You should read this section in conjunction with our combined financial statements, including notes thereto, as set forth in the Accountants' Report in Appendix I to this Prospectus. Our combined financial statements as of and for each of the three years ended December 31, 1999, 2000 and 2001 and the six-month period ended June 30, 2002 were audited by Ernst & Young, certified public accountants. Our combined financial statements dated as of and for the six-month period ended June 30, 2001 are unaudited. We have prepared our combined financial statements in accordance with Hong Kong GAAP, which differ in material respects from generally accepted accounting principles in other jurisdictions, including the United States.

This Prospectus includes forward-looking statements. All statements, other than statements of historical facts, included in this Prospectus that address activities, events or developments which we expect or anticipate will or may occur in the future are forward-looking statements. The words "believe," "intend," "expect," "anticipate," "project," "estimate," "predict" and similar expressions are also intended to identify forward-looking statements. These statements are based on assumptions and analyses made by us in light of experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual results and developments will meet our expectations and predictions depends on a number of risks and uncertainties which could cause actual results to differ materially from our expectation. See the section headed "Risk Factors" in this Prospectus. Consequently, all of the forward-looking statements made in this Prospectus are qualified by these cautionary statements. We cannot assure you that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected effect on us or our business or operations.

TRADING RECORD

The following tables present our selected combined financial data as of and for the fiscal years ended December 31, 1999, 2000 and 2001 and the six-month periods ended June 30, 2001 (unaudited) and 2002. The selected income statement data and cash flow data for the years ended December 31, 1999, 2000 and 2001 and for the six-month periods ended June 30, 2001 (unaudited) and June 30, 2002, and the selected balance sheet data as of December 31, 1999, 2000 and 2001 and June 30, 2002, have been derived from the Accountants' Report set out in Appendix I to this Prospectus. Our combined financial statements have been prepared on the basis of our Reorganization as a reorganization of companies under common control similar to a pooling/merger of interests. Although we did not complete our Reorganization until April 30, 2002, our combined balance sheets have been prepared to present our assets and liabilities as if our Reorganization had been completed as of January 1, 1999. Similarly, our combined statements of income and cash flow include our results of operations and cash flow as if our business and operations had been transferred to us at January 1, 1999. Therefore, the financial information included herein may not necessarily reflect our results of operations, financial position and cash flow in the future or what they would have been had we been a separate, stand-alone entity during the periods presented. You should read the Accountants' Report and the financial statements included therein for more detailed financial information.

	Year ended December 31,			Six months ended June 30,	
	1999	2000	2001	2001	2002
	Rmb ’000	Rmb ’000	Rmb ’000	Rmb ’000 (unaudited)	Rmb ’000
Selected Income Statement Data:					
Turnover	1,662,031	2,178,449	2,365,566	1,075,505	1,303,393
Drilling	644,376	906,103	985,484	458,619	509,219
Well services	413,109	606,834	595,072	282,366	352,831
Marine support & transportation	357,571	428,050	476,924	215,041	296,613
Geophysical	246,975	237,462	308,086	119,479	144,730
Other revenues	1,556	3,196	20,996	7,883	1,079
Operating expenses					
Consumption of supplies, materials, fuel, services and others	(611,023)	(719,617)	(793,213)	(336,965)	(393,838)
Depreciation of property, plant and equipment	(388,291)	(377,894)	(383,037)	(198,420)	(242,625)
Repair and maintenance costs	(207,337)	(246,230)	(235,003)	(83,740)	(52,673)
Employee compensation costs	(237,705)	(309,791)	(455,480)	(209,296)	(235,826)
Other selling, general and administrative expenses	(33,632)	(22,765)	(21,903)	(11,412)	(18,416)
Other operating expenses	(99,538)	(109,655)	(110,336)	(52,304)	(55,871)
Provision for impairment of long-term investments	(12,023)	—	—	—	—
Provision for impairment of property, plant and equipment	—	(30,800)	(38,000)	(38,000)	—
Total operating expenses	(1,589,549)	(1,816,752)	(2,036,972)	(930,137)	(999,249)
Profit from operations	74,038	364,893	349,590	153,251	305,223
Finance costs					
Exchange gain/(loss), net	(468)	277	(561)	(232)	(210)
Interest expenses	(2,390)	(6,340)	(9,373)	(5,585)	(5,115)
Interest income	19,535	30,505	28,125	13,597	5,409
Total finance costs	16,677	24,442	18,191	7,780	84
Share of profit of jointly-controlled entities	24,242	30,961	47,837	15,490	21,066
Share of loss of an associate	—	(33,781)	(3,434)	(3,434)	—
Profit before tax	114,957	386,515	412,184	173,087	326,373
Tax	(26,750)	(99,659)	(139,106)	(59,229)	(109,225)
Net profit	88,207	286,856	273,078	113,858	217,148
Net profit per Share (H.K. cents)[1]	3.18	10.39	9.90	4.13	7.87

