



## Edgar Filing: CNOOC LTD - Form 6-K

(If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): N/A.)

Interim Report for the Six Months Ended June 30, 2005  
-----

### CONTENTS

2	CHAIRMAN'S STATEMENT
4	KEY FIGURES
5	CONDENSED CONSOLIDATED INCOME STATEMENT
6	CONDENSED CONSOLIDATED BALANCE SHEET
7	CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
8	CONDENSED CONSOLIDATED CASH FLOW STATEMENT
9	NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS
37	INDEPENDENT REVIEW REPORT
38	OTHER INFORMATION

CNOOC LIMITED 2005 Interim Report 01

### CHAIRMAN'S STATEMENT

During the first half of 2005, the Company continued to achieve record business results. We saw a steady growth in oil and gas production and satisfactory progress in our development projects. Benefiting from the strong international oil prices, our realised oil prices rose significantly, leading to a significant increase in our interim oil and gas revenues. Noteworthy achievements were also recorded in our overseas development. Based on these favorable factors, our interim net profit again reached a record-high level.

During this period, the management effectively implemented the development strategies of the Company and achieved stable growth across our business units. The shareholders' value was maintained and enhanced to a higher level.

### OPERATIONS REVIEW

During the first half of 2005, the Company's crude oil and natural gas production reached 64.6 million barrels and 66.7 billion cubic feet respectively. The total net oil and gas production reached 76.1 million barrels-of-oil-equivalent (BOE), representing an increase of 14.3% over the same period last year. The total net oil and gas production from offshore China reached 69.4 million BOE, representing an increase of 19.4% over the same period last year.

## Edgar Filing: CNOOC LTD - Form 6-K

As the international oil prices continued their upward trend, our realised oil price soared significantly to US\$43.91 per barrel, representing an increase of 36.4% from the corresponding period last year. Our realised natural gas price was US\$2.95 per thousand cubic feet.

Due to the production growth and strong oil prices, our oil and gas sales reached RMB 24.73 billion during the first half of this year, representing an increase of 54.3% compared with the same period last year. Including revenues from trading and other activities, we achieved a total revenue of RMB 32.83 billion, representing an increase of 35.0% from the corresponding period last year. Our profit before tax for the first half was RMB 16.97 billion, representing an increase of 65.8% from the same period last year, and our net profit was RMB 11.83 billion, representing an increase of 68.6% compared with the same period last year.

During this period, our basic and diluted earnings per share were RMB 0.29 and RMB 0.28 respectively. According to our dividend policy, the board of directors recommended an interim dividend of HK\$0.05 per share and a special interim dividend of HK\$0.05 per share.

Through our vigorous exploration programs, we recorded four oil and gas discoveries, of which three were independent discoveries, namely Bozhong 34-1N, Bozhong 26-2N and Weizhou 6-10, and the other one was a PSC discovery, namely Bozhong 19-4N. In addition, we successfully completed appraisals of 4 discoveries, namely Bozhong 3-2, Weizhou 11-4N, Liuhua 19-5 (all of which were our independent discoveries), and Huizhou 25-3 (which was discovered by our PSC partners).

We made remarkable progress in the development of our oil and gas fields. Two Luda oilfields have already been successfully on stream. In addition, 8 projects are currently in progress. We are confident to complete all the projects on schedule this year.

We also achieved remarkable breakthroughs in overseas development. We entered into several PSC contracts and agreements in Asia and Africa, and acquired a stake in the Canadian-based oil sand company MEG Energy Corp.

02 CNOOC LIMITED 2005 Interim Report

### CHAIRMAN'S STATEMENT

On 23 June, we announced that we had proposed a merger with Unocal Corporation, offering US\$67 in cash per Unocal share. The combination was expected to more than double our oil and gas production and increase our reserves by nearly 80%. The merger was also anticipated to increase shareholders' value. But in the following month, the unprecedented political opposition from US made it very difficult for us to accurately assess our chances of success, creating a level of uncertainty that presents an unacceptable risk to our ability to consummate this transaction. It was therefore no longer in our shareholders' best interests if we continued to pursue our bid under these circumstances. As a result, on 2 August, we announced that we had withdrawn our offer for Unocal.

Health, safety and environmental protection are always top priorities in our agenda. During the first half of 2005, we successfully obtained the No.2 License for Safe Operation in China and managed to keep our recordable accident rate and our work hours lost rate at very low levels, which were 0.37 and 0.18

## Edgar Filing: CNOOC LTD - Form 6-K

respectively.

On 1 June, the Company announced the retirement of Executive Director Mr. Jiang Longsheng and the appointment of Mr. Wu Guangqi in place of Mr. Jiang Longsheng. On 8 June, the Company announced the appointment of Mr. Tse Hau Yin, Aloysius as Independent Non-executive Director of the Company in place of Dr. Erwin Schurtenberger, who had resigned for personal reason due to ill health.

### OUTLOOK

In the coming second half of 2005, the demand for energy and raw materials is expected to continue to grow as the global economy maintains its robust momentum, thus creating a favorable market environment for the Company. We will continue to focus on protecting the shareholders' interests and enhancing our operation and management capability, so as to maximize shareholders' return with outstanding operation results. Our key tasks in the second half of the year include:

- o Keep our focus steady on achieving our oil and gas production targets for the year, while maintaining our competitive cost control measures and prudent financial policy.
- o Achieve stable increase in our reserves through active independent and PSC explorations.
- o Maintain close control over the progress, costs and quality of our planned exploration and production projects to meet the Company's development targets.
- o Continue to implement opportunistic acquisition strategy in the international arena, with a fundamental objective to maximize shareholders' value.
- o Continue to keep health, safety and environmental protection as our top priorities.

Fu Chengyu  
Chairman & Chief Executive Officer

Hong Kong, 30 August 2005

CNOOC LIMITED 2005 Interim Report 03

### KEY FIGURES

	Six months ended 30 June	
	2005	2004
Net profit, million RMB(1)	11,829	7,017
Earnings per share, RMB	0.29	0.17
Total Oil and Gas Sales, million RMB	24,734	16,028
Total Revenue, million RMB	32,832	24,321
Total Production		
Oil, million barrels	64.6	55.8

## Edgar Filing: CNOOC LTD - Form 6-K

Gas, billion cubic feet	66.7	62.2
Total, million barrels of oil equivalent	76.1	66.6
Daily Production		
Oil, barrels	356,826	306,730
Gas, million cubic feet	369	341
Total, barrels of oil equivalent	420,325	365,771

Note:

- (1) Net profit for 2004 has been restated as a result of the adoption of certain new accounting standards effective on 1 January 2005.

04 CNOOC LIMITED 2005 Interim Report

### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2005

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

	Notes	Six months ended 30 June 2005 (Unaudited)	2004 (Unaudited) (Restated)
<b>REVENUE</b>			
Oil and gas sales	4	24,733,991	16,027,545
Marketing revenue	4	8,035,007	8,223,351
Other income		63,075	69,742
		-----	-----
		32,832,073	24,320,638
		-----	-----
<b>EXPENSES</b>			
Operating expenses		(2,679,754)	(2,094,917)
Production taxes		(1,195,322)	(726,667)
Exploration expenses		(611,276)	(550,671)
Depreciation, depletion and amortisation		(2,786,582)	(2,647,826)
Dismantlement		(106,951)	(99,542)
Impairment		(90,189)	--
Crude oil and product purchases	4	(7,951,389)	(8,122,807)
Selling and administrative expenses		(545,289)	(489,232)
Others		(41,464)	(4,827)
		-----	-----
		(16,008,216)	(14,736,489)
		-----	-----
<b>PROFIT FROM OPERATING ACTIVITIES</b>		16,823,857	9,584,149
Interest income		208,358	92,569
Interest expenses	5	(321,354)	(219,823)
Exchange gains/(losses), net		19,209	56,866
Short term investment gains/(losses), net		60,336	(1,863)

Edgar Filing: CNOOC LTD - Form 6-K

Share of profits of associates		180,480	185,301
Non-operating income/(expenses), net		1,154	541,683
		-----	-----
PROFIT BEFORE TAX		16,972,040	10,238,882
Tax	6	(5,143,017)	(3,221,429)
		-----	-----
NET PROFIT		11,829,023	7,017,453
		-----	-----
EARNINGS PER SHARE			
Basic	7	RMB0.29	RMB0.17
		-----	-----
Diluted	7	RMB0.28	RMB0.17
		-----	-----
DIVIDENDS			
Interim dividend declared	14	2,138,128	1,308,225
Special interim dividend declared	14	2,138,128	2,180,375
Special interim dividend declared in place of 2003 final dividend		--	2,617,526
		-----	-----
		4,276,256	6,106,126
		-----	-----

