and affairs or future prospects of the Group. Accordingly, we do not warrant the accuracy or completeness of any such information. In addition, it is not within our terms of reference to comment on the commercial feasibility of the Continuing Connected Transactions, which remains the responsibility of the Directors. As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, we have not been involved in the negotiations in respect of the terms of the Continuing Connected Transactions. Our opinion with regard to the terms of the Continuing Connected Transactions has been made on the assumption that all obligations to be performed by each of the parties to the Continuing Connected Transactions will be fully performed in accordance with the terms thereof.



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## LETTER FROM CAZENOVE

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This letter is for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Continuing Connected Transactions and, except for its inclusion in the Circular and to references thereto in the letter from the Independent Board Committee set out in the Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose, without our prior written consent.

Cazenove is a deemed licensed corporation under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong). Cazenove and its affiliates, whose ordinary business involves the trading of, dealing in and the holding of securities, may be involved in the trading of, dealing in, and the holding of the securities of the Company for client accounts.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion, we have considered, inter alia, the following principal factors and reasons:

#### **1. Discloseable and Continuing Connected Transactions with CNOOC Finance**

##### ***1.1 Framework Agreement***

Pursuant to the Framework Agreement, the Group will from time to time utilize the financial services available from CNOOC Finance. Such services include placing of the Group's cash deposits with CNOOC Finance, and settlement services for transactions between the Group and other entities including CNOOC and its subsidiaries. The Group and CNOOC Finance will enter into separate written agreements in relation to the provision of specific financial services as necessary, pursuant to the Framework Agreement. As stated in the Letter from the Board, the Company will comply with the Listing Rules for the transactions entered into pursuant to such separate written agreement.

Such financial services will be provided to the Group based on the pricing policies of CNOOC Finance. Such pricing policies are subject to PBOC guidelines, including the interest rates and foreign exchange rates, as well as guidelines published by PRC self-regulatory bodies, such as associations of finance companies. Based on these guidelines, CNOOC Finance has limited discretion in setting its prices.

The Framework Agreement is for a term of 3 years. Upon the renewal of the Framework Agreement, the Company will comply with all applicable discloseable and connected transactions requirements of the Listing Rules, including the Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

***1.2 Information relating to CNOOC Finance***

CNOOC Finance is a non-bank finance company established in June 2002. Before its establishment, the services provided by CNOOC Finance to the Group were provided by other financial institutions in the PRC. The operations of CNOOC Finance are subject to the on-going supervision of the PBOC. The registered capital of CNOOC Finance is RMB1,415,000,000 (approximately HK\$1,334,905,700). CNOOC Finance is managed by its board of directors, and Mr. Fu Chengyu, Chairman and Chief Executive Officer of the Company, is also chairman of CNOOC Finance. CNOOC, CNOOC China, CNOOC Oil & Gas Utilisation and CNOOC Engineering respectively hold a 62.90%, 31.80%, 3.53% and 1.77% interest in CNOOC Finance.

The business scope of CNOOC Finance includes:

- (i) taking deposits with durations over three months from CNOOC member companies;
- (ii) issuing debt securities, engaging in lending and borrowing between finance companies;
- (iii) providing loans and lease financing to CNOOC member companies;
- (iv) providing cashing and factoring services to CNOOC member companies;
- (v) investing in marketable securities, equity interests of finance companies and equity interests of CNOOC member companies, and
- (vi) providing financial advisory services, credit worthiness verification services and other consultancy and agency services, and settling accounts among CNOOC member companies.

Pursuant to the relevant regulations, the term “CNOOC member companies” referred to above includes CNOOC, any subsidiary of which CNOOC owns an equity interest of 51% or more, any company of which CNOOC and its subsidiaries own, individually or in the aggregate, an equity interest of over 20% and any company in which CNOOC and its subsidiaries are, individually or in the aggregate, the largest equity interest holder.

