The information and statistics relating to our industry provided in this section and elsewhere in this Prospectus have been derived from various official and unofficial sources, including CNOOC, our controlling Shareholder and a selling Shareholder, and other associates of ours. Neither we or any of our advisers, nor the Underwriters or any of their advisers, can assure you that these sources have compiled such data and information on the same basis or with the same degree of accuracy or completeness as are found in other industries or other jurisdictions. Moreover, neither we or any of our advisers, nor the Underwriters or any of their advisers, have independently verified this information or these statistics, and we and the Underwriters can make no representation as to their accuracy.

OVERVIEW

We are engaged in the offshore oilfield services industry, which provides products and services to companies involved in the exploration, development and production of offshore oil and natural gas. The major products and services provided by companies in our industry include geophysical services, drilling services and products, marine support and transportation services, marine engineering and construction services and other associated products and services. Offshore oilfield products and services typically account for a large percentage of the costs of offshore oil and gas exploration, development and production.

OFFSHORE OILFIELD SERVICES INDUSTRY

The Gulf of Mexico and the North Sea historically have been the markets with the highest levels of offshore oil and gas activity and therefore have generated the greatest demand for offshore oilfield services. Other significant or emerging offshore markets include those of Southeast Asia, China, West Africa, Brazil, the Persian Gulf, India, the Mediterranean and Australia.

Demand for offshore oilfield services is cyclical in nature and depends substantially on the condition of the oil and gas industry and its willingness to spend capital on the exploration, development and production of oil and natural gas. The level of these capital expenditures is highly sensitive to existing oil and gas prices as well as price expectations among oil and gas operators. Increasing commodity prices generally result in increased oil and gas exploration and production, which translates into greater demand for offshore drilling services. Conversely, falling commodity prices generally result in reduced demand for those services. Historically, changes in budgets and activity levels by oil and gas exploration and production companies have lagged behind significant movements in oil and gas prices.

Supply of offshore oilfield services globally is a function of newbuild or modified equipment delivered to the market, whereas the supply of equipment to any particular region is a function of both newbuild activity and the migration of equipment to or from other markets, either permanently or for temporary assignments. Drilling rigs, marine support vessels and other equipment can be moved from one region to another, but mobilization and demobilization costs and the availability of suitable equipment for mobilization may cause the balance between supply and demand to vary between regions, particularly in the short term.

The offshore oilfield services industry historically has been cyclical. Its financial results depend on the utilization levels and day rates for equipment, which in turn are determined by the supply of available rigs, vessels and other equipment relative to demand. Periods of high demand, high utilization levels and high day rates have been followed by periods of low demand, low utilization levels and low day rates. Periods of excess equipment supply intensify competition in the industry and often result in the idling of equipment for periods of time.

From 1995 to 1998, and again from mid-2000 to mid-2001, the offshore oilfield services sector experienced generally strong market conditions. This high demand was reflected in high rig counts, utilization rates and day rates across most major regions. In 1999 and early 2000, on the other hand, rig counts, day rates and utilization rates were generally lower. These downturns largely resulted from lower oil prices and the impact of consolidation among large integrated oil and gas companies as well as an increase in the amount of new equipment entering the marketplace. Conditions were generally strong in the first part of 2001 but weakened substantially in late 2001 and 2002 as a weak U.S. economy led to lower commodity prices, particularly natural gas, and reduced drilling activity in the important U.S. Gulf of Mexico market.

The table below shows some of the key indicators and drivers of global demand for offshore oilfield services as of or for the dates or periods indicated.

	As of or for year ended December 31,					As of or for six months ended June 30,
	1997	**1998**	**1999**	**2000**	**2001**	**2002**
Average WTI crude oil price (US$/barrel)	20.58	14.38	19.30	30.37	25.96	24.01
Average Henry Hub natural gas price (US$)	2.48	2.08	2.27	4.30	3.96	2.98
Worldwide offshore rig supply	612	614	634	646	653	729
Worldwide offshore rig demand	555	493	455	531	478	507
Utilization (%)[1]	91	80	72	82	73	70

Source: Bloomberg; Rigzone.com

(1) Utilization is calculated by dividing worldwide offshore rig demand by worldwide offshore rig supply.