CNOOC LIMITED 2005 Interim Report 05

CONDENSED CONSOLIDATED  
BALANCE SHEET  
30 June 2005  
(All amounts expressed in thousands of Renminbi)

	Notes	30 June 2005 (Unaudited)	31 December 2004 (Audited) (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment, net	8	60,139,478	57,456,697
Intangible assets	9	1,332,866	--
Investments in associates		1,335,244	1,327,109
Available-for-sale financial assets		1,017,000	--
		-----	-----
		63,824,588	58,783,806
		-----	-----
CURRENT ASSETS			
Accounts receivable, net	10	4,785,456	4,276,489
Inventories and supplies		1,308,408	1,147,294
Due from related companies		1,944,392	1,173,374
Other current assets		1,777,136	556,931
Available-for-sale financial assets		9,149,156	5,444,113
Time deposits with maturity over three months		5,903,000	8,603,000
Cash and cash equivalents		16,034,103	14,091,524
		-----	-----
		40,901,651	35,292,725
		-----	-----
TOTAL ASSETS		104,726,239	94,076,531

Edgar Filing: CNOOC LTD - Form 6-K

NON-CURRENT LIABILITIES			
Long term bank loans		858,764	865,211
Long term guaranteed notes	11	15,886,256	15,865,165
Derivative financial instruments		454,705	448,385
Provision for dismantlement		3,278,630	3,089,448
Deferred tax liabilities		6,863,151	6,688,498
		27,341,506	26,956,707
CURRENT LIABILITIES			
Accounts payable	12	3,202,184	3,102,024
Other payables and accrued liabilities		5,323,901	4,191,024
Current portion of long term bank loans		20,401	24,364
Due to related companies		270,221	211,425
Due to the parent company		310,139	370,060
Tax payable		3,199,111	2,503,466
		12,325,957	10,402,363
CAPITAL AND RESERVES			
Issued capital	13	876,635	876,586
Reserves		64,182,141	55,840,875
		65,058,776	56,717,461
TOTAL EQUITY AND LIABILITIES		104,726,239	94,076,531

06 CNOOC LIMITED 2005 Interim Report

CONDENSED CONSOLIDATED  
STATEMENT OF CHANGES IN EQUITY  
For the six months ended 30 June 2005  
(All amounts expressed in thousands of Renminbi)

	Issued share capital	Share premium and capital redemption reserve	Revaluation reserve	Cumulative translation reserve	Statutory and non-distributive reserve
(Unaudited)					
Balances at 1 January 2004					
as previously reported	876,978	20,761,205	274,671	22,647	8,050,489
Cumulative adjustment for the adoption of HKFRS2 (note 2)	--	--	--	--	--
Balances at 1 January 2004 as restated	876,978	20,761,205	274,671	22,647	8,050,489
Repurchases of shares	(359)	--	--	--	--
Transfer of reserve upon					

Edgar Filing: CNOOC LTD - Form 6-K

shares repurchases	--	359	--	--	--
Net profit for the period	--	--	--	--	--
2003 final and special final dividends	--	--	--	--	--
Employee share option expenses	--	--	--	--	--
Foreign currency translation differences	--	--	--	2,269	--
	-----	-----	-----	-----	-----
Net gains not recognised in the income statement	--	--	--	2,269	--
	-----	-----	-----	-----	-----
Balances at 30 June 2004 as restated	876,619	20,761,564	274,671	24,916	8,050,489
	-----	-----	-----	-----	-----
(Unaudited) Balances at 1 January 2005 as previously reported	876,586	20,761,597	274,671	(19,654)	9,413,610
	-----	-----	-----	-----	-----
Cumulative adjustment for the adoption of HKFRS2 (note 2)	--	--	--	--	--
Opening adjustment for the adoption of HKAS 39 (note 2)	--	--	--	--	--
	-----	-----	-----	-----	-----
Balances at 1 January 2005 as restated	876,586	20,761,597	274,671	(19,654)	9,413,610
	-----	-----	-----	-----	-----
Net profit for the period	--	--	--	--	--
2004 final and special final dividends	--	--	--	--	--
Exercise of share options	49	4,451	--	--	--
Employee share option expenses	--	--	--	--	--
Unrealised gains from available-for-sale marketable securities	--	--	--	--	--
Foreign currency translation differences	--	--	--	(39,653)	--
	-----	-----	-----	-----	-----
Net gains/(losses) not recognised in the income statement	--	--	--	(39,653)	--
	-----	-----	-----	-----	-----
Balances at 30 June 2005	876,635	20,766,048	274,671	(59,307)	9,413,610
	-----	-----	-----	-----	-----



CONDENSED CONSOLIDATED  
CASH FLOW STATEMENT

For the six months ended 30 June 2005  
(All amounts expressed in thousands of Renminbi)

	Six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
Net cash inflow from operating activities	14,293,418	9,316,835
Net cash outflow from investing activities	(8,844,514)	(15,957,255)
	-----	-----
Net cash inflow/(outflow) before financing activities	5,448,904	(6,640,420)
Net cash outflow from financing activities	(3,506,325)	(2,684,088)
	-----	-----
Net increase/(decrease) in cash and cash equivalents	1,942,579	(9,324,508)
Cash and cash equivalents at beginning of period	14,091,524	14,400,394
	-----	-----
Cash and cash equivalents at end of period	16,034,103	5,075,886
	-----	-----

08 CNOOC LIMITED 2005 Interim Report

NOTES TO CONDENSED INTERIM  
FINANCIAL STATEMENTS

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

1. ORGANISATION AND PRINCIPAL ACTIVITIES

CNOOC Limited (the "Company") was incorporated in the Hong Kong Special Administrative Region ("Hong Kong") of the People's Republic of China (the "PRC") on 20 August 1999. During the period ended 30 June 2005 (the "Period"), the Company and its subsidiaries (hereinafter collectively referred to as the "Group") were principally engaged in the exploration, development, production and sale of crude oil, natural gas and other petroleum products.

The registered office address is 65/F, Bank of China Tower, 1 Garden Road, Hong Kong.

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

As at 30 June 2005, the Company had direct or indirect interests in the following principal subsidiaries and associates:

Edgar Filing: CNOOC LTD - Form 6-K

Name of entity	Place and date of incorporation/ establishment and operation	Percentage of equity interest attributable to the Group	Nominal value of issued and paid/ registered ordinary share capital
Directly held subsidiaries:			
CNOOC China Limited	Tianjin, PRC 15 September 1999	100%	RMB15 billion
CNOOC International Limited	British Virgin Islands 23 August 1999	100%	US\$2
China Offshore Oil (Singapore) International Pte., Ltd.	Singapore 14 May 1993	100%	S\$3 million
CNOOC Finance (2002) Limited	British Virgin Islands 24 January 2002	100%	US\$1,000
CNOOC Finance (2003) Limited	British Virgin Islands 2 April 2003	100%	US\$1,000
CNOOC Finance (2004) Limited	British Virgin Islands 9 December 2004	100%	US\$1,000

CNOOC

NOTES TO CONDENSED INTERIM  
FINANCIAL STATEMENTS

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

1. ORGANISATION AND PRINCIPAL ACTIVITIES (CONTINUED)

Name of entity	Place and date of incorporation/ establishment and operation	Percentage of equity interest attributable to the Group	Nominal value of issued and paid/ registered ordinary share capital
Indirectly held subsidiaries*:			

## Edgar Filing: CNOOC LTD - Form 6-K

Malacca Petroleum Limited	Bermuda 2 November 1995	100%	US\$12,000
OOGC America, Inc.	State of Delaware, United States of America 2 September 1997	100%	US\$1,000
OOGC Malacca Limited	Bermuda 2 November 1995	100%	US\$12,000
CNOOC Southeast Asia Limited	Bermuda 16 May 1997	100%	US\$12,000
CNOOC ONWJ Ltd.	Labuan, F.T., Malaysia 27 March 2002	100%	US\$1
CNOOC SES Ltd.	Labuan, F.T., Malaysia 27 March 2002	100%	US\$1

10 CNOOC LIMITED 2005 Interim Report

### NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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

#### 1. ORGANISATION AND PRINCIPAL ACTIVITIES (CONTINUED)

Name of entity	Place and date of incorporation/ establishment and operation	Percentage of equity interest attributable to the Group	Nominal value of issued and p registered ordi share capital
Indirectly held subsidiaries* (continued):			

## Edgar Filing: CNOOC LTD - Form 6-K

CNOOC Poleng Ltd.	Labuan, F.T., Malaysia 27 March 2002	100%	US\$1
CNOOC Madura Ltd.	Labuan, F.T., Malaysia 27 March 2002	100%	US\$1
CNOOC Blora Ltd.	Labuan, F.T., Malaysia 27 March 2002	100%	US\$1
CNOOC NWS Private Ltd.	Singapore 8 October 2002	100%	S\$1
CNOOC Wiriagar Overseas Ltd.	British Virgin Islands 15 January 2003	100%	US\$1

CNO

### NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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

#### 1. ORGANISATION AND PRINCIPAL ACTIVITIES (CONTINUED)

Name of entity	Place and date of incorporation/ establishment and operation	Percentage of equity interest attributable to the Group	Nominal value of issued and registered ord share capital
Indirectly held subsidiaries* (continued):			
CNOOC Muturi Ltd.	The Isle of Man	100%	US\$7,780,700

# Edgar Filing: CNOOC LTD - Form 6-K

8 February 1996

## Associates\*\*:

Shanghai Petroleum and Natural Gas Company Limited	Shanghai, the PRC 7 September 1992	30%	RMB900 million
CNOOC Finance Corporation Limited	Beijing, the PRC 14 June 2002	31.8%	RMB1,415 million

\* Indirectly held through CNOOC International Limited.