	As of December 31,			As of June 30,
	1999	2000	2001	2002
	Rmb ’000	Rmb ’000	Rmb ’000	Rmb ’000
Selected Balance Sheet Data:				
Cash and cash equivalents	935,072	870,376	871,124	164,315
Current assets	1,519,200	1,678,897	1,787,195	1,492,348
Property, plant and equipment, net	2,480,273	2,721,901	3,048,945	4,134,958
Interests in jointly-controlled entities	69,270	81,149	193,922	155,310
Interest in an associate	—	36,487	—	—
Total assets	4,074,938	4,518,434	5,030,062	5,782,616
Current liabilities	1,039,708	1,371,992	1,721,057	850,735
Long-term bank and other loans, net of current portion	4,500	55,000	30,000	—
Total long-term liabilities	329,500	422,000	374,000	1,260,300
Total liabilities	1,369,208	1,793,992	2,095,057	2,111,035
Owner’s/shareholder’s equity	2,705,730	2,724,442	2,935,005	3,671,581

	Year ended December 31,			Six months ended June 30,	
	1999	2000	2001	2001	2002
	Rmb ’000	Rmb ’000	Rmb ’000	Rmb ’000 (unaudited)	Rmb ’000
Other Selected Financial Data:					
Capital expenditures	409,976	664,329	924,789	426,348	214,857
Cash provided by (used for):					
Operating activities	601,805	720,793	706,560	125,947	(24,950)
Investing activities	(415,929)	(721,871)	(631,602)	(293,478)	25,714
Financing activities	(15,602)	13,415	59,919	88,179	(610,000)
Distributions declared	88,207	286,856	273,078	113,858	344,921
EBITDA[(2)]	513,395	826,628	791,804	397,751	569,816
EBITDA margin[(3)]	31%	38%	33%	37%	44%

(1) *Net profit per Share for the years ended December 31, 1999, 2000 and 2001 and for the six-month periods ended June 30, 2001 and 2002 have been calculated by dividing net profit by the number of Shares of 2,600,000,000 outstanding immediately after our Reorganization and prior to this Global Offering.*

(2) *EBITDA refers to earnings, including share of profit from jointly-controlled entities but excluding other revenues, before interest income, interest expense, income taxes, share of loss of an associate, exchange losses or gains, depreciation and amortization, provisions for inventories and doubtful debt, impairment of long-term investments and impairment of property, plant and equipment as computed under Hong Kong GAAP. EBITDA is not a generally accepted accounting measure under Hong Kong GAAP and should not be considered in isolation or construed as an alternative to operating income, operating cash flows or any other measure of performance or as an indicator of our operating performance, liquidity or profitability or cash flows generated by operating, investing and financing activities. EBITDA fails to account for taxes, interest expense and other non-operating cash expenses. EBITDA does not consider any functional or legal requirements of the business that may require us to conserve and allocate funds for purposes other than debt service or funding of oilfield service activities. EBITDA measures presented in this Prospectus may not be comparable to similarly titled measures of other companies.*

(3) *EBITDA margin represents EBITDA as a percentage of our turnover as computed under Hong Kong GAAP.*

The following table reconciles our EBITDA to our net profit for the periods indicated.

	Year ended December 31,			Six months ended June 30,	
	1999	2000	2001	2001	2002
	Rmb '000	Rmb '000	Rmb '000	Rmb '000 (unaudited)	Rmb '000
EBITDA calculation:					
Net profit	88,207	286,856	273,078	113,858	217,148
plus tax	26,750	99,659	139,106	59,229	109,225
plus share of loss of an associate	—	33,781	3,434	3,434	—
less financing gain[1]	(16,677)	(24,442)	(18,191)	(7,780)	(84)
plus provisions[2]	28,380	56,076	32,336	38,473	1,981
plus depreciation of property, plant and equipment	388,291	377,894	383,037	198,420	242,625
less other revenue	(1,556)	(3,196)	(20,996)	(7,883)	(1,079)
EBITDA	513,395	826,628	791,804	397,751	569,816

(1) Includes net exchange gain and losses, interest expense and interest income.

