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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)*

**(Stock Code: 883)**

**RENEWAL OF CONTINUING CONNECTED TRANSACTIONS  
WITH CNOOC FINANCE**

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



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A notice convening an extraordinary general meeting of CNOOC Limited to be held on 30 March 2007 at 10 a.m. at The Ritz-Carlton, Hong Kong, 3 Connaught Road Central, Hong Kong is set out on pages 36 to 37 of this Circular. Whether or not you intend to attend such meeting, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding such meeting. Completion and return of the form of proxy will not preclude shareholders from attending and voting at the meeting or any adjourned meeting if they so wish.

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## DEFINITIONS

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

|                           |   |
|---------------------------|---|
| “2004 Circular”           | the circular dated 8 April 2004 issued by the Company to its shareholders in respect of the Waiver for the discloseable and continuing connected transactions between the Group and CNOOC Finance |
| “Announcement”            | the announcement dated 28 February 2007 made by the Company in relation to the renewal of continuing connected transactions between the Group and CNOOC Finance                                   |
| “Articles of Association” | the Articles of Association of the Company  |
| “Associate”               | has the meaning ascribed to it in the Listing Rules   |
| “Board”                   | the board of Directors of the Company   |
| “Circular”                | the circular of the Company to its Shareholders dated 7 March 2007  |
| “CBRC”                    | China Banking Regulatory Commission<br>(中國銀行業監督管理委員會)   |
| “CNOOC”                   | China National Offshore Oil Corporation (中國海洋石油總公司), the controlling shareholder of the Company indirectly holding approximately 66.41% of all of the Shares in issue as at the date hereof       |
| “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”       | Offshore Oil Engineering Co., Ltd. (海洋石油工程股份有限公司) a joint stock limited liability company incorporated in the PRC and listed on the Shanghai Stock Exchange, and a subsidiary of CNOOC            |
| “CNOOC Finance”           | CNOOC Finance Corporation Limited<br>(中海石油財務有限責任公司), a limited liability company incorporated in the PRC and a subsidiary of CNOOC  |
| “CNOOC Group”             | CNOOC and its subsidiaries (excluding the Group)  |

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## DEFINITIONS

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|---|--|
| “CNOOC Oil & Gas Utilization”             | CNOOC Oil & Gas Development and Utilization Company (中海油氣開發利用公司), a PRC state-owned enterprise and a subsidiary of CNOOC   |
| “Continuing Connected Transactions”       | the continuing connected transactions between the Group and CNOOC Finance as set out in the section headed “Provision of financial services by CNOOC Finance to the Group” in this Circular and to be entered into from time to time pursuant to the Framework Agreement   |
| “Company”                                 | CNOOC Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange and the New York Stock Exchange  |
| “Deposit Services”                        | the continuing connected transactions involving the provision of deposit services by CNOOC Finance to the Group as set out in the section headed “Provision of financial services by CNOOC Finance to the Group” in this Circular and to be entered into from time to time pursuant to the Framework Agreement   |
| “Director(s)”                             | director(s) of the Company as at the date of this Circular   |
| “Extraordinary General Meeting” or “EGM”  | an extraordinary general meeting of the Company to be held to approve the Deposit Services (including the Proposed Cap)  |
| “Framework Agreement”                     | the Framework Agreement dated 28 February 2007 between the Company and CNOOC Finance in relation to the Continuing Connected Transactions  |
| “Group”                                   | the Company and its subsidiaries   |
| “Hong Kong”                               | the Hong Kong Special Administrative Region of the PRC   |
| “Independent Board Committee”             | the independent committee of the Board comprising of Dr. Edgar W.K. Cheng, Mr. Sung Hong Chiu, Mr. Evert Henkes, Professor Lawrence J. Lau and Mr. Tse Hau Yin, Aloysius, being the independent non-executive Directors, established for the purpose of advising the Independent Shareholders in respect of the Deposit Services and the Proposed Cap, with Mr. Sung Hong Chiu acting as the Chairman  |
| “Independent Financial Adviser” or “ICEA” | ICEA Capital Limited, a corporation registered under the transitional arrangement of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) to carry out type 1 (dealings in securities) and type 6 (advising on corporate finance) regulated activities, is the independent financial adviser to the Independent Board Committee and the Independent Shareholders with regard to the Deposit Services and the Proposed Cap |

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## DEFINITIONS

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|----------------------------|--|
| “Independent Shareholders” | Shareholders of the Company other than CNOOC and its Associates  |
| “Latest Practicable Date”  | 5 March 2007, being the latest practicable date prior to the printing of this Circular for ascertaining certain information herein   |
| “Listing Rules”            | the Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)   |
| “OOGC”                     | Overseas Oil and Gas Corporation, Ltd., a company incorporated in Bermuda with limited liability and a wholly-owned subsidiary of CNOOC  |
| “PBOC”                     | the People’s Bank of China, the central bank of the PRC  |
| “PRC”                      | the People’s Republic of China, excluding for the purpose of this Circular, Hong Kong, Macau and Taiwan  |
| “Ordinary Resolution”      | the proposed ordinary resolution as referred to in the notice of EGM set out at pages 36 to 37 of this Circular  |
| ”Proposed Cap”             | the proposed maximum daily outstanding balance of deposits (including accrued interest) placed by the Group with CNOOC Finance (excluding the deposits for the purpose of extending entrustment loans referred to in Category (e) in the section headed “Provision of financial services by CNOOC Finance to the Group” in this Circular) during the term of the Framework Agreement |
| “RMB”                      | Renminbi, the lawful currency of the PRC   |
| “Shares”                   | share(s) of HK\$0.02 each in the share capital of the Company  |
| “Shareholder(s)”           | registered holder(s) of shares in the Company  |
| “Stock Exchange”           | The Stock Exchange of Hong Kong Limited  |
| “Waiver”                   | the waiver granted by the Independent Shareholders of the Company to the Company in respect of the continuing connected transactions between the Group and CNOOC Finance, subject to the conditions set out in the 2004 Circular   |

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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)  
(Stock Code: 883)

*Board of Directors*

*Executive Directors*

Fu Chengyu (*Chairman*)

Zhou Shouwei

Wu Guangqi

Yang Hua

*Registered office:*

65/F, Bank of China Tower  
1 Garden Road  
Central  
Hong Kong

*Non-executive Directors*

Luo Han

Cao Xinghe

Wu Zhenfang

*Independent Non-executive Directors*

Edgar W.K. Cheng

Sung Hong Chiu

Evert Henkes

Lawrence J. Lau

Tse Hau Yin, Aloysius

7 March 2007

*To the Shareholders:*

Dear Sir or Madam,

### **RENEWAL OF CONTINUING CONNECTED TRANSACTIONS WITH CNOOC FINANCE**

#### **1. INTRODUCTION**

Reference is made to the announcement of the Company dated 28 February 2007 in relation to the Continuing Connected Transactions with CNOOC Finance. The purpose of this Circular is to provide you with information necessary to enable you to make an informed decision on whether to vote for or against the ordinary resolution to be proposed at the EGM relating to the approval of the Deposit Services and the Proposed Cap.

### 2. RENEWAL OF THE CONTINUING CONNECTED TRANSACTIONS WITH CNOOC FINANCE

#### Background

The Independent Shareholders approved a number of continuing connected transactions between the Group and CNOOC Finance at an extraordinary general meeting of the Company held on 28 April 2004, and the Waiver was granted to the Company in relation to these continuing connected transactions. The Waiver will expire on 7 April 2007 and the Company will, in accordance with the requirements of the Listing Rules, seek Independent Shareholders' approval for the Deposit Services and the Proposed Cap, as described below.

#### Provision of financial services by CNOOC Finance to the Group

The Company entered into the Framework Agreement with CNOOC Finance on 28 February 2007. Pursuant to the Framework Agreement, the Group will, from time to time, utilize the financial services available from CNOOC Finance. Such services include the following:

- (a) deposit services;
- (b) settlement services which include settlement of transactions between members of the Group, and for transactions between members of the Group and members of the CNOOC Group or other third parties;
- (c) commercial notes discounting services;
- (d) provision of loans to the Group (excluding entrustment loans referred to in Category (e) below); and
- (e) arrangement of entrustment loans between the Company and its subsidiaries whereby CNOOC Finance serves as a financial agency through which funds of the Company and its subsidiaries may be channelled for use by other members of the Group. It is relevant to note that PRC laws do not permit companies, including affiliates, to extend intra-group loans directly without going through a financial agency. CNOOC Finance may not make investments with the deposits placed by the Group for the purposes of entrustment loans. Funds deposited by the Group for the purposes of entrustment loans will be applied for the purposes of entrustment loans to the relevant member of the Group only.