\*\* Indirectly invested through CNOOC China Limited.

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

12 CNOOC LIMITED 2005 Interim Report

## NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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

### 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting". The accounting policies and basis of preparation used in the preparation of the interim financial statements are the same as those used in the annual financial statements for the year ended 31 December 2004, except in relation to the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs", which also include HKASs and Interpretations) which are generally effective and are relevant to the Group's operations for accounting periods beginning on or after 1 January 2005, and are adopted the first time by the Group for the current period's

## Edgar Filing: CNOOC LTD - Form 6-K

financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations

CNOOC LIMITED 2005 Interim Report 13

### NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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

#### 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

The adoption of HKASs 1, 2, 7, 8, 10, 12, 16, 17, 18, 19, 21, 23, 24, 27, 28, 33, 36, 37, 38 and HKFRS 3 has no material impact on the accounting policies of the Group and the methods of computation in the Group's financial statements. The impacts of adopting other HKFRSs are detailed as follows:

##### HKAS 32 and HKAS 39 - Financial Instruments

###### (i) Investments in equity and debt securities

In prior periods, the Group classified its investments in short term debt and equity securities as short term investments which were not intended to be held on a continuing basis and those investments were stated at fair values at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of such securities were credited or charged to the income statement in the period in which they arose.

Upon the adoption of HKAS 39, the Group classifies its financial assets, including investments, in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets.

## Edgar Filing: CNOOC LTD - Form 6-K

The classification depends on the purpose for which the financial assets are acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

- (a) Financial assets at fair value through profit or loss  
This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if it is acquired principally for the purpose of selling in the short term or so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges as detailed below. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months from the balance sheet date. During the period, the Group did not hold any financial assets in this category.
- (b) Loans and receivables  
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for those with maturities greater than 12 months after the balance sheet date, which are included in non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

14 CNOOC LIMITED 2005 Interim Report

### NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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

#### 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

HKAS 32 and HKAS 39 - Financial Instruments (continued)

- (i) Investments in equity and debt securities (continued)
  - (c) Held-to-maturity investments  
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the period, the Group did not hold any investments in this category.
  - (d) Available-for-sale financial assets  
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months from the balance sheet date.

## Edgar Filing: CNOOC LTD - Form 6-K

Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred to another entity and the Group has transferred substantially all risks and rewards of ownership to another entity. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset (and for unlisted securities) is not active, the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, and the use of the discounted cash flow analysis and option pricing models refined to reflect the issuer's specific circumstances.

When the fair value of unlisted equity securities cannot be reliably measured because (1) the variability in the range of reasonable fair value estimates is significant for that investment, or (2) the probabilities of various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost.

CNOOC LIMITED 2005 Interim Report 15

### NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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

#### 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

HKAS 32 and HKAS 39 - Financial Instruments (continued)

- (i) Investments in equity and debt securities (continued)  
The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the securities below their cost is a crucial factor in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment losses on that financial asset previously recognised in the income statement is removed from equity



## Edgar Filing: CNOOC LTD - Form 6-K

and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

(ii) Derivative financial instruments

In prior periods, the Group recognised at fair value all of its derivative financial instruments that are not designated as part of a hedging relationship with the resulting gain or loss being recognised in the income statement.

HKAS 39 requires companies to recognise all of their derivative financial instruments as either assets or liabilities at fair value. The accounting for changes in the fair value (i.e. gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship, and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged, as a fair value hedge, a cash flow hedge or a hedge of a net investment in a foreign operation.

For derivative financial instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative financial instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognised in the income statement during the period of the change in fair values. For derivative financial instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on a derivative financial instrument is reported in equity and reclassified into earnings in the same period or periods during which the hedged transaction affects income. The remaining gain or loss on the derivative financial instrument in excess of the cumulative change in the present value of future cash flows of the hedged item, if any, is recognised in the income statement during the period of change. For derivative financial instruments that are designated and qualify as a hedge of a net investment in a foreign currency, the gain or loss is reported in equity as part of the cumulative translation adjustment to the extent it is effective. Any ineffective portions of net investment hedges are recognised in the income statement during the period of change. For derivative financial instruments not designated as hedging instruments, the gain or loss is recognised in the income statement during the period of change.

16 CNOOC LIMITED 2005 Interim Report

### NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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

#### 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

HKAS 32 and HKAS 39 - Financial Instruments (continued)

(iii) Convertible bonds

## Edgar Filing: CNOOC LTD - Form 6-K

In prior periods, convertible bonds were stated at amortised cost.

Upon the adoption of HKAS 32 and HKAS 39, the Group's convertible bonds issued with a cash settlement option and other derivative features are split into liability and derivative components based on their fair values.

The fair value of the liability component is determined using the market rate for an equivalent non-convertible bonds on the issuance of the convertible bonds and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption.

- (iv) Combined effects of adoption of HKAS 32 and HKAS 39  
HKAS 32 mainly affects the accounting and disclosure for the convertible bonds, which has been applied retrospectively with comparatives restated. The adoption of HKAS 32 resulted in an increase in derivative financial instruments and a decrease in long term guaranteed notes of RMB448,385,000 respectively as of 31 December 2004. There was no significant impact on the income statements of current or prior years.

The adoption of HKAS 39 resulted in an increase in opening reserves and a decrease in retained earnings at 1 January 2005 by RMB20,036,000. The details of the adjustments to the condensed consolidated balance sheet at 30 June 2005 and the condensed consolidated income statement for the six months ended 30 June 2005 are as follows:

	As at 30 June 2005 (Unaudited) RMB'000
Condensed Consolidated Balance Sheet	
Increase in other reserves	51,681
Decrease in retained earnings	(51,681)
	-----
	For the six months ended 30 June 2005 (Unaudited) RMB'000
Condensed Consolidated Income Statement	
Increase in loss on derivative financial instruments	6,320
	-----

Comparative amounts have not been restated as this is not allowed under the transitional provisions of HKAS 39.

## Edgar Filing: CNOOC LTD - Form 6-K

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

### 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

#### HKFRS 2 - Share-based Payment

In prior periods, no recognition and measurement of share-based transactions in which employees (including directors) were granted share options over shares in the Company was required until such options were exercised by employees at which time share capital and share premium were credited.

Upon the adoption of HKFRS 2, when employees (including directors) render services as consideration for equity instruments ("equity-settled transactions"), the cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company, if applicable.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (the "vesting date"). The cumulative expense recognised for equity-settled transactions at each balance sheet date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

18 CNOOC LIMITED 2005 Interim Report

### NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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

### 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

#### HKFRS 2 - Share-based Payment (continued)

The new accounting policy has been applied retrospectively with comparatives restated in accordance with HKFRS 2. The impact of the adoption of HKFRS 2 on the Company's financial position and results is as follows:

## Edgar Filing: CNOOC LTD - Form 6-K

	30 June 2005 (Unaudited) RMB'000	31 December 2004 (Audited) RMB'000
Increase in other reserves	121,907	110,144
Decrease in retained earnings	(121,907)	(110,144)
	-----	-----

	For the six months ended	
	30 June 2005 (Unaudited) RMB'000	30 June 2004 (Unaudited) RMB'000
Increase in selling and administrative expenses	11,763	24,474
	-----	-----

### 3. ACQUISITIONS

During the period, the Group completed the acquisition of the North West Shelf Project in June 2005. The Group's participation in the North West Shelf Project has not started commercial operations.