(2) Includes provisions for inventories and doubtful debt, impairment of long-term investments and impairment of property, plant and equipment.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

The following discussion should be read in conjunction with our combined financial statements as set forth in the Accountants' Report in Appendix I to this Prospectus.

Overview

We are the leading provider of oilfield services in the offshore China market. Our services cover each phase of the exploration, development and production of offshore oil and natural gas. We offer our services separately and on an integrated project basis. Our operations are divided into the following four segments:

- drilling services;
- well services;
- marine support and transportation services; and
- geophysical services.

For additional information regarding our operations, see "Business—Our Company."

Our Reorganization

Prior to December 2001, CNOOC provided drilling, well and geophysical services primarily through five wholly owned subsidiaries and offered marine support and transportation services through two other wholly owned subsidiaries. On December 25, 2001, CNOOC incorporated us as the operating company for the five subsidiaries that performed drilling, well and geophysical services and, on December 29, 2001, combined the two marine support and transportation subsidiaries into one entity. In preparation for this Global Offering and as part of our Reorganization, CNOOC further consolidated the operations of our five service subsidiaries into our current entity, and we undertook a statutory merger with the marine support and transportation subsidiary. We were restructured into a joint stock limited liability company on September 26, 2002. During the course of our Reorganization, CNOOC transferred to us the assets, liabilities and undertakings that were principally related to its drilling, well, marine support and transportation and geophysical business operations and the interests in certain joint ventures and an associated company that carry out these activities. In return for the transfer of these assets, liabilities and undertakings, CNOOC received 2.6 billion Shares in our company. For further details on our Reorganization, see the section headed "Corporate Structure" and Appendix VII "Statutory and General Information—Reorganization" to this Prospectus.

As CNOOC controlled our businesses and operations before the Reorganization and continues to control us after the Reorganization, our combined financial statements have been prepared on the basis of a reorganization of companies under common control similar to a pooling/merger of interests. Our combined balance sheets have been prepared to present our assets and liabilities as if the Reorganization had been completed as of January 1, 1999. Our combined statements of income and cash flows include our results of operations and cash flows as if the business and operations had been transferred to us at January 1, 1999. In preparing our combined financial statements, those assets, liabilities, revenues and expenses that are clearly applicable to the businesses and operations acquired by us are included in our combined financial statements. For further information, see the Accountants' Report in Appendix I to this Prospectus.

Factors Affecting Our Results of Operations

Our results of operations and our financial condition over successive periods have and will continue to be affected by a number of factors, including changes in the market price of oil and natural gas, our major customers, our rig and vessel rates and utilization, seasonality, our repair and maintenance program, depreciation and the revaluation of our assets and our employees' compensation and pension plans, among others.

Oil and natural gas prices. Our results of operations are affected by the level of oil and gas exploration, development and production activity offshore China, which is influenced by trends in local and global oil and natural gas prices. Prices for oil and natural gas are subject to wide fluctuations in response to changes in the supply and demand for oil and natural gas, market uncertainty and various other factors beyond our control. A substantial increase in oil and natural gas prices tends to increase the level of exploration, development and production activity offshore China. Conversely, a prolonged downturn in oil and natural gas prices generally depresses the level of exploration, development and production activity. Accordingly, fluctuations in oil and natural gas prices could affect the general demand for our products and services, and impact our revenues and profitability. Our results of operations will continue to be affected by changes in oil and natural gas prices in the future.

Our major customers. Our major customers are exploration and production companies operating offshore China. We derive a large portion of our revenue from the sale of oilfield services and products to CNOOC Limited and a substantial portion of our remaining revenue from PSC partners operating offshore China. All of the PSC partners participate in production sharing contracts with CNOOC Limited for the exploration, development and production of oil and gas resources offshore China. The relationship between the PSC partners and CNOOC Limited is purely contractual in nature. Each production sharing contract has one party designated as the "operator" for the contract. The operator of a particular production sharing contract is responsible for the operations of the oil or natural gas field, including the procurement of any necessary services and products. In the majority of cases, the foreign PSC partners act as the operator and take responsibility for these matters, although in some circumstances CNOOC Limited serves in this role.

We are planning to increase the proportion of our sales to PSC partners and to third parties operating in China and overseas. Since we are heavily dependent on CNOOC Limited and its PSC partners, a decrease in sales to these parties for whatever reason could have a material adverse effect on our results of operations and financial condition. See "Risk Factors—Risks Relating to Our Business—Our business, results of operations and financial condition depend in large part on our relationship with CNOOC Limited."