### ***1.3 Discloseable and Continuing Connected Transactions with CNOOC Finance***

CNOOC is the indirect controlling shareholder of the Company with a beneficial interest of approximately 70.61% of the existing issued share capital of the Company.

CNOOC Finance is a subsidiary of CNOOC and is a connected person of the Company under the Listing Rules. Accordingly, the transactions with CNOOC Finance contemplated by the Framework Agreement constitute continuing connected transactions under the Listing Rules, and are subject to the approval of the Independent Shareholders.

### ***1.4 Reasons for and benefits of the discloseable and Continuing Connected Transactions with CNOOC Finance***

As stated in the Letter from the Board, the pricing policy of CNOOC Finance and commercial banks in China are subject to PBOC guidelines. Therefore, the charges by CNOOC Finance for its services to CNOOC member companies are comparable to those charged by PRC banks for similar services. In addition, the Directors confirmed that as less time is required by CNOOC Finance for processing settlement transactions between members of the Group as well as between the Group and CNOOC's subsidiaries and associated companies who have their accounts with CNOOC Finance, CNOOC Finance tends to be more efficient in terms of processing transactions than other commercial banks in the PRC that perform similar services for the Group.

The Directors have reviewed the terms of the Framework Agreement and considered it to be beneficial to the Group to enter into the Continuing Connected Transactions with CNOOC Finance as these transactions will facilitate the operations of the Group.

We have reviewed the Framework Agreement and we understand that it does not preclude the Company from choosing similar services provided by other commercial banks in the PRC where terms and conditions offered by other commercial banks are more favourable to the Group than those offered by CNOOC Finance. The Framework Agreement also provides that CNOOC Finance will provide relevant services to the Group on normal commercial terms, and on terms no less favourable than those available to the Group from independent third parties.

We also note that it is a common practice amongst Hong Kong-listed and PRC – based major state-owned companies to have deposit and transaction settlement services being provided by finance companies which are owned by their respective parent groups in the PRC.

Based on the preceding analysis, we are of the view that the terms of the Framework Agreement are fair and reasonable.

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## LETTER FROM CAZENOVE

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### 2. Proposed maximum balance for deposits from time to time for the Continuing Connected Transactions

Set out below is a summary of the proposed maximum balance for deposits (including interest receipts in respect of these deposits) placed with CNOOC Finance from time to time for the Continuing Connected Transactions (the “Proposed Cap”) during the term of the Framework Agreement and the basis of determination of the Proposed Cap:

| <b>The Continuing<br/>Connected Transactions</b>   | <b>Proposed Cap</b> | <b>Basis of determination of the<br/>Proposed Cap</b>  |
|--|---------------------|--|
| The maximum balance for deposits (including interest receipts in respect of these deposits) placed with CNOOC Finance from time to time during the term of the Framework Agreement | RMB6,800 million    | <p>During the period between the establishment of CNOOC Finance in June 2002 and March 2004, the maximum balance for deposits (including interest receipts in respect of these deposits) placed with CNOOC Finance was approximately RMB6,600 million, closed to the Proposed Cap as stated above.</p> <p>The Proposed Cap was determined by reference to the Group’s historical cash flow movements and level of deposits. As advised by the Directors, on average around half of the Group’s total cash outflows for the three years ended 31 December 2003 were used for intra-group settlement between the Group and CNOOC’s subsidiaries and associated companies (note).</p> |

*Note:*

As advised by the Directors, the underlying transactions which result in intra-group settlement between the Group and CNOOC’s subsidiaries and associated companies referred to above relate to the Company’s ongoing connected transactions which were disclosed in details in the announcement of the Company dated 5 December 2002 and were approved by the Shareholders at the extraordinary general meeting held on 23 December 2002.

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## LETTER FROM CAZENOVE

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### 3. Requirements under the Listing Rules and the Independent Shareholders' approval

Under the Listing Rules, the Continuing Connected Transactions would be subject to full disclosure and prior Independent Shareholders' approval requirements as set out in Rule 14A.35 of the Listing Rules.