Details of the net assets acquired are as follows:

Purchase consideration:	RMB'000
- Consideration paid	4,452,773
- Direct costs relating to the acquisition	84,132
	-----
Total purchase consideration	4,536,905
	-----

The assets and liabilities arising from the acquisition are as follows:

	RMB'000
Oil and gas properties	3,204,039
Gas processing rights	1,332,866
	-----
Net assets acquired	4,536,905
	-----
Purchase consideration settled in cash	4,536,905
	-----

CNOOC LIMITED 2005 Interim Report 19

#### NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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

### 3. ACQUISITIONS (CONTINUED)

## Edgar Filing: CNOOC LTD - Form 6-K

The purchase price allocation set out above is still preliminary, pending the valuation of the relevant assets and the confirmation of the tax basis of the underlying assets.

The interest of the Group in the North West Shelf Project have been charged to the other partners of the Project as security for certain of the Group's liabilities relating to the Project.

In addition, the Company, through its wholly-owned subsidiary, has signed an agreement with a Canadian based company, MEG Energy Corporation ("MEG"), to acquire a 16.69% equity interest in MEG. The Company completed the transaction and paid C\$150 million for the acquisition of 13,636,364 common shares of MEG in March 2005. MEG is principally engaged in the exploitation and production of oil sands.

#### 4. OIL AND GAS SALES AND MARKETING REVENUE

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

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

#### 5. INTEREST EXPENSES

An amount of approximately RMB52,478,000 (2004: RMB61,629,000) of accretion expense for provision for dismantlement has been recognised in the condensed consolidated income statement during the period.

20 CNOOC LIMITED 2005 Interim Report

### NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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

#### 6. TAX

##### (i) Income tax

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

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

The Company's subsidiary in Singapore, China Offshore Oil (Singapore) International Pte. Ltd., is subject to income tax at rates of 10% and

## Edgar Filing: CNOOC LTD - Form 6-K

20%, for its oil trading activities and other income-generating activities, respectively. The Company's subsidiaries owning interests in oil and gas properties in Indonesia along the Malacca Strait are subject to corporate and dividend tax at the rate of 44%. The Company's subsidiaries owning interests in oil and gas properties in Indonesia acquired from Repsol YPF, S.A. are subject to corporate and dividend tax at rates ranging from 43.125% to 51.875%. All of the Company's other subsidiaries are not subject to any income tax in their respective jurisdictions for the period presented.

(ii) Other taxes

The Company's PRC subsidiary pays the following other taxes:

- Production taxes equal to 5% of independent production and production under production sharing contracts; and
- Business tax ranging from 3% to 5% on other income.

CNOOC LIMITED 2005 Interim Report 21

NOTES TO CONDENSED INTERIM  
FINANCIAL STATEMENTS

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

7. EARNINGS PER SHARE

	Six months ended 30 June 2005 (unaudited)	2004 (unaudited) (restated)
<b>Earnings:</b>		
Net profit for the period for the purpose of basic earnings per share	RMB 11,829,023,000	RMB 7,017,453,000
Interest expenses and losses recognised on the derivative component of convertible bonds	RMB 94,649,000	--
	-----	-----
Net profit for the period for the purpose of diluted earnings per share	RMB 11,923,672,000	RMB 7,017,453,000
	-----	-----
<b>Number of shares:</b>		
Weighted average number of ordinary shares for the purpose of basic earnings per share before effects of shares repurchased and share options exercised	41,052,375,275	41,070,828,275
Effect of shares repurchased	--	(2,644,243)
Effect of share options exercised	1,946,406	--
	-----	-----
Weighted average number of ordinary		

## Edgar Filing: CNOOC LTD - Form 6-K

shares for the purpose of basic earnings per share	41,054,321,681	41,068,184,032
Effect of dilutive potential ordinary shares under the share option schemes	74,986,148	56,093,679
Effect of dilutive potential ordinary shares for convertible bonds	1,183,066,002	--
<hr style="border-top: 1px dashed black;"/>		
Weighted average number of ordinary shares for the purpose of diluted earnings per share	42,312,373,831	41,124,277,711
<hr style="border-top: 1px dashed black;"/>		
Earnings per share - Basic	RMB0.29	RMB0.17
- Diluted	RMB0.28	RMB0.17
<hr style="border-top: 1px dashed black;"/>		

22 CNOOC LIMITED 2005 Interim Report

### NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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

8. PROPERTY, PLANT AND EQUIPMENT, NET  
During the period, additions to the Group's property, plant and equipment amounted to approximately RMB7,051,109,000 (2004: RMB13,010,141,000). The amount does not include the acquisition of oil and gas properties.
  
9. INTANGIBLE ASSETS  
During the period, the Company completed the acquisition of the North West Shelf Project. Accordingly, the consideration prepaid for the gas processing rights is recorded as an intangible asset and will be amortised upon the commercial production of the liquefied natural gas.
  
10. ACCOUNTS RECEIVABLE, NET  
The customers are required to make payment within 30 days after the delivery of oil and gas. As at 30 June 2005 and 31 December 2004, substantially all of the accounts receivable would be aged within six months.
  
11. LONG TERM GUARANTEED NOTES  
Long term guaranteed notes comprised the following:
  - (i) The principal amount of US\$500 million of 6.375% guaranteed notes due in 2012 issued by CNOOC Finance (2002) Limited, a wholly-owned subsidiary of the Company. The obligations of CNOOC Finance (2002) Limited in respect of the notes are unconditionally and irrevocably guaranteed by the Company.
  
  - (ii) The principal amount of US\$200 million of 4.125% guaranteed notes due in 2013 and the principal amount of US\$300 million of 5.500% guaranteed notes due in 2033 issued by CNOOC Finance (2003) Limited, a wholly-owned subsidiary of the Company. The obligations of CNOOC Finance (2003) Limited in respect of the notes are unconditionally and irrevocably guaranteed by the Company.

## Edgar Filing: CNOOC LTD - Form 6-K

(iii) The principal amount of US\$1 billion zero coupon guaranteed convertible bonds due 2009, unconditionally and irrevocably guaranteed by, and convertible into shares of the Company issued by CNOOC Finance (2004) Limited, a wholly-owned subsidiary of the Company, on 15 December 2004. The bonds are convertible from 15 January 2005 onwards at HK\$6.075 per share, subject to adjustment for, among other things, subdivision or consolidation of shares, bonus issues, right issues, capital distribution and other dilutive events. The conversion price was adjusted to HK\$ 5.97 per share on 7 June 2005 as a result of the declaration of the final and special final dividends for 2004 by the Company. Unless previously redeemed, converted or purchased and cancelled, the bonds will be redeemed on the maturity date at 105.114% of the principal amount. CNOOC Finance (2004) Limited has a cash settlement option when the holders exercise their conversion right. The fair values of the debt component and the derivative component were determined at issuance of the bonds at RMB7,716 million and RMB448 million, respectively. The fair value of the derivative component at 30 June 2005 amounted to RMB455 million. Interest expense on the debt component is calculated using the effective interest method.

CNOOC LIMITED 2005 Interim Report 23

### NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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

#### 12. ACCOUNTS PAYABLE

As at 30 June 2005 and 31 December 2004, substantially all of the accounts payable would be aged within six months.

#### 13. SHARE CAPITAL

	Number of shares	Share capital	Issue share capita Equivalent o
Shares		HK\$'000	RMB'000
Authorised:			
Ordinary shares of HK\$0.02 each as at 30 June 2005 and 31 December 2004	75,000,000,000	1,500,000	
Issued and fully paid:			
Ordinary shares of HK\$0.02 each as at 1 January 2004*	41,070,828,275	821,417	876,9
Repurchased and cancelled	(18,453,000)	(369)	(3
As at 31 December 2004 (audited)	41,052,375,275	821,048	876,5



## Edgar Filing: CNOOC LTD - Form 6-K

Exercise of options	2,300,100	46	
As at 30 June 2005 (unaudited)	41,054,675,375	821,094	876,6

\* Adjustment has been made to take account of the subdivision of issued and unissued shares of HK\$0.10 each into five shares of HK\$0.02 each effective on 17 March 2004.

### 14. DIVIDENDS

On 30 August 2005, the board of directors declared an interim dividend of HK\$0.05 per share (2004: HK\$0.03 per share), totalling HK\$2,052,733,769 (equivalent to approximately RMB2,138,128,000) (2004: RMB1,308,225,000); and a special interim dividend of HK\$0.05 per share (2004: HK\$0.05 per share), totalling HK\$2,052,733,769 (equivalent to approximately RMB2,138,128,000) (2004: RMB2,180,375,000). In addition, the company paid a special interim dividend in 2004 of HK\$0.06 per share, totalling HK\$2,464,249,697 (equivalent to approximately RMB2,617,526,000) in place of its 2003 final dividend.