The following table presents our revenues derived from CNOOC Limited, PSC partners, CNOOC and other CNOOC associates and other customers as a percentage of total turnover for the periods indicated.

	Year ended December 31,			Six months ended June 30,
	1999	**2000**	**2001**	**2002**
% of turnover from CNOOC Limited	47.1	49.4	52.8	57.7
% of turnover from PSC partners	13.5	15.5	10.3	13.1
% of turnover from CNOOC and other CNOOC associates	6.2	5.1	6.5	4.9
% of turnover from others	33.2	30.0	30.4	24.3
Total	100.0	100.0	100.0	100.0

Our percentage of turnover from CNOOC Limited increased during the first six months of 2002 because CNOOC Limited increased its exploration activities offshore China during this period and because several PSC projects operated by PSC partners were delayed.

We provide most of our services and products to oil and natural gas companies in the PRC. In 1999, 2000 and 2001, approximately 91%, 97% and 96% of our turnover, respectively, was derived from China. For the six-month period ended June 30, 2002, approximately 92% of our turnover was derived from the PRC market.

Rig and vessel rates. Our results of operations are directly affected by the day rates that we charge for our drilling rigs and marine support vessels. Our day rates are a function of supply and demand, volume of sales, term of contracts and our overall relationship with our customers. See the section headed "Business—Pricing Policy" in this Prospectus. The market rates for our jackup rigs are typically lower than our semi-submersibles because jackup rigs have lower operating and fixed costs. Within a given rig type, day rates may vary depending on a rig's specifications and performance capability. In line with local market conditions, our day rates have increased over the past three years. Our drilling costs largely consist of repair and maintenance, employee compensation costs and the consumption of supplies, materials, fuel, services and others. Our drilling costs were lower in the first six months of 2002 because most of our repair and maintenance for this year is scheduled to take place in the second half of the year.

The following table shows the day rates for our drilling rigs and marine support vessels and average drilling costs for the periods indicated.

	Year ended December 31,			Six months ended June 30,
	1999	**2000**	**2001**	**2002**
Drilling rates				
Average realized day rates (US$/day)[1]				
Jackup	14,927	20,101	26,655	26,245
Semi-submersible	41,322	48,621	50,019	47,380
Average	21,647	26,290	32,390	32,382
Average drilling costs (US$/day)[2]	16,835	17,973	18,856	16,292
Support vessel rates				
Average realized rates (US$/day per kW)[3]				
Standby vessels	0.57	0.64	0.62	0.79
AHTS vessels	0.64	0.66	0.69	0.79
PSV vessels	0.65	0.71	0.76	0.75
Utility vessels	0.76	0.61	0.51	0.63

(1) The average realized day rates for our drilling rigs are calculated by dividing total revenue by total operating days.

(2) The average drilling costs are calculated by dividing total drilling costs (repair and maintenance costs, employee compensation costs and consumption of supplies, materials, fuel, services and others only) by total operating days.

(3) The average realized rates for our support vessels are calculated by first dividing total contract revenues by total operating days and then by dividing the quotient by total capacity as measured in kW.

Rig and vessel utilization. Our results of operations are directly affected by the utilization of our drilling rigs and marine support and transportation vessels. Typically, the utilization rates for our drilling rigs and vessels are affected by the level of exploration and development activity of oil and natural gas companies offshore China and by required major maintenance, repairs and overhauls. See "Financial Information—Repair and maintenance." We calculate the utilization rates for our drilling rigs by dividing the total number of operating days in a particular year by the total number of days of availability in that year. The total number of days of availability is calculated by subtracting the total number of preparation days in the year from the total number of calendar days in that year. The total number of preparation days is the total number of days required for repair and maintenance, including upgrades.

The following table shows the annual utilization rates for our drilling rigs for the periods indicated.

	Year ended December 31,			Six months ended June 30,
	1999	**2000**	**2001**	**2002**
Number of drilling rigs				
Jackup	10	10	9	9
Semi-submersible	3	3	3	3
Total	13	13	12	12
Operating days				
Jackup	2,395	2,941	2,665	1,222
Semi-submersible	818	815	867	500
Total operating days	3,213	3,756	3,532	1,722
Preparation days				
Jackup	749	663	563	266
Semi-submersible	277	283	228	8
Total preparation days	1,026	946	791	274
Utilization rates				
Jackup	82.6%	98.1%	97.9%	89.7%
Semi-submersible	100.0%	100.0%	100.0%	93.5%
Average utilization rate	86.4%	98.5%	98.4%	90.7%

We calculate the utilization rates for our marine support vessels by dividing the total number of operating days in a particular year by the total number of days of availability in that year. The total number of days of availability is calculated by subtracting the total number of preparation days in the year from the total number of calendar days in that year. The total number of preparation days consists of days scheduled for repair and maintenance, including upgrades.