On November 5, 2002, the average WTI crude oil price was US$26.14 per barrel and the average Henry Hub natural gas price was US$3.90.

The U.S. Energy Information Administration forecasts that world oil consumption will increase by approximately 60% between 1999 and 2020. Much of this growth is expected to come from developing countries, including those of Asia and Latin America, which are expected to sustain energy demand growth of approximately 4% annually during this forecast period.

OFFSHORE OIL AND GAS SECTOR IN CHINA

Since the early 1980s, China has experienced rapid economic growth, which has resulted in a strong increase in demand for petroleum and other primary energy resources. Between 1990 and 2000, China's GDP increased at a compound real annual rate of 10.1%, making China one of the fastest growing economies in the world. Due to its rapid growth, China has become the second largest consumer of primary energy in the world behind the United States. However, China's primary energy consumption on a per capita basis and the oil and gas portion of primary energy consumed remain significantly lower than the worldwide per capita averages.

The following table lists some of the world's leading primary energy consuming countries for the year 2001, their oil and gas consumption levels and the worldwide totals and averages.

Country	Total primary energy consumed (BTU quadrillion)	Crude oil consumption (million BOE)	Crude oil consumption per capita (BOE)	Crude oil share of total consumption (%)	Natural gas share of total consumption (%)
U.S.	98.8	7,190.9	25.6	38.9	23.4
China	36.7	1,744.7	1.4	26.9	3.0
Japan	21.8	2,017.6	15.9	51.5	13.2
Germany	14.0	1,011.0	12.3	41.0	21.7
Canada	13.1	756.7	24.6	31.0	25.8
France	10.4	737.6	12.5	40.0	14.9
United Kingdom	9.9	628.1	10.6	35.1	36.3
World total	397.4	27,747.6	4.6	38.8	22.7

Source: U.S. Energy Information Administration

From 1990 to 2000, China's petroleum consumption increased at a compound annual rate of 6.7% and China's oil production grew at a compound annual rate of 1.6%. At the same time, natural gas production grew at a compound annual rate of 6.1%. Since 1996, China has been a net importer of crude oil, which together with the PRC Government's emphasis on cleaner burning energy sources, has increased the importance of less developed oil and gas regions, particularly offshore China. China's offshore area and far western onshore region provide significant reserve potential.

The following table breaks down crude oil consumption, production and net imports (exports) and natural gas production in China between 1990 and 2000.

	Crude oil (in million tons)				Natural gas (bcf)	
Year	Offshore production[(1)]	Total production	Consumption	Net import (export)	Offshore production	Total production
1990	1.4	138.3	117.6	(21.1)	—	540.3
1991	2.4	141.0	123.6	(16.6)	—	567.5
1992	4.0	142.1	132.3	(10.2)	1.4	557.6
1993	4.5	145.2	138.3	(3.8)	10.2	592.2
1994	6.5	146.1	140.2	(6.2)	1.2	620.1
1995	8.4	150.1	148.9	(1.8)	16.1	633.9
1996	15.0	157.3	158.7	2.3	91.7	710.2
1997	16.3	160.7	173.7	15.6	142.9	801.6
1998	16.3	161.0	174.0	1.2	136.4	822.1
1999	16.2	160.2	189.7	29.4	155.0	889.9
2000	18.1	162.3	222.1	59.8	150.1	979.1

Sources: China Statistical Yearbooks (1993-2000); China Statistical Abstract (2001); Petroleum and Chemical Statistical Digest (1983- 1998); China OGP, Xinhua News Agency; and CNOOC.