## 24 CNOOC LIMITED 2005 Interim Report

### NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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

### 15. SHARE OPTION SCHEMES

The Company has the following three share option schemes:

- (i) Pre-Global Offering Share Option Scheme (as defined in the Other Information section);
- (ii) 2001 Share Option Scheme (as defined in the Other Information section); and
- (iii) 2002 Share Option Scheme (as defined in the Other Information section).

Details of these share option schemes are disclosed in the Other Information section in this interim report.

During the six-month period ended 30 June 2005, the movements in the options granted under all of the above share option schemes were as follows:

	No. of share options	Weighted average exercise price HK\$
Outstanding at beginning of year	124,250,000	2.20
Granted during the Period	--	--
Forfeited during the Period	(7,499,900)	2.27

## Edgar Filing: CNOOC LTD - Form 6-K

Exercised during the Period	(2,300,100)	1.84
Lapsed during the Period	--	--
-----		
Outstanding at end of Period	114,450,000	2.21
-----		
Exercisable at end of Period	74,983,233	1.85
-----		

The weighted average fair value of the options at the grant dates of award under the schemes was HK\$0.84 per share which was estimated using the Black-Scholes model with the following assumptions: dividend yield of 2%, expected life of five years, expected volatility of 44% and risk-free interest rate of 5.25%. The weighted average exercise price of the stock options was HK\$2.06 per share.

CNOOC LIMITED 2005 Interim Report 25

### NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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

#### 16. RELATED PARTY TRANSACTIONS

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

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

- (i) Materials, utilities and ancillary services  
CNOOC China Limited has entered into materials, utilities and ancillary services supply agreements with the affiliates of CNOOC. Under these agreements, the affiliates of CNOOC provide to CNOOC China Limited various materials, utilities and ancillary services.

The materials, utilities and ancillary services are provided at:

- state-prescribed prices; or
- where there is no state-prescribed price, at market prices, including the local or national market prices; or
- where neither of the prices mentioned above is applicable, the cost of CNOOC's affiliates for providing the relevant materials, utilities and ancillary services, including the cost of sourcing or purchasing from third parties, plus a margin of not more than 5% before any applicable taxes.

- (ii) Technical services

Various affiliates of CNOOC, including China Oilfield Services Limited

## Edgar Filing: CNOOC LTD - Form 6-K

and Offshore Oil Engineering Company Limited, provide the Group with technical services for the Group's offshore oil and gas production activities, including:

- offshore drilling;
- ship tugging, oil tanker transportation and security services;
- well survey, well logging, well cementation and other related technical services;
- collection of geophysical data, ocean geological prospecting, and data processing;
- platform fabrication service and maintenance; and
- design, construction, installation and test of offshore and onshore production facilities.

The price for technical services was determined based on local market prices.

26 CNOOC LIMITED 2005 Interim Report

### NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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

#### 16. RELATED PARTY TRANSACTIONS (CONTINUED)

- (iii) Research and development services  
The Group has revised the original research and development services agreement with CNOOC's affiliates, China Offshore Oil Research Centre ("the Centre"), due to the restructuring of operations in 2003, and only pays the Centre for research and development for particular services. These research and development services were determined at local market prices.
- (iv) Lease and property management services  
The Group has entered into lease and property management agreements with certain affiliates of CNOOC for the leasing of various office, warehouse and residential premises. Lease charges reflect the fair and reasonable commercial market rent and management fees.

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

Six months ended	
30 June 2005	30 June 2004
(Unaudited)	(Unaudited)
RMB'000	RMB'000

## Edgar Filing: CNOOC LTD - Form 6-K

Materials, utilities and ancillary services	624,104	388,301
Technical services	3,038,150	2,225,474
Research and development services	8,678	503
Lease and property management services	23,778	21,702
	3,694,710	2,635,980
Included in:		
Exploration expenses	287,288	391,086
Operating expenses	649,186	457,275
Selling and administrative expenses	104,701	77,018
Capitalised under property, plant and equipment	2,653,535	1,710,601
	3,694,710	2,635,980

CNOOC LIMITED 2005 Interim Report 27

### NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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

#### 16. RELATED PARTY TRANSACTIONS (CONTINUED)

- (v) Sale of crude oil, condensate oil and liquefied petroleum gas  
The Group sells crude oil, condensate oil and liquefied petroleum gas at international market price to CNOOC's affiliates which engage in the downstream petroleum business. For the six months ended 30 June 2005, the total sales amounted to approximately RMB12,108,674,000 (2004: RMB6,504,015,000).

In the prior period, the Company, through its wholly-owned subsidiary, China Offshore Oil (Singapore) International Pte., Ltd., imported oil into the PRC for trading, using CNOOC's import license. The total sales to its customers through such arrangements amounted to approximately RMB77 million while the commission paid by third party customers to CNOOC for the period amounted to approximately RMB0.5 million for the six months ended 30 June 2004. No such trading by using CNOOC's import license occurred during this period.

- (vi) Transactions with CNOOC Finance Corporation Limited  
The Company entered into a framework agreement ("Framework Agreement") with CNOOC Finance Corporation Limited ("CNOOC Finance") on 8 April 2004. Under the Framework Agreement, the Group utilises the financial services provided by CNOOC Finance, a 31.8% owned associate of the Company that is also an affiliate of CNOOC. Such services include placing of the Group's cash deposits with CNOOC Finance, and settlement services for transactions between the Group and other entities including CNOOC and its affiliates. Pursuant to the Framework Agreement, the financial services provided by CNOOC Finance also include provision of loan. The charges by CNOOC Finance for its financial services to the Group are based on the pricing policies of CNOOC Finance. Such pricing policies are subject to PBOC guidelines, including the interest rates and foreign exchange rates, as well as guidelines published by PRC self-regulatory bodies, such as associations of finance companies. Based on these guidelines, CNOOC

## Edgar Filing: CNOOC LTD - Form 6-K

Finance has limited discretion in setting its prices.

For the six months ended 30 June 2005, the maximum outstanding balance of deposits (including interest received in respect of these deposits) placed with CNOOC Finance amounted to RMB3,651 million (2004: RMB3,044 million).

28 CNOOC LIMITED 2005 Interim Report

### NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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

#### 17. COMMITMENTS AND CONTINGENCIES

##### (i) Capital commitments

As at 30 June 2005, the Group had the following capital commitments, principally for the construction and purchases of property, plant and equipment:

	30 June 2005 (Unaudited) RMB'000	31 December 2004 (Audited) RMB'000
Contracted for	8,832,572	9,568,971
Authorised, but not contracted for	23,960,980	20,331,504
	-----	-----

As at 30 June 2005, the Group had unutilised banking facilities amounting to approximately RMB32,273,254,000 (2004: RMB20,662,120,000).

##### (ii) Operating lease commitments

###### (a) Office properties

The Group leases certain of its office properties under operating lease arrangements. Property leases are negotiated for terms ranging from 10 months to 3 years.

As at 30 June 2005, the Group had total minimum lease payments under non-cancellable operating leases falling due as follow:

	30 June 2005 (Unaudited) RMB'000	31 December 2004 (Audited) RMB'000

## Edgar Filing: CNOOC LTD - Form 6-K

Commitments due:		
- Within one year	58,872	24,824
- In the first to second years, inclusive	22,242	549
- After the second but before the fifth years, inclusive	30,310	--
	111,424	25,373

CNOOC LIMITED 2005 Interim Report 29

NOTES TO CONDENSED INTERIM  
FINANCIAL STATEMENTS

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

17. COMMITMENTS AND CONTINGENCIES (CONTINUED)

(ii) Operating lease commitments (continued)

(b) Plant and equipment

The Group leases certain of its plant and equipment under operating lease arrangements for a term of 10 years.

As at 30 June 2005, the Group had total minimum lease payments under non-cancelable operating leases falling due as follows:

	30 June 2005 (Unaudited) RMB'000	31 December 2004 (Audited) RMB'000
Commitments due:		
- Within one year	186,860	149,360
- In the second to fifth years, inclusive	691,192	597,442
- After 5 years	490,230	1,834,023
	1,368,282	2,580,825

(iii) Commitment to invest in Gorgon Joint Venture

In October 2003, the Company entered into an agreement with the participants in Gorgon Joint Venture to place a significant volume of Gorgon liquefied natural gas to supply the growing PRC market. Subject to the completion of formal contracts, the Company will purchase a certain equity stake in the Gorgon's gas development and its parent company, CNOOC, will arrange to purchase LNG directly from Gorgon.

