

REPORT BY THE SUPERVISORY COMMITTEE

In 2006, the Supervisory Committee of the Company, pursuant to the Company Law of the PRC and the Company's Articles of Association, duly performed its duties. It acted to secure a standardized operation by means of a range of initiatives as to safeguard shareholders' ultimate interests and the Company's continued growth.

1. Overview of the Supervisory Committee's Work

The Supervisory Committee convened 4 board meetings of the period under review, among other things.

- (1) On 20 January 2006, the first board meeting reviewed and approved the Company's Annual Budget 2006;
- (2) On 22 March 2006, the second board meeting reviewed and approved the Company's Annual Financial Report, Dividend Payout Plan of the previous year, convention of Annual General Meeting and re-election of directors and re-appointment of independent supervisor;
- (3) On 21 August 2006, the third board meeting reviewed and approved Interim Financial Reports and Senior Management Long-term Incentive Plan;
- (4) On 1 December 2006, the fourth board meeting reviewed and approved the Company's Annual Budget 2007.

The Supervisory Committee conducted a special session after each board meeting to discuss the procedures and resolution of the board meeting, and reviewed the implementation of resolutions of Shareholders Meeting by the Board as well as the feasibility of board Meeting resolutions. The Supervisory Committee is of the view that the four board meetings are pursuant to the Company Law and the Company's Articles of Association, and collectively endorse the relevant resolutions.

2. Independent Opinions of the Supervisory Committee

In addition, the Supervisory Committee has supervised the execution of Shareholder Meetings by the Board, the performance of senior management as well as the Company's operational management. It is of the view that the Board and senior management adopted a vigilant attitude and systematic decision-making mode. A rational internal control system was in place to guard against managerial and financial risks. Neither directors nor senior management were found to be in breach of any laws, rules, nor the Company's Articles of Associations or impairing shareholder's interest.

(1) Corporate Financial Status

Members of the Supervisory Committee supervised the Company's financial management system and audited relevant financial data. The Committee has formed the opinion that the Company adopted a prudent fiscal system, carried out effective enforcement and consistent accounting practice. The financial statements were of a true and fair view of the Company's financial status and operational results. Ernst & Young and Ernst & Young Hua Ming conducted the audit of the Company's 2006 financial statements in accordance with Hong Kong Standards on Auditing and PRC Auditing Standards, respectively, with unqualified opinions. In the Committee's point of view, the Company's Financial Report objectively outlined the Company's financial and operational results in a true and fair view. During the reporting period, the Company's profitability and competitiveness were steadily enhanced while retaining standardized business practices.

(2) Corporate Managerial Status

Internal management of the Company was further reinforced during the reporting period, with rules of the Company, after revision further refined. In particular, the modified internal matrix-style mechanism was streamlined, while reinforced budget administration; centralized cash management and cost control were seen in corporate finance governance. We considered the internal management had raised to a higher level than prior year.

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(3) Capital Utility

In the period under review, application of capital was lawful and effective. No such incidents as impairing shareholders' interests or squandering of corporate assets occurred.

(4) Connected Transactions

In the period under review, connected transactions between the Company and CNOOC or its subordinate entities complied with the rules of the Hong Kong Stock Exchange and PRC stock exchanges. The connected transactions were on an arm's length basis, transparent and fairly priced without any detriment to the interests of the Company or its shareholders.

In 2007, the Supervisory Committee shall further ameliorate its functionality, as to bring more substance to its work. Apart from the routine watchdog assignments, certain field case analysis will be conducted with an eye on the production, operational and managerial issues and significant moves. The Supervisory Committee will exert its vigilant role with the aim of securing consistent growth and shareholders' interest.

On behalf of the Supervisory Committee

Zhang Benchun

Chairman of the Supervisory Committee

Beijing

23 March 2007