As stated in the Letter from the Board in addition to the Proposed Cap as stated in paragraph 2 above, the approval of the Independent Shareholders for the Continuing Connected Transactions is also subject to other requirements under Rule 14A.37 to 14A.41 of the Listing Rules.

### RECOMMENDATION

Having taken into account of the information and representations provided to us and the above principal factors and reasons and the conditions on which the Independent Shareholders' approval are to be obtained, we are of the opinion that (i) the Continuing Connected Transactions are on normal commercial terms and will be carried out in the ordinary and usual course of business of the Group; and (ii) the terms of the Continuing Connected Transactions are fair and reasonable and are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Shareholders to vote in favour of the Continuing Connected Transactions at the EGM.

Yours faithfully,  
For and on behalf of  
**Cazenove Asia Limited**

**May Tan**  
*Chief Executive*

**Karman Hsu**  
*Managing Director and  
Head of Corporate Finance*

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

## 2. DISCLOSURE OF INTERESTS

As at the Latest Practicable Date:

- (a) the interests of each Director and chief executive of the Company in the equity or debt securities of the Company or any associated corporations (within the meaning of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange were as follows:

*Interests in share options granted by the Company*

| Name of Grantee | Date of Grant    | Exercise Price<br>(HK\$) | Underlying shares<br>granted<br>pursuant to options |
|-----------------|------------------|--------------------------|---|
| Fu Chengyu      | 12 March 2001    | 5.95                     | 350,000   |
|                 | 27 August 2001   | 6.16                     | 350,000   |
|                 | 24 February 2003 | 10.54                    | 230,000   |
| Jiang Longsheng | 12 March 2001    | 5.95                     | 280,000   |
|                 | 27 August 2001   | 6.16                     | 230,000   |
|                 | 24 February 2003 | 10.54                    | 230,000   |
| Zhou Shouwei    | 12 March 2001    | 5.95                     | 280,000   |
|                 | 27 August 2001   | 6.16                     | 350,000   |
|                 | 24 February 2003 | 10.54                    | 350,000   |
| Luo Han         | 12 March 2001    | 5.95                     | 280,000   |
|                 | 27 August 2001   | 6.16                     | 230,000   |
|                 | 24 February 2003 | 10.54                    | 230,000   |

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company was interested in the equity or debt securities of the Company or any associated corporations (within the meaning of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or (iii) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, to be notified to the Company and the Stock Exchange;

- (b) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group since 31 December 2003, being the date to which the latest published audited financial statements of the Company were made up, and which was significant in relation to the business of the Group; and
- (c) none of the Directors or experts had any direct or indirect interest in any assets which had since 31 December 2003, being the date to which the latest published audited financial statements of the Company were made up, been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

### 3. SUBSTANTIAL SHAREHOLDER

As at the Latest Practicable Date, so far as was known to the Directors and chief executive of the Company, the persons, other than a Director or chief executive of the Company, who had an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO were as follows:

| <b>Name of substantial shareholder of the Company</b> | <b>Number of shares</b> | <b>Approximate percentage of the total issued shares</b> |
|---|-------------------------|--|
| CNOOC (BVI) Limited                                   | 5,800,000,000           | 70.61%   |

Save as disclosed above, the Directors and chief executive of the Company are not aware that there is any party who, as at the Latest Practicable Date, had an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

**4. PROFESSIONAL QUALIFICATION AND CONSENT**

The following are the qualifications of the experts who have given opinions or advice which are contained in this circular:

| <b>Names</b>          | <b>Qualifications</b>                        |
|-----------------------|--|
| Cazenove Asia Limited | Deemed licensed corporation<br>under the SFO |

- (a) Cazenove Asia Limited is not beneficially interested in the share capital of any member of the Group and has no right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (b) Cazenove Asia Limited has given and has not withdrawn its written consent to the issue of this Circular with inclusion of its opinion and letter, as the case may be, and the reference to its name included herein in the form and context in which they respectively appear.