(iv) Contingent liabilities

The Group has no significant contingent liabilities as at 30 June 2005.

18. SEGMENT INFORMATION

## Edgar Filing: CNOOC LTD - Form 6-K

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

30 CNOOC LIMITED 2005 Interim Report

### NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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

#### 18. SEGMENT INFORMATION (CONTINUED)

The following table presents revenue and profit information for the Group's business segments.

	Independent operations		Production sharing contracts		
	Six months ended		Six months ended		
	30 June		30 June		
	2005	2004	2005	2004	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	(Restated) RMB'000	RMB'000	(Restated) RMB'000	RMB
Segment revenue					
Sales to external customers:					
Oil and gas sales	10,202,301	6,820,277	14,531,690	9,207,268	
Marketing revenues	-	-	-	-	8,035
Other income	5,367	6,387	57,420	63,355	
	-----	-----	-----	-----	-----
Total	10,207,668	6,826,664	14,589,110	9,270,623	8,035
	-----	-----	-----	-----	-----
Segment results					
Net profit	6,826,573	4,081,059	10,097,885	5,275,654	83
	-----	-----	-----	-----	-----

	Unallocated		Consolidated	
	Six months ended		Six months ended	
	30 June		30 June	
	2005	2004	2005	2004
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	RMB'000	(Restated) RMB'000	RMB000	(Restated) RMB'000
Segment revenue				

## Edgar Filing: CNOOC LTD - Form 6-K

Sales to external customers:				
Oil and gas sales	-	-	24,733,991	16,027,545
Marketing revenues	-	-	8,035,007	8,223,351
Other income	288	-	63,075	69,742
	-----	-----	-----	-----
Total	288	-	32,832,073	24,320,638
	-----	-----	-----	-----
Segment results				
Net profit	(5,179,053)	(2,439,804)	11,829,023	7,017,453
	-----	-----	-----	-----

### 19. ADDITIONAL FINANCIAL INFORMATION

As at 30 June 2005, net current assets and total assets less current liabilities of the Group amounted to approximately RMB28,575,694,000 and RMB92,400,282,000 (2004: RMB24,890,362,000 and RMB83,674,168,000), respectively.

### 20. SIGNIFICANT DIFFERENCES BETWEEN HK GAAP AND US GAAP

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

#### (i) Net profit and equity

##### (a) Revaluation of land and buildings

The Group revalued certain land and buildings on 31 August 1999 and 31 December 2000 and the related revaluation surplus was recorded on the respective dates. Under HK GAAP, revaluation of property, plant and equipment is permitted and depreciation, depletion and amortisation are based on the revalued amount. Additional depreciation arising from the revaluation for the six months ended 30 June 2005 was approximately RMB4,578,000 (2004: RMB4,578,000). Under US GAAP, property, plant and equipment is required to be stated at cost. Accordingly, no additional depreciation, depletion and amortisation from the revaluation are recognised under US GAAP.

CNOOC LIMITED 2005 Interim Report 31

### NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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

### 20. SIGNIFICANT DIFFERENCES BETWEEN HK GAAP AND US GAAP (CONTINUED)

#### (i) Net profit and equity (continued)

##### (b) Available-for-sale financial assets

Prior to 2005, according to HK GAAP, available-for-sale



## Edgar Filing: CNOOC LTD - Form 6-K

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

With effect from 1 January 2005, there is no significant difference between HK GAAP and US GAAP on the accounting for investments in equity and debt securities.

(c) Impairment of long-lived assets

Under HK GAAP, impairment charges are recognised when a long-lived asset's carrying amount exceeds the higher of the asset's net selling price and value in use, which incorporates the discounting of the asset's estimated future cash flows.

Under US GAAP, long-lived assets are assessed for possible impairment in accordance with SFAS No. 144, "Accounting for the impairment or disposal of long-lived assets". SFAS No. 144 requires the Group to (a) recognise an impairment loss only if the carrying amount of a long-lived asset is not recoverable from its undiscounted cash flows; and (b) measure impairment loss as the difference between the carrying amount and fair value of the asset. SFAS No. 144 requires a long-lived asset that is to be abandoned, exchanged for a similar productive asset, or distributed to owners in a spin-off be considered as held and used until it is disposed of.

SFAS No. 144 also requires the Group to assess the need for impairment of capitalised costs of proved oil and gas properties and the costs of wells and related equipment and facilities on a property-by-property basis. If impairment is indicated based on undiscounted expected future cash flows, then impairment is recognised to the extent that net capitalised costs exceed the estimated fair value of a property. The fair value of the property is estimated by the Group using the present value of future cash flows. The impairment is determined based on the difference between the carrying value of the assets and the present value of future cash flows. It is reasonably possible that a change in reserve or price estimates could occur in the near term and adversely impact management's estimate of future cash flows and consequently the carrying value of properties.

NOTES TO CONDENSED INTERIM  
FINANCIAL STATEMENTS

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

20. SIGNIFICANT DIFFERENCES BETWEEN HK GAAP AND US GAAP (CONTINUED)

## Edgar Filing: CNOOC LTD - Form 6-K

(i) Net profit and equity (continued)

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

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

For the six months ended 30 June 2005, an impairment of approximately RMB90,189,000 was recognised under both HK GAAP and US GAAP.

(d) Accounting for convertible bonds

Under HK GAAP, prior to 1 January 2005, there was no requirements to segregate the debt derivative or equity components of convertible bonds. As such, convertible bonds were stated at amortised cost.

With effect from 1 January 2005, under HKAS 32 Financial Instruments: Disclosure and Presentation, financial instruments with cash settlement options and other derivative components will need to be bifurcated into a debt component and a derivative component. The derivative component is marked to market at each balance sheet date and the differences will be charged/credited to the income statement. The debt component is stated at amortised cost. The requirements of HKAS 32 have been applied retrospectively with comparatives restated.

Under US GAAP, convertible bonds are subject to different rules on bifurcation of the debt and derivative components. There is no significant difference on the accounting treatment adopted under HK GAAP and US GAAP for the Group's convertible bonds.

CNOOC LIMITED 2005 Interim Report 33

NOTES TO CONDENSED INTERIM  
FINANCIAL STATEMENTS

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

20. SIGNIFICANT DIFFERENCES BETWEEN HK GAAP AND US GAAP (CONTINUED)

(i) Net profit and equity (continued)

The effects on net profit and equity of the above significant differences between HK GAAP and US GAAP are summarised below:

Edgar Filing: CNOOC LTD - Form 6-K

	Net profit	
	Six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
		(Restated)
As reported under HK GAAP	11,829,023	7,041,927
Previously adjusted for adoption of HKFRS 2	--	(24,474)
	-----	-----
As restated under HK GAAP	11,829,023	7,017,453
Impact of US GAAP adjustments:		
- Reversal of additional depreciation, depletion and amortisation charges arising from the revaluation surplus on land and buildings	4,578	4,578
- Unrealised (gains)/losses from available-for-sale investments in marketable securities	--	50,443
- Realised holding gains/(losses) from available-for-sale marketable securities	--	(1,335)
	-----	-----
Net profit as restated under US GAAP	11,833,601	7,071,139
	-----	-----
Net profit per share under US GAAP		
- Basic	RMB0.29	RMB0.17
	-----	-----
- Diluted	RMB0.28	RMB0.17
	-----	-----

34 CNOOC LIMITED 2005 Interim Report

NOTES TO CONDENSED INTERIM  
FINANCIAL STATEMENTS

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

20. SIGNIFICANT DIFFERENCES BETWEEN HK GAAP AND US GAAP (CONTINUED)

(i) Net profit and equity (continued)

	Equity	
	30 June	31 December
	2005	2004
	(Unaudited)	(Audited)
	RMB'000	RMB'000
As reported under HK GAAP	65,058,776	56,717,461
Impact of US GAAP adjustments:		
- Reversal of revaluation surplus on land and buildings	(274,671)	(274,671)
- Reversal of additional accumulated		

## Edgar Filing: CNOOC LTD - Form 6-K

depreciation, depletion and amortisation charges arising from the revaluation surplus on land and buildings	48,785 -----	44,207 -----
As restated under US GAAP	64,832,890 -----	56,486,997 -----
(ii) Comprehensive income According to SFAS No. 130 "Reporting comprehensive income", it is required to include a statement of other comprehensive income for revenues and expenses, gains and losses that are included in comprehensive income and excluded from net income under US GAAP.		
	Six months ended 30 June	
	2005 (Unaudited) RMB'000	2004 (Unaudited) RMB'000
Net income under US GAAP Included in other comprehensive income: Foreign currency translation adjustments Unrealised gains/(losses) on short term Investments Less: Reclassification adjustment for realised (gains)/losses included in net income	11,833,601  (39,653)  31,645  --  ----- 11,825,593 -----	7,071,139  2,269  (50,443)  1,335  ----- 7,024,300 -----

CNOOC LIMITED 2005 Interim Report 35

### NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

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

#### 21. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

The interim financial statements for the six months ended 30 June 2005 were approved and authorised for issue by the board of directors on 30 August 2005.