Fees and charges payable by the Group to CNOOC Finance under the Framework Agreement are determined on the following basis:

- (a) *deposit services*: interest rates are determined in accordance with the standard rates promulgated by the PBOC from time to time;
- (b) *settlement services*: no service fee is charged;

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## LETTER FROM THE BOARD

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- (c) *commercial notes discounting services*: interest rates are determined in accordance with the standard rates promulgated by the PBOC from time to time, and may be reduced where the relevant laws and regulations allow; the interest for commercial notes discounting is borne by the relevant party issuing the commercial notes;
- (d) *provision of loans to the Group*: interest rates are determined in accordance with the standard rates promulgated by the PBOC from time to time, and may be reduced where the relevant laws and regulations allow; and
- (e) *arrangement of entrustment loans between the Company and its subsidiaries*: the annual service fee payable by the Group is set at such rate that the aggregate amount of service fee and loan interest together will not exceed the interest payable on a loan of the same term directly from independent commercial banks.

Under the Framework Agreement, the Group will have a right of set off such that, in the event of any misuse or default by CNOOC Finance in respect of amounts deposited with it by the Group which results in the inability of the Group to recover such deposits, the Group will be able to offset amounts due to the Group from CNOOC Finance against amounts outstanding from the Group to CNOOC Finance. CNOOC Finance does not have such right of set off under the Framework Agreement.

The Framework Agreement has a term of three years effective from 8 April 2007, subject to the approval of the Deposit Services (including the Proposed Cap) by the Independent Shareholders, and is renewable for a further term of three years if the parties so agree and subject to the relevant requirements of the Listing Rules. Upon renewal of the Framework Agreement, the Company must comply with all applicable connected transaction requirements under the Listing Rules, including the approval of Independent Shareholders if applicable. CNOOC Finance and the Group may, from time to time, enter into separate agreements which set out the specific scope of services and the terms and conditions of providing such services, according to the principles laid down by the Framework Agreement.

The Group utilises the services of CNOOC Finance on a voluntary, non-exclusive basis and is not obliged to engage CNOOC Finance for any particular service, or at all. CNOOC Finance is merely one of a number of financial institutions which provide financial services to the Group.

### **Information relating to CNOOC Finance**

CNOOC Finance is a non-bank financial institution established in June 2002 with the approval of the PBOC. It is subject to the supervision of the CBRC. According to its business licence, it is authorized to provide to the Group all services set out in the Framework Agreement and provide similar services to other members of the CNOOC Group (but not other parties).

The registered capital of CNOOC Finance is RMB1,415,000,000. 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. As CNOOC Finance is a subsidiary of CNOOC, it is an Associate of CNOOC and therefore a connected person of the Company pursuant to Rule



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## LETTER FROM THE BOARD

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14A.11 of the Listing Rules. CNOOC Finance is managed by its board of directors, and Mr. Fu Chengyu, as the president of CNOOC, is the chairman of CNOOC Finance. Mr. Fu is also the chairman of the Board and the chief executive officer of the Company. CNOOC China, a wholly-owned subsidiary of the Company, has the right to nominate directors to the board of directors of CNOOC Finance, subject to approval by the shareholders of CNOOC Finance at its shareholders' meeting. Currently, two of the eight directors of CNOOC Finance were nominated by CNOOC China.

CNOOC Finance was rated BBB+ (outlook positive) by The Standard & Poor's and A2 (outlook stable) by Moody's in March 2005. The Standard & Poor's rating was raised from BBB+ to A- (outlook stable) in November 2005. The Moody's rating outlook was raised from stable to positive in July 2006. To the best knowledge of the Directors, such credit ratings are currently among the highest ratings assigned by these rating agencies to PRC commercial financial institutions, including commercial banks.

As of 31 December 2006, CNOOC Finance had a total asset value of approximately RMB32.4 billion which included liquid assets (such as bank deposits, central bank reserves, short-term loans, central bank notes and treasury bonds) of approximately RMB29.0 billion. It has secured lines of credit of an amount exceeding RMB10.0 billion from several major PRC commercial banks. CNOOC Finance's before-tax profits were approximately RMB207.0 million, RMB200.7 million and RMB312.7 million for the years ended 31 December 2004, 2005 and 2006 respectively, and its after-tax profits were approximately RMB146.8 million, RMB142.3 million and RMB236.0 million respectively, representing an annual return on equity of about 9.9%, 9.4% and 14.7% for the same periods. As of 31 December 2004, 2005 and 2006, the current ratios of CNOOC Finance were approximately 91.8%, 89.6% and 94.4% respectively and its capital adequacy ratios were 44.5%, 22.7% and 15.8%, respectively, which is in compliance with the requirement of CBRC with regard to the capital adequacy ratio applicable to the finance companies of enterprise groups that should not be less than 10%.

Based on the Company's understanding, the regulation by the CBRC of CNOOC Finance is more stringent than the regulation of commercial banks in certain respects. In accordance with the relevant requirements under the Measures for the Administration of Finance Companies of Enterprise Groups promulgated by CBRC on 27 July 2004, finance companies of enterprise groups (including CNOOC Finance):

- are not allowed to engage in non-financial services business, including property investment or trading;
- must comply with the following ratio requirements: (a) the capital adequacy ratio shall not be lower than 10% (while the capital adequacy ratio applicable to PRC commercial banks is not less than 8%), (b) the inter-bank borrowing balances shall not exceed the total registered capital of the relevant finance company (while PRC commercial banks are not subject to such requirement), (c) the total amount of outstanding guarantees

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## LETTER FROM THE BOARD

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shall not be more than the total registered capital of the relevant finance company (while PRC commercial banks are not subject to such requirement), (d) the ratio of self-owned fixed assets to total equity shall not exceed 20% (while PRC commercial banks are not subject to such requirement); and

- are required to deposit a mandatory proportion of the deposits they receive with the PBOC.

As far as the Company is aware, CNOOC Finance established four committees (namely, the assets and liabilities management committee, credit assessment committee, investment decisions committee and internal audit committee) to safeguard CNOOC Finance's assets and strengthen its corporate governance practices. The day-to-day management of CNOOC Finance is operated by a number of departments including the settlement department, credit department, investment department, treasury department, finance department, general management department and internal audit department. In particular, the internal audit department assumes an internal independent supervisory role and is responsible for examining and auditing the business operation of other departments with a mandate to identify operational risks from the perspective of organizational structure and inter-departmental coordination. CNOOC Finance has in place intra-group check-and-balance mechanisms (such as division of duties, regular and random internal examination, re-assessment and upper level supervision) to identify operational bottlenecks and irregularities and to deal with problems (if any) in a timely and effective manner. It maintains a management system that delegates decision-making authority to its board, the chairman, board committees and the general manager respectively in accordance with the importance and risk level of the subject matter, with the aim of achieving effective identification and management of risks.

The Group will have limited control over the use by CNOOC Finance of its deposits and the terms on which CNOOC Finance's funds may be lent or otherwise made available to CNOOC and its subsidiaries other than the Group. In these circumstances, in assessing the financial risks involved in placing deposits with CNOOC Finance, the Directors have taken into account the following factors:

- The operations of CNOOC Finance are subject to the supervision of the CBRC and the relevant financial services rules and regulations.
- The Company, through CNOOC China, has two board representatives at CNOOC Finance and will therefore have knowledge of developments within CNOOC Finance.
- The Directors believe that CNOOC Finance has been in compliance with all the major financial services rules and regulations and maintained a sound internal control system.

According to CNOOC Finance, it is required to deposit a mandatory proportion of the deposits it receives with the PBOC (which is currently 10%). In addition, it places a portion of the deposits received with commercial banks in the PRC to ensure that sufficient liquid funds

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## LETTER FROM THE BOARD

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will be available to satisfy the needs of its customers. It then utilizes the remaining funds for other uses permitted by CBRC rules and regulations, such as providing discounting services, making loans to customers, purchasing government bonds or other notes issued by the PRC government to earn interests.