**5. LITIGATION**

Neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and, so far as the Directors are aware, no litigation or arbitration of material importance is pending or threatened against the Company.

**6. MATERIAL ADVERSE CHANGE**

As at the Practicable Date, the Directors are not aware of any material adverse change in the financial or trading positions of the Company since 31 December 2003, the date to which the latest published audited financial statement of the Company were made up.

**7. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had entered into any service contract with the Company or any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).



**8. GENERAL**

- (a) The secretary of the Company is Cao Yunshi.
- (b) The registered office of the Company is situated at 65th Floor, Bank of China Tower, 1 Garden Road, Hong Kong. The Company's registrar is Hong Kong Registrars Limited of Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (c) In the event of inconsistency, the English language text of this circular shall prevail over the Chinese language text.

**9. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours at the offices of Freshfields Bruckhaus Deringer at 11/F, Two Exchange Square, Central, Hong Kong, from the date of this circular up to and including 28 April 2004 and at the EGM:

- (a) the letter of recommendation from the IBC, the text of which is set out on page 12 of this circular;
- (b) the Framework Agreement;
- (c) the letter issued by Cazenove, the text of which is set out on pages 13 to 19 of this circular; and
- (d) the written consent of Cazenove referred to in section 4 of this appendix.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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**CNOOC LIMITED**

**(中國海洋石油有限公司)**

*(Incorporated in Hong Kong with limited liability)*

### **EXTRAORDINARY GENERAL MEETING**

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of the shareholders of CNOOC Limited (the “Company”) will be held at Island Shangri-la Hong Kong, Two Pacific Place, Supreme Court Road, Hong Kong on 28 April 2004 at 11:00 am (or so soon thereafter as the annual general meeting of CNOOC Limited convened on the same day at 10:30 am shall have concluded or adjourned) for the purpose of considering and, if thought fit, passing, with or without modification, the following resolution as an Ordinary Resolution:

### **ORDINARY RESOLUTION**

“**THAT** the Framework Agreement, the Continuing Connected Transactions and the Proposed Cap as described in the Circular of the Company to its shareholders dated 8 April 2004 be and are hereby generally and unconditionally approved and the directors of the Company are hereby authorised to do all such further acts and things and execute such further documents and take all such steps which in their opinion may be necessary, desirable or expedient to implement and/or give effect to the terms of such transactions.”

By Order of the Board

**Cao Yunshi**

*Company Secretary*

Hong Kong, 8 April 2004

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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### Notes:

1. Shareholders whose names are registered in the register of members of the Company on or before 16 April 2004 are entitled to attend and vote at the Extraordinary General Meeting.
2. Any Shareholder entitled to vote at the Extraordinary General Meeting is entitled to appoint one (1) or more proxies to attend and vote on his behalf. A proxy need not be a shareholder of the Company. Shareholders must appoint a proxy in writing. Such instrument should be signed by the person appointing the proxy or by such person's authorised representative. If the form of proxy is signed by another person so authorized by the shareholder, the power of attorney or other authorising document must be certified by a notary. The notarially certified power of attorney or other authorising document together with the proxy form must be returned to the Registered Office of the Company not later than 48 hours prior to the commencement of the Extraordinary General Meeting. The completion and deposit of a form of proxy will not preclude any shareholder from attending and voting at the Extraordinary General Meeting.
3. Each shareholder (or his/her proxy) shall be entitled to one vote for each share held. If a shareholder has appointed more than one proxy to attend the meeting, the voting rights can only be exercised by way of poll.

### *Registered Office of the Company:*

65/F, Bank of China Tower,  
1 Garden Road, Hong Kong  
Tel: 852-2213 2500  
Fax: 852-2525 9322