36 CNOOC LIMITED 2005 Interim Report

INDEPENDENT REVIEW REPORT

## Edgar Filing: CNOOC LTD - Form 6-K

[GRAPHIC OMITTED] ERNST & YOUNG

[GRAPHIC OMITTED]

To the board of directors  
CNOOC Limited (the "Company")  
(Incorporated in the Hong Kong Special Administrative Region with limited liability)

We have been instructed by the Company to review the interim financial report of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2005 as set out on pages 5 to 36.

### RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors. It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### REVIEW WORK PERFORMED

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

### REVIEW CONCLUSION

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2005.

Ernst & Young  
Certified Public Accountants

Hong Kong  
30 August 2005

CNOOC LIMITED 2005 Interim Report 37

OTHER INFORMATION

## Edgar Filing: CNOOC LTD - Form 6-K

### DIRECTORS' INTERESTS

As at 30 June 2005, the interests of the Directors and the Chief Executives of the Company in the equity securities of the Company and its associated corporations (all within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or disclosed in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") comprised only the personal interests in options to subscribe for shares ("Shares") in the Company referred to below.

During the six months ended 30 June 2005, the following persons had the following personal interests in options to subscribe for shares in the Company granted under the share option schemes of the Company:

Name of Grantee (Note 1)	No. of shares involved in the options outstanding at the beginning of the period (Note 2)	No. of shares involved in the options outstanding at the end of the period	Date of Grant	Closing price per share immediately before the date on which the options were granted (HK\$) (Note 3)
<b>Directors:</b>				
Fu Chengyu	1,750,000	1,750,000	12 Mar 2001	--
	1,750,000	1,750,000	27 Aug 2001	1.46
	1,150,000	1,150,000	24 Feb 2003	2.09
	2,500,000	2,500,000	5 Feb 2004	3.13
Zhou Shouwei	1,400,000	1,400,000	12 Mar 2001	--
	1,750,000	1,750,000	27 Aug 2001	1.46
	1,750,000	1,750,000	24 Feb 2003	2.09
	1,750,000	1,750,000	5 Feb 2004	3.13
Luo Han	1,400,000	1,400,000	12 Mar 2001	--
	1,150,000	1,150,000	27 Aug 2001	1.46
	1,150,000	1,150,000	24 Feb 2003	2.09
	1,150,000	1,150,000	5 Feb 2004	3.13

### OTHER INFORMATION

## Edgar Filing: CNOOC LTD - Form 6-K

Name of Grantee (Note 1)	No. of shares involved in the options outstanding at the beginning of the period (Note 2)	No. of shares involved in the options outstanding at the end of the period	Date of Grant	per share immediately before the date on which the options were granted (HK\$) (Note 3)
Chiu Sunghong	1,150,000	1,150,000	5 Feb 2004	3.13
Evert Henkes	1,150,000	1,150,000	5 Feb 2004	3.13
Kenneth S Courtis	1,150,000	1,150,000	5 Feb 2004	3.13
Others	9,100,000	8,250,000	12 Mar 2001	--
	24,950,000	22,300,000	27 Aug 2001	1.46
	28,800,000	26,083,333	24 Feb 2003	2.09
	39,300,000	35,716,667	5 Feb 2004	3.13

Note 1: Mr. Erwin Schurtenberger resigned as an Independent Non-executive Director of the company on 1 April 2005 and Mr. Jiang Longsheng retired as an Executive Director of the Company on 1 June 2005.

Note 2: Certain share options granted by the Company to employees had in fact lapsed following termination of employment of the relevant employees, and accordingly the Company had made adjustments to the number of share options outstanding at the beginning of the period to take into account such lapsed share options.

Note 3: Adjustments have been made to take into account the subdivision of issued and unissued shares of the Company of HK\$0.10 each into five shares of HK\$0.02 each effective on 17 March 2004.

During the six months ended 30 June 2005, apart from 2,300,100 shares options exercised, no options granted under the share option schemes of the Company were exercised.

All the interests stated above represent long positions. As at 30 June 2005, no short positions were recorded in the Register of Directors' and Chief Executives' Interests and Short Positions required to be kept under section 352 of the SFO.

Other than those disclosed above, no right to subscribe for equity or debt securities of the Company has been granted by the Company to, nor have any such rights been exercised by, any other person during the half year ended 30 June 2005.

## Edgar Filing: CNOOC LTD - Form 6-K

### SUBSTANTIAL INTERESTS IN SHARE CAPITAL

The register maintained by the Company pursuant to the SFO recorded that, as at 30 June 2005, the following corporations had the interests (as defined in the SFO) in the Company set opposite their respective names below:

	Ordinary Shares		Percentage of Total Issued Shares
	Directly held	Indirectly held	
(i) CNOOC (BVI) Limited ("CNOOC (BVI)")	28,999,999,995	--	70.64%
(ii) Overseas Oil & Gas Corporation, Limited ("OOGC")	5	28,999,999,995	70.64%
(iii) China National Offshore Oil Corporation ("CNOOC")	--	29,000,000,000	70.64%

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

All the interests stated above represent long positions. As at 30 June 2005, no short positions were recorded in the Register of Interests in Shares and Short Positions required to be kept under section 336 of the SFO.

### INFORMATION ON SHARE OPTION SCHEMES

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

1. options for an aggregate of 23,100,000 Shares have been granted;
2. the subscription price per Share is HK\$1.19; and
3. the period during which an option may be exercised is as follows:
  - (a) 50% of the rights to exercise the options shall vest 18 months after the date of the grant; and
  - (b) 50% of the rights to exercise the options shall vest 30 months after the date of the grant.

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

40 CNOOC LIMITED 2005 Interim Report

OTHER INFORMATION



## Edgar Filing: CNOOC LTD - Form 6-K

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

1. options for an aggregate of 44,100,000 Shares have been granted;
2. the subscription price per Share is HK\$1.232; and
3. the period during which an option may be exercised is as follows:
  - (a) one-third of the rights to exercise the options shall vest on the first anniversary of the date of the grant;
  - (b) one-third of the rights to exercise the options shall vest on the second anniversary of the date of the grant; and
  - (c) one-third of the rights to exercise the options shall vest on the third anniversary of the date of the grant.

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

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

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

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

CNOOC LIMITED 2005 Interim Report 41

### OTHER INFORMATION

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

1. the nominal value of a share;

## Edgar Filing: CNOOC LTD - Form 6-K

2. the average closing price of the Shares on the Stock Exchange of Hong Kong Limited ("HKSE") as stated in the HKSE's quotation sheet for the five trading days immediately preceding the date of grant of the option; and
3. the closing price of the Shares on the HKSE as stated in the HKSE's quotation sheet on the date of grant of the option.

On 24 February 2003, the board of Directors resolved to grant options in respect of 42,050,000 Shares to the Company's senior management under the 2002 Share Option Scheme. The exercise price for such options is HK\$2.108 per Share. The closing market price immediately before the date on which such options were granted was HK\$2.11 per Share. Options granted under the 2002 Share Option Scheme may be exercised, in whole or in part, in accordance with the following vesting schedule:

1. one-third of the rights to exercise the options shall vest on the first anniversary of the date of the grant;
2. one-third of the rights to exercise the options shall vest on the second anniversary of the date of the grant; and
3. one-third of the rights to exercise the options shall vest on the third anniversary of the date of the grant.

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

42 CNOOC LIMITED 2005 Interim Report

### OTHER INFORMATION

On 5 February 2004, the board of directors approved a grant of options in respect of 50,700,000 Shares to the Company's senior management under the 2002 Share Option Scheme. The exercise price for such options is HK\$3.152 per Share. The closing market price immediately before the date on which such options were granted was HK\$3.146 per Share. Options granted under the 2002 Share Option Scheme may be exercised, in whole or in part, in accordance with the following vesting schedule:

1. one-third of the rights to exercise the options shall vest on the first anniversary of the date of the grant;
2. one-third of the rights to exercise the options shall vest on the second anniversary of the date of the grant; and
3. one-third of the rights to exercise the options shall vest on the third anniversary of the date of the grant.