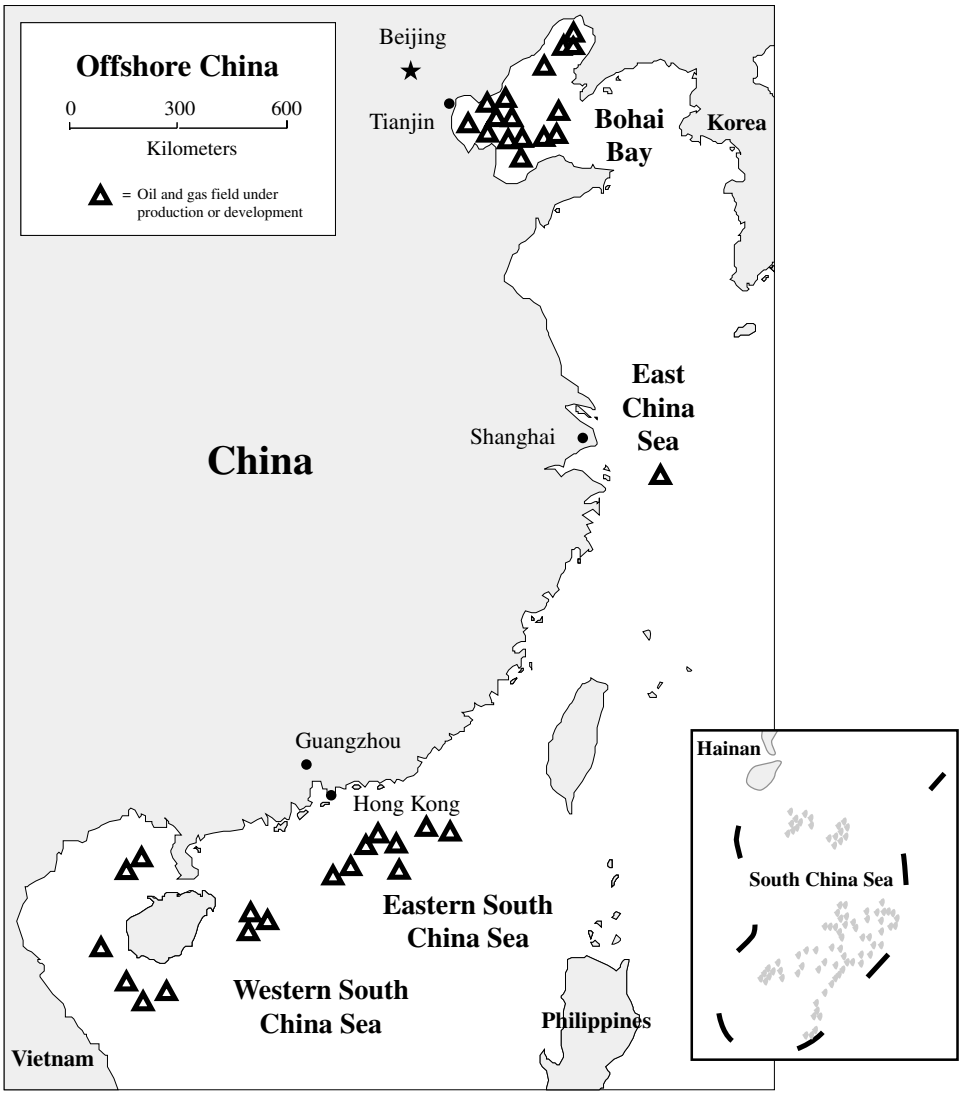
(1) Does not include shallower water extensions of onshore fields.

The PRC Government established China National Offshore Oil Corporation, or CNOOC, in 1982 as a State-owned offshore petroleum company. Under the PRC Regulations on Exploitation of Offshore Petroleum Resources in Cooperation with Foreign Enterprises, the PRC Government gave CNOOC the exclusive right to cooperate with foreign oil and gas companies to develop China's offshore petroleum resources. In 1999, CNOOC transferred to CNOOC Limited its commercial rights in exploration and production, both independently and in partnership with foreign entities. CNOOC also conducts oilfield services through specialized companies, such as us and CNOOC Offshore Oil Engineering Company Limited ("CNOOC Engineering"). CNOOC Engineering, a publicly listed company on the Shanghai Stock Exchange and a majority controlled subsidiary of CNOOC, performs drilling platform design and construction services. In addition to these businesses, CNOOC has performed and continues to perform administrative functions, including oversight of production sharing contracts with foreign partners.