### **Internal control procedures and corporate governance measures**

In order to protect the interests of the Shareholders, the Group will adopt the following internal control procedures and corporate governance measures in relation to its utilization of CNOOC Finance's services:

- When the Group needs to enter into any loan or credit facilities agreements with CNOOC Finance in relation to its borrowings from CNOOC Finance, it will obtain at least two comparable offers from independent commercial banks or financial institutions for a loan of the same term or a credit facility of the same nature (as the case may be). The terms of all such offers, together with the offer from CNOOC Finance, will be forthwith disclosed to the chief financial officer of the Company for review. The chief financial officer of the Company will seek approval from the chief executive officer of the Company or the Board as appropriate on whether to accept CNOOC Finance's offer.
- All borrowings of the Group from CNOOC Finance (including drawdowns from credit facilities) will be conducted by the Group in accordance with the terms approved by the chief executive officer of the Company or the Board, as appropriate.
- The Company will report to the independent non-executive Directors every six months on:
  - (i) the loan or credit facilities agreements entered into with CNOOC Finance together with information on the comparable offers obtained from independent commercial banks or financial institutions; and
  - (ii) any changes in the credit ratings of CNOOC Finance during the preceding six-month period.
- A monthly report on the status of the Group's deposits with CNOOC Finance will be delivered by CNOOC Finance to the Company before noon on the third day of the following month (or the following business day if banks are not generally open in the PRC on such day).
- A copy of every regulatory report submitted by CNOOC Finance to the CBRC will be provided to the Company.
- The financial statements of CNOOC Finance for each month will be provided to the Company on the fifth day of the following month (or the following business day if banks are not generally open in the PRC on such day).

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## LETTER FROM THE BOARD

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The Board considers that the above internal control procedures and corporate governance measures proposed to be adopted by the Company concerning the Continuing Connected Transactions with CNOOC Finance are appropriate and sufficient having regard to the manner in which such continuing connected transactions have been conducted in the past, and that the procedures and measures give sufficient assurance to Independent Shareholders that the Continuing Connected Transactions will be appropriately monitored by the Company. It is relevant to note that when the Waiver was granted in April 2004, such internal control procedures and corporate governance measures, whilst in material respects were adhered to in practice, had not been formalised.

### **Reasons for and benefits of the continuing connected transactions**

The Company believes that CNOOC Finance, with its credit ratings, asset size and corporate governance practices, will be able to fulfill its obligations under the Framework Agreement. The Company also believes that the risk profile of CNOOC Finance, as a provider of financial services to the Group, is not greater than those of independent commercial banks in the PRC because:

- (i) CNOOC Finance is regulated by the PBOC and the CBRC and it provides its services pursuant to the relevant rules and operational requirements including capital risks guidelines and requisite capital adequacy ratios of such regulatory authorities.
- (ii) CNOOC Finance has not defaulted on any of its credit obligations or to the knowledge of the Directors breached any rules or operations requirements of such regulatory authorities.
- (iii) CNOOC Finance has implemented capital risk control measures that the Company believes are at least as stringent as those of the major commercial banks in China. It will provide the Group access to its books and accounts for inspection upon the Group's request to enable the Group to monitor its risk control measures.

The advantages of utilizing financial services provided by CNOOC Finance over utilizing similar services provided by independent commercial banks are as follows:

- (i) In respect of deposit services, although CNOOC Finance offers interest rates that are the same as those offered by independent commercial banks (because such rates are regulated by the PBOC), CNOOC Finance can assist the Group to formulate a beneficial deposit mix comprising different types of deposits such as current deposits, call deposits and fixed deposits, which allows the Group to increase its return on funds and retain sufficient working capital flexibility.
- (ii) Through CNOOC Finance's settlement services, the Group is able to achieve same-day zero-rate settlement at no cost. As CNOOC Finance is familiar with the business and transaction pattern of the Group, the settlement services provided by

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## LETTER FROM THE BOARD

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CNOOC Finance tend to provide a more efficient and orderly platform than those that could be provided by independent commercial banks. This also helps to reduce the transaction costs of the Company such as handling fees for transfer of funds and other administrative expenses.

- (iii) Discounting of commercial notes by CNOOC Finance provides the Group's customers with flexibility in payment terms and accelerates the Group's collection of sale proceeds. Upon discounting of the commercial notes, the Company may receive the sale proceeds as if the sale was effected as a cash sale while the interest payable for the discounting service is borne by customers who issue the commercial notes as payment for purchasing products of the Group. This arrangement helps to efficiently reduce the receivables balance of the Company and accelerate its fund flows.
- (iv) PRC laws do not permit companies, including affiliates, to extend intra-group loans directly without going through a financial agency. CNOOC Finance serves as the financial agency through which the funds of the Company and its subsidiaries may be channelled efficiently to be used by each other by way of entrustment loans.
- (v) Through the information system operated by CNOOC Finance, the Group can access the status of receipts and payments of funds made through CNOOC Finance, as well as the status of funds, at no cost and at any time.
- (vi) As an intra-group service provider, CNOOC Finance generally has better and more efficient communication with the Group compared with independent commercial banks.

However, if independent commercial banks or other financial institutions offer specific advantages which are more favorable to the Group in respect of any of the financial services set out in the Framework Agreement, the Group may discontinue its use of such services provided by CNOOC Finance without having to incur unreasonable extra costs.

The Board considers that the Continuing Connected Transactions under the Framework Agreement will be conducted on normal commercial terms or on terms no less favourable than those available to independent third parties under prevailing local market conditions, and are entered into in the ordinary and usual course of business of the Group, are fair and reasonable and in the interests of the Company and the Shareholders as a whole and the terms of the Framework Agreement and the Proposed Cap in respect of the maximum daily balance of deposits (including the accrued interests) placed by the Group with CNOOC Finance (excluding the deposits for the purpose of extending entrustment loans referred to in Category (e) above) are fair and reasonable.

# LETTER FROM THE BOARD

## Historical transaction figures

A breakdown of the approximate historical transaction figures is as follows:

|   | For the year<br>ended<br>31 December<br>2004<br>(in RMB) | For the year<br>ended<br>31 December<br>2005<br>(in RMB) | For the year<br>ended<br>31 December<br>2006<br>(in RMB) |
|---|--|--|--|
| Maximum daily outstanding balance of deposits (including accrued interest) placed by the Group with CNOOC Finance (excluding the deposits for the purpose of extending entrustment loans referred to in Category (e) above) | 3.6 billion  | 3.9 billion  | 6.4 billion<br>(note)                                    |

*Note: the maximum daily outstanding balance of deposits (including accrued interest) placed by the Group with CNOOC Finance (excluding the deposits for the purpose of extending entrustment loans referred to in Category (e) above) increased substantially for the year ended 31 December 2006. This was due to the increase of international oil and gas prices as well as the increase of trading volume between the Group and the CNOOC Group in 2006 which resulted in a need for the Group to maintain a higher deposit balance at CNOOC Finance for settlement purposes.*

## Amounts of deposits between the Group and CNOOC Finance and those of CNOOC Finance as a whole for 2004, 2005 and 2006

|   | As at<br>31 December<br>2004 | As at<br>31 December<br>2005 | As at<br>30 November<br>2006* |
|---|------------------------------|------------------------------|-------------------------------|
| Total amount of deposits placed by the Group (RMB million)                    | 28,139                       | 35,039                       | 35,268                        |
| Amount deposited by the Group in CNOOC Finance (RMB million)                  | 3,298                        | 3,173                        | 3,703                         |
| Percentage of total deposits of the Group which was placed with CNOOC Finance | 11.72%                       | 9.05%                        | 10.50%                        |
| Total amount of deposits placed in CNOOC Finance (RMB million)                | 22,399                       | 28,044                       | 27,403                        |
| Amount of deposit placed by the Group (RMB million)                           | 3,298                        | 3,173                        | 3,703                         |
| Percentage of deposits in CNOOC Finance placed by the Group                   | 14.72%                       | 11.31%                       | 13.51%                        |

\* Being the latest practicable date for ascertaining such information for the purposes of this Circular

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## LETTER FROM THE BOARD

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The Group has not made any borrowings from CNOOC Finance for the three years ended 31 December 2006. The Group has been able to satisfy its working capital needs without recourse to borrowings from CNOOC Finance. Borrowing from CNOOC Finance is merely a type of financial services that may be provided by CNOOC Finance. However, as the Group continues to develop and expand, the Company believes that there could be circumstances whereby the Group may need additional financing from external sources, in which case borrowings from financial institutions (including CNOOC Finance) may be considered as one of the options.