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

On 1 April 2005, Mr. Erwin Schurtengberger surrendered 1,150,000 share options following his resignation as an Independent Non-executive Director of the

## Edgar Filing: CNOOC LTD - Form 6-K

Company. The total number of options exercisable as of 30 June 2005 was 74,983,233.

The weighted average fair value of the options granted under the Pre-Global Offering Share Option Scheme, the 2001 Share Option Scheme and the 2002 Share Option Scheme at the grant dates was HK\$0.84 per Share. This was estimated using the Black-Scholes option pricing model under the following assumptions: risk-free interest rates of 5.25%, expected volatility of 44%, an expected life of five years and an expected dividend yield of 2.0%. The assumptions on which the option pricing model is based represent the subjective estimations of the Directors as to the circumstances existing at the time the options were granted.

### AUDIT COMMITTEE

The audit committee has reviewed together with the management the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters. The interim results for the six months ended 30 June 2005 are unaudited, but have been reviewed by Ernst & Young in accordance with Statement of Auditing Standards 700 "Engagement to review interim financial reports", issued by the Hong Kong Institute of Certified Public Accountants. The interim financial report has been reviewed by the audit committee.

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

There has been no purchase, sale or redemption of the Company's listed securities by the Company or its subsidiaries during the six months ended 30 June 2005.

CNOOC LIMITED 2005 Interim Report 43

### OTHER INFORMATION

#### CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the six months ended 30 June, 2005, except for the following deviations from the code provisions A.2.1, A.4.1, A.4.2 and B.1.3 only.

#### Code Provision A.2.1

Under the code provision A.2.1, the roles of the chairman and chief executive officer are required to be separated and not to be performed by the same individual.

Mr. Fu Chengyu ("Mr. Fu") is the chairman of the Company. In addition to the role of the chairman, the role of chief executive officer is also designated to Mr. Fu because of the nature of the Company's operations. This constitutes a deviation from the code provision A.2.1. The reason for such deviation is set out below.

The Company is engaged in the pure oil exploration and production business which is different from integrated oil companies which engage in both upstream and downstream operations. In light of this, the board considers that the interest of the Company's oil exploration and production business is best served when strategic planning decisions are made and implemented by the same person. The Company's nomination committee also agreed that it is in the best interest of the Company that the roles of the chairman of the board of Directors and chief

## Edgar Filing: CNOOC LTD - Form 6-K

executive officer be performed by the same individual.

In light of the above, the Company does not currently propose to designate another person as the chief executive officer of the Company.

### Code Provision A.4.1

Under the code provision A.4.1, non-executive directors should be appointed for a specific term and be subject to re-election.

None of the existing Independent Non-executive Directors of the Company is appointed for a specific term. This constitutes a deviation from the code provision A.4.1. However, all the Directors of the Company (executive and non-executive) are subject to the retirement provisions under article 97 of the articles of association of the Company ("Article 97"). According to Article 97, one-third of the Directors for the time being must retire from the office by rotation at each annual general meeting. The Company has observed the need for good corporate governance practices and all the existing Independent Non-executive Directors of the Company have been re-elected in past three years, except Mr. Tse Hau Yin, Aloysius ("Mr. Tse"), who was appointed as an Independent Non-executive Director of the Company in place of Mr. Erwin Schurtenberger ("Mr. Schurtenberger") on 8 June 2005. Therefore, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

44 CNOOC LIMITED 2005 Interim Report

## OTHER INFORMATION

### Code Provision A.4.2

Under the code provision A.4.2, every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. Mr. Fu, the chairman of the Company, was re-elected as a Director on 6 June 2002. He did not retire by rotation at the annual general meeting held on 25 May 2005 as under Article 97 a Director who is also a chairman or chief executive officer of the Company is exempted from the requirement to retire by rotation. Mr. Fu will however retire by rotation and be subject to re-election by shareholders in the future, in compliance with the code provision A.4.2.

### Code Provision B.1.3

The code provision B.1.3 requires the terms of reference of the remuneration committee of the Company to include, as a minimum, certain specific duties set out in such code provision.

Previously, the Company's remuneration committee charter did not mirror the exact wording of the terms of reference in the code provision B.1.3. The Company has therefore revised its remuneration committee charter to comply with the provisions in the code provision B.1.3.

### MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted a code of ethics ("Code of Ethics") incorporating the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all Directors, the Directors confirm that they complied,

## Edgar Filing: CNOOC LTD - Form 6-K

during the six months ended 30 June 2005, with the Company's Code of Ethics and the required standards set out in the Model Code.

### CHANGES IN DIRECTORSHIP

On 1 April 2005, Mr. Schurtenberger resigned as an Independent Non-executive Director of the Company for personal reasons due to ill health. Mr. Tse was subsequently appointed as an Independent Non-executive Director of the Company in place of Mr. Schurtenberger on 8 June 2005. Mr. Tse was also appointed a member of the audit committee and remuneration committee of the Company on 8 June 2005.

Mr. Jiang Longsheng ("Mr. Jiang") an Executive Director of the Company, retired on 1 June 2005 and on the same day, Mr. Wu Guangqi ("Mr. Wu") was appointed as an Executive Director of the Company in place of Mr. Jiang. Mr. Wu was also appointed as the Compliance Officer of the Company.

During the period between Mr. Schurtenberger's resignation and Mr. Tse's appointment as an Independent Non-executive Director of the Company, the audit committee only comprised of 2 Independent Non-executive Directors and therefore the Company was not in strict compliance with rule 3.21 of the Listing Rules which requires an audit committee to comprise of at least 3 Independent Non-executive Directors. The Company had informed the Stock Exchange immediately and published an announcement in newspapers containing relevant details in compliance with rule 3.23 of the Listing Rules. The Company had also, in accordance with rule 3.23 of the Listing Rules, ensured that an appropriate member was appointed to the audit committee within three months of Mr. Schurtenberger's resignation. After Mr. Tse's appointment on 8 June 2005 as an Independent Non-executive Director and a member of the audit committee of the Company, the audit committee comprised 3 Independent Non-executive Directors and the Company is in compliance with rule 3.21 of the Listing Rules.

CNOOC LIMITED 2005 Interim Report 45

### OTHER INFORMATION

#### STATEMENT ON CORPORATE GOVERNANCE AS REQUIRED BY SECTION 303A.11 OF THE NEW YORK STOCK EXCHANGE LISTED COMPANY MANUAL

The Company is incorporated under the laws of Hong Kong and the principal trading market for the ordinary shares of the Company is the Hong Kong Stock Exchange. In addition, because the Company's ordinary shares are registered with the United States Securities and Exchange Commission and are listed on the New York Stock Exchange (the "NYSE"), the Company is subject to certain corporate governance requirements. However, many of the corporate governance rules in the NYSE Listed Company Manual (the "NYSE Standards") do not apply to the Company as a "foreign private issuer" and the Company is permitted to follow its home country corporate governance practices in lieu of most corporate governance standards contained in the NYSE Standards. Section 303A.11 of the NYSE Listed Company Manual requires NYSE-listed foreign private issuers to describe the significant differences between their corporate governance practices and the corporate governance standards applicable to U.S. companies listed on the NYSE. The Company has posted a brief summary of such significant differences on its website, which may be accessed through the following web page:

## Edgar Filing: CNOOC LTD - Form 6-K

[http://www.cnoccltd.com/cnoccltd/template/Template010.jsp?Wc\\_Id=333&Wg\\_Id=16](http://www.cnoccltd.com/cnoccltd/template/Template010.jsp?Wc_Id=333&Wg_Id=16)

### MISCELLANEOUS

The Directors are of the opinion that there have been no material changes to the information published in the annual report for the year ended 31 December 2004, other than as disclosed in this Interim Report.

### REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 15 September 2005 to 22 September 2005 (both days inclusive) during which no transfer of shares can be registered. In order to qualify for the interim dividend and the special interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's registrar, Hong Kong Registrars Limited, Room 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4.00 p.m. on 14 September 2005.

By Order of the Board  
Cao Yunshi  
Company Secretary

Hong Kong, 30 August 2005

### FORWARD-LOOKING STATEMENTS

Certain statements contained in this interim report may be viewed as "forward-looking statements". Such forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the actual performance, financial condition or results of operations of the Company to be materially different from any future performance, financial condition or results of operations implied by such forward-looking statements.

46 CNOOC LIMITED 2005 Interim Report

### SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report on Form 6-K to be signed on its behalf by the undersigned, thereunto duly authorized.

CNOOC Limited

By: /s/ Cao Yunshi

-----  
Name: Cao Yunshi  
Title: Company Secretary

Dated: September 8, 2005