The offshore China exploration area is approximately 1.3 million square kilometers (501,800 square miles) in size and is divided into four regions, the Bohai Bay, the East China Sea, the Eastern South China Sea and the Western South China Sea.

Historically, the operating conditions offshore China have been less severe than in some other offshore areas, such as the North Sea and offshore eastern Canada. Offshore China experiences relatively mild weather and sea conditions and has shallow to moderate water depths. Moreover, local labor and materials costs in China are relatively low. These factors have made oil and gas activity offshore China and the corresponding demand for oilfield services more stable than in many other major offshore regions.

The following map shows China's offshore regions and oil and gas fields under production or development:



Source: *CNOOC Limited*

The table below summarizes some key characteristics of the four oil and gas regions offshore China.

	Bohai Bay	Western South China Sea	Eastern South China Sea	East China Sea
Location	East of Beijing	Southwest of Hong Kong	South of Hong Kong	East of Shanghai
Area (km^2)	58,100	712,480	174,420	339,580
Typical water depths (feet)	52-115	100-320	295-1,085	260-315
Typical pay depths (feet)	3,000-10,000	4,000-12,000	4,900-12,000	7,200-12,000
Crude API range (degrees)	15 to 20	27 to 41	30 to 40	45 to 55

In certain areas of the Bohai Bay, onshore fields of China National Petroleum Corporation (or CNPC) and China Petroleum and Chemical Corporation (or Sinopec) extend into shallow waters. These companies have engaged in limited exploration and production, both independently and in conjunction with foreign parties, in these areas. Although there is no official definition of offshore China, for the purposes of this section, unless otherwise stated, offshore China excludes these shallow water areas of the Bohai Bay.

Oil and gas companies in the offshore China market typically are large and well-capitalized entities. CNOOC Limited by virtue of its relationship to CNOOC is the dominant offshore petroleum company in China and one of the largest offshore exploration and production companies in the world as measured by proved reserves. There are also a number of foreign oil and gas companies currently operating offshore China under production sharing contracts, or PSCs, with CNOOC Limited, which has been granted the exclusive right to enter into such contracts with foreign partners. These PSC partners include BP, ChevronTexaco, Devon Energy, Husky, Kerr-McGee, Newfield Exploration, Phillips Petroleum and Royal Dutch/Shell. In addition, CNOOC Limited and an associate of Sinopec each own a 50% interest in the Xihu oilfield in the East China Sea.

Exploration, development and production activities offshore China have increased dramatically since CNOOC's establishment and the opening of the offshore China market to foreign investment in 1982. CNOOC Limited and its PSC partners have made a number of significant oil and gas discoveries in the last decade. Along with these discoveries and rising energy demand in China, particularly along the faster growing coastal regions, there has been an increase in overall activity by foreign oil and gas companies and by CNOOC Limited.

The table below sets forth certain oil and gas activity offshore China as of or for the dates or periods indicated.

	As of or for year ended December 31,				
	1997	**1998**	**1999**	**2000**	**2001**
Exploration activity					
Number of exploration licenses	N/A	49	39	55	118
Area covered by exploration license (km^2)	N/A	215,611	145,365	200,388	520,768
Development activity					
Number of fields under development	4	4	5	11	15
Production activity					
Number of producing fields	13	14	15	16	17
Number of production platforms	36	38	38	42	47
Number of producing wells	350	352	416	540	712
CNOOC Limited activity					
Proved reserves (mmboe)	1,454.7	1,742.5	1,795.1	1,757.4	1,787.1
Proved undeveloped (mmboe)	1,025.7	1,250.8	1,337.9	1,118.8	1,077.1
Production (BOE/day)	201,229	206,884	208,815	239,337	261,379

Source: Compiled from data provided by various CNOOC departments and associates.