### **Future annual cap**

For Category (a), the Company expects that the cap on the maximum daily outstanding balance of deposits (including accrued interest) placed by the Group with CNOOC Finance (excluding the deposits for the purpose of extending entrustment loans referred to in Category (e) above) will be RMB6.8 billion during the term of the Framework Agreement. This cap amount was calculated on the basis of several factors including (i) the requirement to settle accounts receivable from the CNOOC Group or any third party (including those arising from the sales of petroleum and natural gas of the Company to the CNOOC Group and any third party) through the deposit accounts of the Company maintained with CNOOC Finance, (ii) the expected amount of interest income compared with interest income that could otherwise be realized by placing deposits with independent commercial banks; and (iii) the strategies of the treasury management of the Company. The Proposed Cap is the same as the cap approved by the Independent Shareholders at the extraordinary general meeting of the Company held on 28 April 2004, and the Proposed Cap represents approximately 24.17%, 19.41% and 19.28% of the Group's aggregate deposits placed with all financial institutions (including CNOOC Finance) as of 31 December 2004, 31 December 2005 and 30 November 2006 (being the latest practicable date for ascertaining such information for the purposes of this Circular) respectively. Both the historical figures and the Proposed Cap refer to the maximum daily outstanding balances during the term of the Framework Agreement, and are not cumulative in nature.

In respect of Categories (b), (c) and (e) referred to above, no fees or charges were required to be paid by the Group to CNOOC Finance in respect of such services during the three years ended 31 December 2006, and the Company expects that the aggregate fees and charges payable by the Group to CNOOC Finance in respect of these categories of continuing connected transactions will not be, on an annual basis, more than the de minimis threshold of 0.1% calculated under Rule 14A.31(2)(a) of the Listing Rules during the term of the Framework Agreement.

### **Continuing Connected Transactions exempted from reporting, announcement and independent shareholders' approval requirements**

Under the Listing Rules, the continuing connected transactions involving the provision of loans to the Group by CNOOC Finance (excluding entrustment loans referred to in Category (e) above) are exempted from the reporting, announcement and independent shareholders' approval requirements as these constitute financial assistance provided by a connected person for the benefit of the Group on normal commercial terms where no security over the assets of the Group is granted in respect of the financial assistance.

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## LETTER FROM THE BOARD

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Under the Listing Rules, the following Continuing Connected Transactions are exempted from the reporting, announcement and independent shareholders' approval requirements, as each of the percentage ratios (other than the profits ratio), where applicable, in relation to these categories is, on an annual basis, expected to be less than 0.1% under Rule 14A.31(2)(a) of the Listing Rules:

- settlement services;
- commercial notes discounting services; and
- the arrangement of entrustment loans between the Company and its subsidiaries, whereby CNOOC Finance serves as a financial agency through which funds of the Company and its subsidiaries may be channelled for use by other members of the Group.

### **Disclosure and Independent Shareholders' approval requirements for Deposit Services**

Under the Listing Rules, the Deposit Services (including the Proposed Cap) are subject to reporting, announcement and Independent Shareholders' approval requirements. The Company will seek Independent Shareholders' approval at the EGM for the Deposit Services (including the Proposed Cap) on the condition that:

- (a) the maximum daily outstanding balance of deposits (including accrued interest) placed by the Group with CNOOC Finance (excluding deposits for the purpose of extending entrustment loans referred to in Category (e) above) shall not exceed the Proposed Cap;
- (b) (i) the Deposit Services will be entered into in the usual and ordinary course of businesses of the Group and either (A) on normal commercial terms or (B) if there is no available comparison, on terms no less favourable to the Group than terms available from independent third parties; and
- (ii) the Deposit Services will be entered into in accordance with the Framework Agreement and on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The Company will comply with relevant provisions of the Listing Rules in relation to the Deposit Services (including the Proposed Cap).



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## LETTER FROM THE BOARD

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### 3. GENERAL

The principal business activity of the Company is investment holding. The Group principally engages in the exploration, development, production and sales of crude oil and natural gas and other petroleum products.

The CNOOC Group principally engages in the provision of technical services, logistic services, chemicals and fertilizer production, natural gas and power generation, and financial services.

### 4. EGM

Approval from the Shareholders will be sought at the EGM for the Deposit Services and the Proposed Cap. A notice convening the EGM is set out on pages 36 to 37 of this Circular. Voting will be conducted by poll at the EGM as required under the Listing Rules.

As CNOOC indirectly owns an aggregate of approximately 66.41% of the issued share capital of the Company, the Deposit Services and the Proposed Cap are subject to approval by the Independent Shareholders under the Listing Rules. In view of the interests of CNOOC held indirectly through OOGC and CNOOC BVI, they and their respective associates will abstain from voting in relation to the Ordinary Resolution approving the Deposit Services and the Proposed Cap.

There is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon CNOOC; and (ii) no obligation or entitlement of CNOOC as at the Latest Practicable Date, whereby it has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case-by-case basis.

A form of proxy for use at the EGM is enclosed. Shareholders are requested to complete the form of proxy and return it to the registered office of the Company at 65th Floor, Bank of China Tower, 1 Garden Road, Hong Kong in accordance with the instructions printed on it not less than 48 hours before the time fixed for holding the meeting, if they do not intend to be present in person at the meeting.

### 5. RECOMMENDATION OF THE BOARD

The Directors are of the opinion that the Deposit Services and the Proposed Cap are in the interests of the Company and its Shareholders as a whole. Accordingly, the Directors recommend that the Shareholders should vote in favour of the Ordinary Resolution to be proposed at the EGM.

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## LETTER FROM THE BOARD

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### 6. RECOMMENDATION OF THE INDEPENDENT BOARD COMMITTEE

An Independent Board Committee has been formed to advise the Independent Shareholders in connection with the Deposit Services and the Proposed Cap, and ICEA has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders.

ICEA considers that (i) the Deposit Services 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 Deposit Services and the Proposed Cap are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. The text of the letter of advice from ICEA containing its recommendation in respect of the Deposit Services and the Proposed Cap is set out on pages 18 to 29 of this Circular.

The Independent Board Committee, having taken into account the advice of ICEA, considers the Deposit Services and the Proposed Cap fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends that the Independent Shareholders should vote in favour of the Ordinary Resolution to approve the Deposit Services and the Proposed Cap. The full text of the letter from the Independent Board Committee is set out on page 17 of this Circular.

Yours faithfully,  
For and on behalf 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)*

**(Stock Code: 883)**

7 March 2007

*To the Independent Shareholders*

Dear Sir or Madam,

We have been appointed as the Independent Board Committee to advise you in connection with the Deposit Services and the Proposed Cap, details of which are set out in the letter from the Board contained in the circular to the Shareholders dated 7 March 2007 (the “**Circular**”), of which this letter forms part. We wish to draw your attention to the letter from ICEA as set out on pages 18 to 29 of the Circular. Terms defined in the Circular shall have the same meanings when used herein, unless the context otherwise requires.

Having considered the information set out in the letter from the Board, the terms of the Deposit Services and the Proposed Cap, and the advice of ICEA in relation thereto as set out on pages 18 to 29 of the Circular, we are of the view that the terms of the Deposit Services and the Proposed Cap are in the interests of the Company and its Shareholders as a whole and are fair and reasonable so far as the Independent Shareholders are concerned.

Accordingly, we recommend the Independent Shareholders to **vote in favour** of the ordinary resolution to be proposed at the EGM to approve the Deposit Services and the Proposed Cap.

Yours faithfully,

For and on behalf of the Independent Board Committee

**CNOOC Limited**

**Sung Hong Chiu**

*Chairman of the Independent Board Committee*

*Independent Non-executive Director*

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## LETTER FROM ICEA CAPITAL LIMITED

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*The following is the text of the letter of advice to the Independent Board Committee and the Independent Shareholders from ICEA in relation to the Deposit Services (including the Proposed Cap) for the purpose of incorporation in the circular.*



**ICEA 工商東亞**

A subsidiary of ICBC 中國工商銀行集團成員

**ICEA Capital Limited**

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傳真：(852) 2525 0967

7 March 2007

*To the Independent Board Committee and the Independent Shareholders*

Dear Sirs,

### **RENEWAL OF CONTINUING CONNECTED TRANSACTIONS WITH CNOOC FINANCE**

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in relation to the Deposit Services (including the Proposed Cap). Pursuant to the Listing Rules, the Deposit Services (including the Proposed Cap) are subject to the approval of the Independent Shareholders at a general meeting of the Company. Details of the Deposit Services (including the Proposed Cap) are summarized in the Company's circular to its Shareholders dated 7 March 2007 (the "Circular"). This letter has been prepared for inclusion in the Circular and capitalized terms used in this letter shall have the same meaning as defined in the Circular unless the context otherwise requires.

The then Independent Shareholders approved a number of continuing connected transactions between the Group and CNOOC Finance at an extraordinary general meeting of the Company held on 28 April 2004, and the Waiver was granted to the Company in relation to these continuing connected transactions which included the Deposit Services. The Waiver will expire on 7 April 2007 and the Company will, in accordance with the requirements of the Listing Rules, seek the Independent Shareholders' approval for the Deposit Services and the Proposed Cap. The maximum daily outstanding balances with regard to the Deposit Services (including accrued interest) are subject to a cap during the term of the Framework Agreement.

The Company entered into the Framework Agreement with CNOOC Finance on 28 February 2007 in relation to the provision of a range of financial services by CNOOC Finance to the Company and its subsidiaries (collectively known as the "Group"). For details of the financial services under the Framework Agreement, please refer to the Letter from the Board. The Framework Agreement has a term of three years effective from 8 April 2007, subject to the approval of the Deposit Services (including the Proposed Cap) by the Independent Shareholders, and is renewable for a further term of three years if the parties so agree and subject to the relevant requirements of the Listing Rules. Deposit Services are one of the financial services under the Framework Agreement.

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## LETTER FROM ICEA CAPITAL LIMITED

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CNOOC indirectly owns an aggregate of approximately 66.41% of the issued share capital of the Company as at the Latest Practicable Date. Accordingly, CNOOC, being the controlling shareholder of the Company under the Listing Rules, and its associates are regarded as connected persons of the Company. CNOOC Finance is a subsidiary of CNOOC and is therefore regarded as connected person of the Company under the Listing Rules. In this connection, transactions between CNOOC and/or its associates (including CNOOC Finance) and the Group constitute connected transactions of the Company for the purpose of the Listing Rules. CNOOC and its associates will abstain from voting in relation to the resolution approving the Deposit Services (including the Proposed Cap).

Our opinion only applies to the Deposit Services (including the Proposed Cap). All other continuing connected transactions other than the Deposit Services and the Proposed Cap that are not subject to or do not require the Independent Shareholders' approval in the EGM are not within the scope of our work.

The Independent Board Committee, comprising all of the independent non-executive Directors, namely Dr. Edgar W.K. Cheng, Mr. Sung Hong Chiu, Mr. Evert Henkes, Professor Lawrence J. Lau and Mr. Tse Hau Yin, Aloysius, with Mr. Sung Hong Chiu acting as the Chairman, has been formed to make a recommendation to the Independent Shareholders in relation to the Deposit Services and the Proposed Cap. We, ICEA, have been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

In formulating our recommendation, we have relied, without assuming any responsibility for independent verification, on the information, opinions and facts provided and representations made to us by the Directors, who have assumed full responsibility for the accuracy of the information contained in the Circular, and that any information provided and representations made to us are true, accurate and complete in all material respects as at the date hereof and that they may be relied upon. We have no reason to doubt the truth, accuracy and completeness of the information provided and representations made to us by the Company. We have also relied on certain information available to the public and have assumed such information to be accurate and reliable, and we have not independently verified the accuracy of such information. We have studied the relevant market and other conditions and trends relevant to the Deposit Services (including the Proposed Cap). We have also assumed that statements and representations made or referred to in the Circular were accurate at the time they were made and continue to be accurate at the date of the Circular.

We consider that we have reviewed sufficient information to reach an informed view in order to provide a reasonable basis for our advice. We have not, however, carried out any independent verification of the information provided to us nor have we conducted any form of independent in-depth investigation into the business affairs or assets and liabilities of the Company and CNOOC or any of their respective subsidiaries or associated companies. Additionally, we did not conduct any physical inspection of the properties or facilities of the Company and CNOOC or any of their respective subsidiaries or associated companies. It is not within our terms of engagement to comment on the commercial feasibility of the Deposit Services, which remains the responsibility of the Directors. As the Independent Financial Adviser to the Independent Board Committee and the Independent

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## LETTER FROM ICEA CAPITAL LIMITED

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Shareholders, we have not been involved in the negotiations in respect of the terms of the Deposit Services and the determination of the Proposed Cap for the Deposit Services. Our opinion has been made on the assumption that all obligations to be performed by each of the parties to the Deposit Services will be fully performed in accordance with the terms thereof.

Our opinion is necessarily based upon the financial, economic, market, regulatory, and other conditions as they exist on, and the facts, information and opinions made available to us as of the date of this letter. We have no obligation to update this opinion to take into account events occurring after the date that this opinion is delivered to the Independent Board Committee and the Independent Shareholders. This letter is for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Deposit Services (including the Proposed Cap) and, except for its inclusion 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.

### PRINCIPAL FACTORS CONSIDERED

In arriving at our opinion, we have taken into consideration the principal factors and reasons set out below. In reaching our conclusion, we have considered the results of the analyses in light of each other and ultimately reached our opinion based on the results of all analyses taken as a whole.

#### 1. Background of the Deposit Services under the Framework Agreement

The Company entered into the Framework Agreement with CNOOC Finance on 28 February 2007. Pursuant to the Framework Agreement, the Group will, from time to time, utilize a range of financial services available from CNOOC Finance, details of the nature of such financial services and the basis of the fees and charges are set out in the Letter from the Board. Deposit Services are one of the financial services provided by CNOOC Finance to the Group under the Framework Agreement.

In respect of the Deposit Services, the Group will place cash deposits with CNOOC Finance and the interest rates are determined in accordance with the standard rates promulgated by the PBOC from time to time. In this connection, CNOOC Finance itself has limited control over the interest rates that can offer to the Group. The Deposit Services to be provided by CNOOC Finance will be similar to the deposit services that can be provided by other financial institutions in the PRC in such a way that the Group has its sole discretion to decide the amount of funds deposited with CNOOC Finance, when to deposit, when to withdraw and the amount of funds to be withdrawn. As we understand from the Company, the utilization of the Deposit Services with CNOOC Finance is mainly depending on the Group's own working capital positions and requirements instead of for the purpose of financing the operation of other members of CNOOC Group.

The Framework Agreement has a term of three years effective from 8 April 2007, subject to the approval of the Deposit Services (including the Proposed Cap) by the Independent Shareholders, and is renewable for a further term of three years if the parties so agree and subject to the relevant requirements of the Listing Rules. Upon the renewal of the Framework Agreement, the Company must comply with all applicable connected transaction requirements under the Listing Rules, including the

approval of the Independent Shareholders if applicable. CNOOC Finance and the Group may, from time to time, enter into separate agreements which set out the specific scope of services, and the terms and conditions of providing such services according to the principles laid down by the Framework Agreement.

Under the Framework Agreement, the Group will have a right of set off such that, in the event of any misuse or default by CNOOC Finance in respect of amounts deposited with it by the Group which results in the inability of the Group to recover such deposits, the Group will be able to offset amounts due to the Group from CNOOC Finance against amounts outstanding from the Group to CNOOC Finance. CNOOC Finance does not have such right of set off under the Framework Agreement.

The Group utilizes financial services from CNOOC Finance on a voluntary, non-exclusive basis and is not obligated to engage CNOOC Finance for any particular service, or at all. CNOOC Finance is merely one of a member of financial institutions which provide financial services to the Group. In this connection, the Group at all time has the flexibility to seek other financial institutions to provide for any particular service or at all as and when the Group considers appropriate and necessary.

## **2. Information relating to CNOOC Finance**

### *(I) Business scope*

CNOOC Finance is a non-bank financial institution established in June 2002 with the approval of the PBOC. The operation of CNOOC Finance is subject to the supervision of the CBRC. According to its business licence, it is authorized to provide all services set out in the Framework Agreement (including the Deposit Services) to the Group and other members of the CNOOC Group (but not other parties).

### *(II) Registered capital and board of directors composition*

The registered capital of CNOOC Finance is RMB1,415,000,000. 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. CNOOC Finance is managed by its board of directors, and Mr. Fu Chengyu, as the president of CNOOC, is the chairman of CNOOC Finance. Mr. Fu is also the chairman of the Board and the chief executive officer of the Company. CNOOC China, a wholly-owned subsidiary of the Company, has the right to nominate directors to the board of directors of CNOOC Finance, subject to approval by the shareholders of CNOOC Finance at its shareholders' meeting. Currently, two of the eight directors of CNOOC Finance were nominated by CNOOC China. In light of the existing board composition of CNOOC Finance, we are of the view that the Company, through Mr. Fu Chengyu and two directors nominated by CNOOC China, would be able to understand and monitor the operation and development of CNOOC Finance as well as the knowledge of any major decisions that may affect the risk profile of CNOOC Finance.

### *(III) Credit ratings*

CNOOC Finance was rated BBB+ (outlook positive) by The Standard & Poor's and A2 (outlook stable) by Moody's in March 2005. The Standard & Poor's rating was raised from BBB+ to A- (outlook stable) in November 2005. The Moody's rating outlook was raised from stable to positive in July 2006. To the best knowledge of the Directors and based on the announcements by these rating agencies, such credit ratings are currently among the highest ratings assigned by these rating agencies to major PRC commercial financial institutions, including commercial banks. In light of the raise of the credit ratings given by these international recognized credit rating agencies in previous years, we are of the view that the credit worthiness of CNOOC Finance was improving and were better than at the time when the Waiver was granted in April 2004.