OFFSHORE OILFIELD SERVICES SECTOR IN CHINA

Since 1982, the number and variety of oilfield services offshore China have grown with the increase of oil and gas activity in the region. Increased development offshore China has led to a significant number of producing wells and production platforms, all of which require ongoing marine support, well workover services and reservoir maintenance services.

Oilfield service providers offshore China include CNOOC subsidiaries, such as us and CNOOC Engineering, as well as foreign and other domestic companies. In general, foreign oilfield service companies have operated in China through wholly owned subsidiaries or through joint ventures with PRC companies. These companies typically provide more technologically complex services. Most domestic companies operating offshore China tend to provide more basic services in the areas of offshore drilling, marine vessel support and marine transportation.

Drilling Services

There are currently two companies, including us, that regularly provide contract drilling services offshore China. We own and operate a majority of the drilling rigs owned by PRC companies operating on a regular basis offshore China and in shallow water areas along China's coast. The other PRC service provider offshore China is relatively small in scale and generally operates only in certain offshore vicinities. Foreign drilling companies occasionally operate in the PRC market. They usually enter the market when local rigs are unavailable.

Well Services

Offshore China well service providers include both domestic Chinese companies and foreign companies. Local participants include us, the Sinopec Group and CNPC, while foreign companies include Schlumberger, Baker Hughes and Halliburton, among others. Foreign participants are primarily engaged in technology intensive activities, such as wire logging, LWD and horizontal drilling. The domestic suppliers generally enjoy a competitive advantage and a higher market share in categories of well services that are more labor intensive.

Marine Support Services

The offshore China marine support service sector has also grown along with the region's exploration, development and production activities. As of June 30, 2002, there were five offshore support vessel service providers with over 90 vessels operating offshore China. While we owned 55 marine support vessels, 53 of which provided services in the offshore China market as of June 30, 2002, the next largest service provider, Hua Wei, had 12 such vessels. Most of the other marine support service providers only operate within specific geographic vicinities.

REGULATORY FRAMEWORK

Although the exploration, production, sale and distribution of crude oil and natural gas are subject to regulation by several agencies of the PRC Government, oilfield services, whether onshore or offshore, have largely been deregulated. We are, however, subject to various environmental and oil tanker regulations in China as described below.

Environmental Regulation

Our oilfield services operations in China are subject to various environmental laws and regulations administered by the PRC State Environmental Bureau, which sets national environmental protection standards, and local environmental protection bureaus, which may set stricter local standards. In addition, the PRC State Administration of Oceanic Affairs and its local offices have jurisdiction over certain aspects of our environmental compliance. We are also subject to various international conventions that the PRC Government has implemented, such as the International Convention for the Prevention of Pollution from Ships, 1973, as modified by the Protocol of 1978 relating thereto.

The principal national environmental laws and regulations that we must comply with not only relate to general environmental protection, but also relate to specific marine and water pollution. In addition, the PRC Government has adopted environmental regulations relating to offshore petroleum exploration and development and supervisory procedures for offshore environmental impact analyses.

In the PRC, a national or regional environment protection bureau approves or reviews each stage of an oil and gas project. For projects that we service, we must provide input on the environmental impact statement filed by the project operator. In some cases, the operator has to file an environmental impact assessment outline before an approval can be issued. The filing must demonstrate that the project conforms to applicable environmental standards.

The PRC national and local environmental laws and regulations impose fees for the discharge of waste substances above prescribed levels. These environmental laws and regulations also require the payment of fines for serious violations and provide that the PRC national and local governments may at their own discretion close or suspend any facility which fails to comply with orders requiring it to cease or cure operations causing environmental damage.

Oil Tanker Regulation

Our oil tanker operations are subject to the supervision and regulation of the PRC Ministry of Communications and we must obtain licenses from the Ministry of Communications to engage in this business activity. The Ministry of Communications historically has only issued a limited number of licenses for oil tanker services offshore China.