### *(IV) Financial information*

As of 31 December 2006, CNOOC Finance had a total asset value of approximately RMB32.4 billion which included liquid assets (such as bank deposits, central bank reserves, short-term loans, central bank notes and treasure bonds) of approximately RMB29.0 billion. It has secured lines of credit of an amount exceeding RMB10.0 billion from several major PRC commercial banks. CNOOC Finance's before-tax profits were approximately RMB207.0 million, RMB200.7 million and RMB312.7 million for the years ended 31 December 2004, 2005 and 2006 respectively, and its after-tax profits were approximately RMB146.8 million, RMB142.3 million and RMB236.0 million respectively, representing an annual return on equity of about 9.9%, 9.4% and 14.7% for the same periods. As of 31 December 2004, 2005 and 2006, the current ratios of CNOOC Finance were approximately 91.8%, 89.6% and 94.4%, respectively and its capital adequacy ratios were 44.5%, 22.7% and 15.8%, respectively, which is in compliance with the requirement of CBRC with regard to the capital adequacy ratio applicable to the finance companies of enterprise groups that should not be less than 10%.

### *(V) Regulatory requirements*

It is worth to note that, as stated in the Letter from the Board, the Company understands that the regulation by the CBRC of CNOOC Finance is more stringent than the regulation of commercial banks in certain respects which are summarized as below. In accordance with the relevant requirements under the Measures for the Administration of Finance Companies of Enterprise Groups promulgated by the CBRC on 27 July 2004, finance companies of enterprise groups (including CNOOC Finance):

- are not allowed to engage in non-financial services business, including property investments or trading;
- must comply with the following ratio requirements: (a) the capital adequacy ratio shall not be lower than 10% (while the requirement on capital adequacy ratio applicable to commercial banks is not less than 8%), (b) the inter-bank borrowing balances shall not exceed the total registered capital of the relevant finance company (while PRC commercial banks are not subject to such requirement), (c) the total amount of



outstanding guarantees shall not be more than the total registered capital of the relevant finance company (while PRC commercial banks are not subject to such requirement), and (d) the ratio of self-owned fixed assets to total equity shall not exceed 20% (while PRC commercial banks are not subject to such requirement); and

- are required to deposit a mandatory proportion of the deposits they receive with the PBOC.

As stated in the Letter from the Board, according to CNOOC Finance, it is required to deposit a mandatory proportion of the deposits it receives with the PBOC (which is currently 10%). In addition, it places a portion of the deposits received with commercial banks in the PRC to ensure that sufficient liquid funds will be available to satisfy the needs of its customers. It then utilizes the remaining funds for other uses permitted by CBRC rules and regulations, such as providing discounting services, making loans to customers, purchasing government bonds or other notes issued by the PRC government to earn interests.

Despite CNOOC Finance is a non-bank financial institution, we are of the view that its operation is regulated and supervised by relevant government authority in the PRC. In addition, taking into account certain regulatory requirements to CNOOC Finance are even more stringent than commercial banks in the PRC as stated above, in particular, the capital adequacy ratio, it is anticipated that the risk associated with the Deposit Services provided by CNOOC Finance may not be higher than the deposit services that can be provided by independent commercial banks in the PRC. However, the Group may be able to derive other benefits from other financial services under the Framework Agreement to be provided by CNOOC Finance, details of which are set out in the paragraph headed “Reasons for and benefits of continuing connected transactions” in the Letter from the Board in the Circular.

### *(VI) Operational structures*

Apart from the above background information of CNOOC Finance, the Letter from the Board also sets out certain internal management structure, roles and responsibilities of certain major operational departments and internal operational procedures of CNOOC Finance, details of which are set out in the paragraph headed “Information relating to CNOOC Finance” in the Letter from the Board in the Circular. We are of the view that the clear delineation of the roles and responsibilities of major operational departments and the proper implementation of the internal management structure and the internal operational procedures of CNOOC Finance would help CNOOC Finance to monitor and manage its risk profile, including its business and financial risks, and in turn lower the risk of those depositors, including the Group.

### *(VII) Assessment of financial risks*

CNOOC Finance is a separate legal entity and that its operations are regulated by PBOC and accountable to its own shareholders. As such, the Group, as a depositor which is entitled to interest income, will have limited control over the lending or other use of its deposits with CNOOC Finance and the terms on which such funds may be lent or otherwise made available to CNOOC and its subsidiaries other than the Group in relation to the Deposit Services, the Directors, in assessing the financial risks involved in placing deposits with CNOOC Finance, have also taken into account the following factors:

- The operations of CNOOC Finance are subject to the supervision of the CBRC and the relevant financial services rules and regulations.
- The Company, through CNOOC China, has two board representatives at CNOOC Finance and will therefore have knowledge of developments within CNOOC Finance.
- The Directors believe that CNOOC Finance has been in compliance with all the major financial services rules and regulations and maintained a sound internal control system.

As stated in the Letter from the Board, the Company believes that CNOOC Finance, with its credit ratings, asset size, banking credits and corporate governance practices, will be able to fulfill its obligations under the Framework Agreement. We are of the view that the aforesaid factors (including the business scope, registered capital and board of directors composition, credit ratings, financial information, regulatory requirements, operational structures and the assessment of financial risks of CNOOC Finance) taken into account by the Directors in assessing the risks involved in placing deposits with CNOOC Finance are appropriate and sufficient.

### **3. Internal control procedures and corporate governance measures**

In order to protect to interests of the Shareholders, the Group will adopt certain internal control procedures and corporate governance measures in relation to its utilization of CNOOC Finance's financial services including the Deposit Services, details of which are set out in the paragraph headed "Internal control procedures and corporate governance measures" in the Letter from the Board. The Board also considers the internal control procedures and corporate governance measures proposed to be adopted by the Company concerning the Continuing Connected Transactions with CNOOC Finance are appropriate and sufficient having regard to the manner in which such continuing connected transactions have been conducted in the past, and that the procedures and measures gives sufficient assurance to Independent Shareholders that the Continuing Connected Transactions will be appropriately monitored by the Company. In addition, it is worth to note that the internal control procedures and corporate governance measures, whilst in material respects were adhered to in practice, had not been formalized at the time when the Waiver was granted in April 2004. We are of the view that the internal control procedures and corporate governance measures are sufficient and that the proper implementation of such internal control procedures and corporate governance measures will enable the Group to closely monitor the status of the Group's deposits situation in CNOOC Finance and thus reduce the risk associated with the Deposit Services.

**4. Reasons for and benefits of utilizing the Deposit Services provided by CNOOC Finance**

As mentioned in the paragraph headed “Background of the Deposit Services under the Framework Agreement” above, the Company entered into the Framework Agreement with CNOOC Finance in relation to the provision of a range of financial services by CNOOC Finance to the Group. Deposit Services are one of the financial services under the Framework Agreement. With regard to Deposit Services, CNOOC Finance provides interest rates that are same as those offered by independent commercial banks in the PRC as such interest rates are regulated by the PBOC. Although CNOOC Finance cannot offer more favourable interest rate to the Group, we are of the view that they can at least provide comparable interest rates to the Group and hence, the Group will not be worse off in term of interest income. However, as part of the deposit services, CNOOC Finance can provide additional benefits to the Group by assisting the Company to formulate a beneficial deposit mix comprising different types of deposits such as current deposits, call deposits and fixed deposit, which allows the Company to increase its return on funds and retain sufficient working capital.

Apart from the Deposit Services, CNOOC Finance also provides other financial services to the Group pursuant to the Framework Agreement including:

- (a) settlement services which include settlement of transactions between members of the Group, and for transactions between members of the Group and members of the CNOOC Group or other third parties;
- (b) commercial notes discounting services;
- (c) provision of loans to the Group (excluding entrustment loans referred to (d) below); and
- (d) arrangement of entrustment loans between the Company and its subsidiaries whereby CNOOC Finance serves as a financial agency via which funds of the Company and its subsidiaries may be channelled for use by other members of the Group. It is relevant to note that PRC laws do not permit companies, including affiliates, to extend intra-group loans directly without going through a financial agency. CNOOC Finance may not make investments with the deposits placed by the Group for the purposes of entrustment loans. Funds deposited by the Group for the purposes of entrustment loans will be applied for the purposes of entrustment loans to the relevant member of the Group only.

For details of the fees and charges payable by the Group to CNOOC Finance in respect of the above other financial services and the advantages of utilizing these other financial services provided by CNOOC Finance over utilizing similar services provided by independent commercial banks, please refer to the Letter from the Board in the Circular. We understand that the terms of the financial services under the Framework Agreement are either comparable to similar services provided by other independent commercial banks or favourable to the Group, in particular, no service fee is charged for the settlement services. Other than the terms of the financial services, the Group may also derive other benefits from utilizing these other financial services provided to the Group by CNOOC Finance including but not limited to same-day zero-rate settlement at no cost through CNOOC Finance’s settlement services and access to the status of receipts and payments of funds made through CNOOC Finance at any time and at no cost. Moreover, CNOOC Finance could be able to provide more efficient

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## LETTER FROM ICEA CAPITAL LIMITED

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and orderly services than those that could be provided by independent commercial banks for processing transactions between the Company and its subsidiaries and between the Group and members of the CNOOC Group as CNOOC Finance is more familiar with the business and transaction pattern of the CNOOC Group.

We are of the view that the aforesaid advantages and benefits gained from utilizing the other financial services provided to the Group by CNOOC Finance would enhance and facilitate the working capital management of the Company which is in the interest of the Company and the Shareholders as a whole. We also believe that other independent commercial banks may not be able to provide similar financial services at such low cost or no cost in an efficient and orderly manner. In this connection, we consider that the Deposit Services under the Framework Agreement are in the interest of the Company and the Shareholders as a whole.

It is also important to note that if independent commercial banks or other financial institutions offer specific advantages which are more favorable to the Group in respect of any of the financial services (including the Deposit Services) set out in the Framework Agreement, the Group may discontinue its use of such services provided by CNOOC Finance without having to incur unreasonable extra costs. We consider that this arrangement protects the interests of the Group with regard to Deposits Services.

In addition, as stated in the Letter from the Board, the Company believes that CNOOC Finance, with its credit ratings, asset size, banking credits and corporate governance practices, will be able to fulfill its obligations under the Framework Agreement. The Company also believes that the risk profile of CNOOC Finance, as a provider of financial services to the Group, is not greater than those of independent commercial banks in China because:

- CNOOC Finance is regulated by the PBOC and the CBRC and it provides its services in full compliance with the relevant rules and operational requirements including capital risks guidelines and requisite capital adequacy ratios of such regulatory authorities.
- CNOOC Finance has not defaulted on any of its credit obligations or breached any rules or operations requirements of such regulatory authorities.
- CNOOC Finance has implemented capital risk control measures that the Company believes are at least as stringent as those of the major commercial banks in China. It will provide the Group access to its books and accounts for inspection upon the Group's request to enable the Group to monitor its risk control measures.

Finally, the Board considers that the Continuing Connected Transactions (including the Deposit Services) between the Group and CNOOC Finance have been conducted on normal commercial terms or on terms no less favourable than those available to independent third parties under prevailing local market conditions, and are entered into in the ordinary and usual course of business of the Group, are fair and reasonable and in the interests of the Company and the Shareholders as a whole and the terms

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## LETTER FROM ICEA CAPITAL LIMITED

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of the Framework Agreement and the Proposed Cap in respect of the maximum daily balance of deposits (including the accrued interests) placed by the Group with CNOOC Finance (excluding the deposits for the purpose of extending entrustment loans) are fair and reasonable.

Taking into account the background of the Deposit Services, information relating to CNOOC Finance and the reasons and the benefits of utilizing the Deposits Services provided by CNOOC Finance and the internal control procedures and corporate governance measures adopted by the Group in relation to the Deposit Services, we concur the Board's view in this regard.

### 5 Proposed Cap for the Deposit Services

#### *(I) Historical transaction figures*

The table below sets out the approximate historical transaction figures of maximum daily outstanding balance of deposits placed with CNOOC Finance.

|   | <b>For the<br/>year ended<br/>31 December<br/>2004<br/>(in RMB)</b> | <b>For the<br/>year ended<br/>31 December<br/>2005<br/>(in RMB)</b> | <b>For the<br/>year ended<br/>31 December<br/>2006<br/>(in RMB)</b> |
|---|---|---|---|
| Maximum daily outstanding balance of deposits (including accrued interest) placed by the Group with CNOOC Finance (excluding the deposits for the purpose of extending entrustment loans) | 3.6 billion   | 3.9 billion   | 6.4 billion<br>(note)   |

*Note: the maximum daily outstanding balance of deposits (including accrued interest) placed by the Group with CNOOC Finance (excluding the deposits for the purpose of extending entrustment loans) increased substantially for the year ended 31 December 2006. This was due to the increase of international oil and gas prices as well as the increase of trading volume between the Group and the CNOOC Group in 2006 which resulted in a need for the Group to maintain a higher deposit balance at CNOOC Finance for settlement purposes.*

## LETTER FROM ICEA CAPITAL LIMITED

*(II) Amounts of deposits between the Group and CNOOC Finance and those of CNOOC Finance as a whole as at 31 December 2004, 31 December 2005 and 30 November 2006*

The table below sets out the information about the amount of deposits between the Group and CNOOC Finance and those of CNOOC Finance as a whole as at 31 December 2004, 31 December 2005 and 30 November 2006.

|   | As at<br>31 December<br>2004 | As at<br>31 December<br>2005 | As at<br>30 November<br>2006* |
|---|------------------------------|------------------------------|-------------------------------|
| Total amount of deposits placed by the Group ( <i>RMB million</i> )           | 28,139                       | 35,039                       | 35,268                        |
| Amount deposited by the Group in CNOOC Finance ( <i>RMB million</i> )         | 3,298                        | 3,173                        | 3,703                         |
| Percentage of total deposits of the Group which was placed with CNOOC Finance | 11.72%                       | 9.05%                        | 10.50%                        |
| Total amount of deposits placed in CNOOC Finance ( <i>RMB million</i> )       | 22,399                       | 28,044                       | 27,403                        |
| Amount of deposit placed by the Group ( <i>RMB million</i> )                  | 3,298                        | 3,173                        | 3,703                         |
| Percentage of deposits in CNOOC Finance placed by the Group                   | 14.72%                       | 11.31%                       | 13.51%                        |

\* Being the latest practicable date for ascertaining such information for the purposes of this Circular

As shown in the table above, the percentage of total deposits placed by the Group with CNOOC Finance to the total deposits of the Group for the year ended 31 December 2004 and 31 December 2005, and the eleven months ended 30 November 2006 represented about 11.72%, 9.05% and 10.50% respectively. As such, we noted that majority of the Group's deposits was not placed with CNOOC Finance and the Group is not heavily relied on CNOOC Finance for the provision of deposit services.

*(III) Future annual cap*

The Company expects that the cap on the maximum daily outstanding balance of deposits (including accrued interest) placed by the Group with CNOOC Finance (excluding the deposits for the purpose of extending entrustment loans) will be RMB6.8 billion during the term of the Framework Agreement. This cap amount was calculated on the basis of several factors including (i) the requirement to settle accounts receivable from the CNOOC Group or any third party (including those arising from the sales of petroleum and natural gas of the Company to the CNOOC Group and any third party) through the deposit accounts of the Company maintained with CNOOC Finance, (ii) the expected amount of interest income compared with interest income that could otherwise be realized by placing deposits with independent commercial banks; and (iii) the strategies of the treasury management of the Company. The Proposed Cap is the

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## LETTER FROM ICEA CAPITAL LIMITED

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same as the cap approved by the then Independent Shareholders at the extraordinary general meeting of the Company held on 28 April 2004, and the Proposed Cap represents approximately 24.17%, 19.41% and 19.28% of the Group's aggregate deposits placed with all financial institutions (including CNOOC Finance) as of 31 December 2004, 31 December 2005 and 30 November 2006 (being the latest practicable date for ascertaining such information for the purposes of this Circular). Both the historical transaction figures and the Proposed Cap refer to the maximum daily outstanding balances during the term of the Framework Agreement, and are not cumulative in nature.

Taking into account the basis of the determination of the Proposed Cap, the historical transaction figures regarding the maximum daily outstanding balance of deposits as stated in the table above and the percentage of the Proposed Cap to the Group's aggregate deposits with all financial institutions (including CNOOC Finance) as of 31 December 2004, 31 December 2005 and 30 November 2006, we are of the view that the Proposed Cap is fair and reasonable as far as the Shareholders are concerned.

### RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that (i) the Deposit Services 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 Deposit Services and the Proposed Cap are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favor of the ordinary resolution as detailed in the notice of the EGM set out at the end of the Circular.

Yours faithfully,  
For and on behalf of  
**ICEA Capital Limited**  
**Fabian Shin**  
*Executive Director*

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, 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) where 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) where required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or (iii) where required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, 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<br>shares granted<br>pursuant to<br>options |
|-----------------|------------------|--------------------------|--|
| Fu Chengyu      | 12 March 2001    | 1.19                     | 1,750,000  |
|                 | 27 August 2001   | 1.232                    | 1,750,000  |
|                 | 24 February 2003 | 2.108                    | 1,150,000  |
|                 | 5 February 2004  | 3.152                    | 2,500,000  |
|                 | 31 August 2005   | 5.62                     | 3,500,000  |
|                 | 14 June 2006     | 5.56                     | 3,850,000  |
| Luo Han         | 12 March 2001    | 1.19                     | 1,400,000  |
|                 | 27 August 2001   | 1.232                    | 1,150,000  |
|                 | 24 February 2003 | 2.108                    | 1,150,000  |
|                 | 5 February 2004  | 3.152                    | 1,150,000  |
|                 | 31 August 2005   | 5.62                     | 1,610,000  |
|                 | 14 June 2006     | 5.56                     | 1,770,000  |



| Name of Grantee | Date of Grant    | Exercise Price<br>(HK\$) | Underlying<br>shares granted<br>pursuant to<br>options |
|-----------------|------------------|--------------------------|--|
| Zhou Shouwei    | 12 March 2001    | 1.19                     | 1,400,000  |
|                 | 27 August 2001   | 1.232                    | 1,750,000  |
|                 | 24 February 2003 | 2.108                    | 1,750,000  |
|                 | 5 February 2004  | 3.152                    | 1,750,000  |
|                 | 31 August 2005   | 5.62                     | 2,450,000  |
|                 | 14 June 2006     | 5.56                     | 2,700,000  |
| Cao Xinghe      | 31 August 2005   | 5.62                     | 800,000  |
|                 | 14 June 2006     | 5.56                     | 1,770,000  |
| Wu Zhenfeng     | 31 August 2005   | 5.62                     | 800,000  |
|                 | 14 June 2006     | 5.56                     | 1,770,000  |
| Wu Guangqi      | 31 August 2005   | 5.62                     | 800,000  |
|                 | 14 June 2006     | 5.56                     | 1,770,000  |
| Yang Hua        | 12 March 2001    | 1.19                     | 1,150,000  |
|                 | 27 August 2001   | 1.232                    | 1,150,000  |
|                 | 24 February 2003 | 2.108                    | 1,150,000  |
|                 | 5 February 2004  | 3.152                    | 1,150,000  |
|                 | 31 August 2005   | 5.62                     | 1,610,000  |
|                 | 14 June 2006     | 5.56                     | 1,770,000  |
| Sung Hong Chiu  | 5 February 2004  | 3.152                    | 1,150,000  |
| Evert Henkes    | 5 February 2004  | 3.152                    | 1,150,000  |

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) where 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) where required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or (iii) where required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

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:

| Name of substantial shareholder of the Company | Number of shares |                 | Approximate percentage of the total issued shares |
|--|------------------|-----------------|---|
|  | Directly held    | Indirectly held |   |
| CNOOC (BVI)                                    | 28,772,727,268   | —               | 66.41%  |
| OOGC   | 5                | 28,772,727,268  | 66.41%  |
| CNOOC  | —                | 28,772,727,273  | 66.41%  |

*Note: 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 the Latest Practicable Date, 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.

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 expert who has given an opinion or advice which is contained in this Circular:

| Names                | Qualifications  |
|----------------------|---|
| ICEA Capital Limited | A corporation registered under the transitional arrangement of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) to carry out type 1 (dealings in securities) and type 6 (advising on corporate finance) regulated activities |

- (a) As at the Latest Practicable Date, ICEA does not have any beneficial interest in the share capital of any member of the Group or had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group and do not have any interest, either directly or indirectly, in any assets which have been, since 31 December 2005, being the date of the latest published audited accounts of the Company, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.
- (b) ICEA has given and has not withdrawn its written consents to the issue of this Circular with inclusion of its opinion and letter, as the case may be, and the reference to its names included herein in the form and context in which it 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 Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading positions of the Company since 31 December 2005, being the date of the latest published audited financial statement of the Company.

## **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 referred to in Rule 13.68 of the Listing Rules (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

## **8. INTERESTS OF DIRECTORS**

- (a) The Directors are not aware that any Director had, as at the Latest Practicable Date, any interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group which would be required to be disclosed under the Listing Rules.
- (b) No Director is materially interested in any contract or arrangement subsisting at the date hereof which is significant to the business of the Group taken as a whole.

- (c) Since 31 December 2005, the date to which the latest published audited consolidated accounts of the Group have been made up, none of the Directors has, or has had, any direct or indirect interest in any assets which have been acquired or disposed of by or leased to or which are proposed to be acquired, disposed of by or leased to, any member of the Group.

## **9. PROCEDURES FOR DEMANDING A POLL**

Pursuant to Article 69(a) of the Articles of Association, a resolution put to the vote of a general meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is demanded by:

- (a) the Chairman of such meeting; or
- (b) at least three members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote at the meeting; or
- (c) any member or members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy and representing the aggregate not less than one-tenth of the total voting rights of all members having the right to attend and vote at the meeting; or
- (d) any member or members present in person (or in the case of a member being a corporation, by its duly authorized representative) or by proxy and holding Shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

## **10. GENERAL**

- (a) The registered office of the Company is situated at 65th Floor, Bank of China Tower, 1 Garden Road, Hong Kong.
- (b) The Company's registrar is Hong Kong Registrars Limited of Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (c) The Company Secretary of the Company is Victor Zhikai Gao.
- (d) The Qualified Accountant of the Company is Li Feilong.
- (e) The English text of this Circular shall prevail over the Chinese text.

**11. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours at the offices of Herbert Smith at 23/F, Gloucester Tower, 15 Queen's Road Central, Hong Kong, from the date of this Circular up to and including 23 March 2007:

- (a) the Articles of Association;
- (b) the Framework Agreement dated 28 February 2007 between the Company and CNOOC Finance in relation to the Continuing Connected Transactions;
- (c) the letter of recommendation from the Independent Board Committee, the text of which is set out on page 17 of this Circular;
- (d) the letter issued by ICEA, the text of which is set out on pages 18 to 29 of this Circular; and
- (e) the written consent of ICEA referred to in paragraph 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 under the Companies Ordinance)*

**(Stock Code: 883)**

## NOTICE OF EXTRAORDINARY GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that an extraordinary general meeting of the shareholders of CNOOC Limited (the “Company”) will be held at The Ritz-Carlton, Hong Kong, 3 Connaught Road Central, Hong Kong on 30 March 2007 at 10 a.m. for the purpose of considering and, if thought fit, passing, with or without modification, the following resolution as Ordinary Resolution:

### ORDINARY RESOLUTION

“**THAT** the Deposit Services and the Proposed Cap be and are hereby generally and unconditionally approved and that any Director of the Company be and is 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  
**CNOOC Limited**  
**Victor Zhikai Gao**  
*Company Secretary*

Hong Kong, 7 March 2007

*Registered Office:*

65th Floor, Bank of China Tower  
1 Garden Road  
Central  
Hong Kong

### Notes:

1. The register of members of the Company will be closed from 27 March 2007 to 30 March 2007 (both dates inclusive) during which no transfer of shares will be registered. In order to qualify for voting at the EGM, members are reminded to ensure that all instruments of transfer of shares accompanied by the relevant share certificate(s), must be lodged with the Company’s registrar, Hong Kong Registrars Limited at Room 1806-7, 18th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 26 March 2007.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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2. A member entitled to attend and vote at the EGM convened by this notice is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.
3. To be effective, the instrument appointing a proxy together with the power of attorney or other authority, if any, under which it is signed or a certified copy of that power or authority, must be completed and returned to the Company's registered office at 65th Floor, Bank of China Tower, 1 Garden Road, Hong Kong, not less than 48 hours before the time for holding the EGM or any adjournment thereof.
4. A form of proxy for use at the meeting is enclosed. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof and, in such event, the relevant form of proxy shall be deemed to be revoked.
5. Where there are joint registered holders of any Share, any one of such persons may vote at the EGM, either personally or by proxy, in respect of such Share as if he were solely entitled thereto; but if more than one of such joint registered holders be present at the EGM personally or by proxy, then the registered holder so present whose name stands first on the register of members of the Company in respect of such Share will alone be entitled to vote in respect thereof.
6. Capitalised terms used in this notice have the same meaning as is set out in the section entitled "Definitions" at pages 1 to 3 of the circular of the Company dated 7 March 2007.