The following table shows the annual utilization rates for our marine support vessels for the periods indicated.

	Year ended December 31,			Six months ended June 30,
	1999	2000	2001	2002
Number of support vessels				
Standby vessels	23	23	25	26
AHTS vessels	15	16	16	16
PSVs	3	3	7	7
Utility vessels	6	6	6	6
Total	47	48	54	55
Operating days				
Standby vessels	7,675	7,661	7,469	4,235
AHTS vessels	4,961	4,897	5,358	2,669
PSVs	1,041	899	1,397	1,118
Utility vessels	1,787	1,999	1,894	849
Total operating days	15,464	15,456	16,118	8,871
Preparation days				
Standby vessels	449	678	705	269
AHTS vessels	405	456	390	99
PSVs	8	176	69	31
Utility vessels	282	151	113	49
Total preparation days	1,144	1,461	1,277	448
Utilization rates				
Standby vessels	96.6%	99.0%	95.4%	96.1%
AHTS vessels	97.9	96.2	98.3	95.4
PSVs	95.7	97.5	96.0	90.4
Utility vessels	93.7	97.8	91.2	81.8
Average utilization rate	96.6%	97.8%	95.9%	93.6%

Because our oil tanker revenue is based on monthly rates or nautical miles and volume transported, we do not calculate utilization rates for our oil tankers. Our profit margins and the average number of operating days per year during the three years ended December 31, 2001 and the six-month period ended June 30, 2002 remained relatively stable because of consistent demand for our oil tankers.

Seasonality. Historically, our business activity has been higher during the months of March to October. Winter weather conditions limit our operations in parts of the Bohai Bay during the months of November to February. Similarly, our activities in the South China Sea are affected occasionally by typhoon weather conditions during the summer months of May to October. We typically use the winter months to perform our annual maintenance, which tends to increase our repair and maintenance costs during the last and first fiscal quarters. Seasonal variations have affected our operating results in the past and may continue to do so in the future. See "Risk Factors—Risks Relating to Our Business—Our operations are subject to seasonal variations."

Repair and maintenance. Our repair and maintenance program is an important part of our business operations. In the fourth quarter of each year, we plan repairs for the following year based on (i) the age and working condition of our rigs and vessels, (ii) market conditions and (iii) customer demands. We also take into consideration weather conditions that may affect our operations during the year. See the section headed "—Seasonality" in this Prospectus. In August of each year, we review this schedule and make adjustments based on prevailing market conditions and customer demands. We also perform routine maintenance on our rigs, vessels and equipment. To ensure that our maintenance program is effective, we employ detailed maintenance schedules and checklists and assign responsibility to specific individuals.

The timing and costs of our repair and maintenance program depend on the above factors and may affect our interim results of operations. However, our annual repair and maintenance expenses generally are stable and thus do not have a major effect on our annual results of operations.

We charge expenses on periodic repair and maintenance to the profit and loss account in the period in which they are incurred, and we capitalize expenditures on major overhauls or upgrades if it can be demonstrated that such expenditures have resulted in an increase in the future economic benefits of our rigs and vessels. For each of the three years ended December 31, 2001, the amount of repair and maintenance costs charged to the profit and loss account amounted to approximately Rmb 207.3 million, Rmb 246.2 million and Rmb 235.0 million, respectively. During the same periods, the amount of repair and maintenance costs capitalized by us amounted to approximately Rmb 47.2 million, Rmb 99.9 million and Rmb 170.1 million, respectively, due to some major upgrades to drilling rigs in 2000 and 2001. Capitalized expenditures are amortized over a five-year period.

Depreciation and revaluation of assets. We invest a significant amount of resources in large fixed assets, such as drilling rigs, marine support vessels, tankers, survey and seismic ships and the various instruments and equipment used in our operations. We calculate depreciation according to the straight-line method to write off the cost or valuation less the residual value of each asset over its estimated useful life.

The following table lists the estimated useful lives of our fixed assets.

Fixed assets	Depreciation period
Drilling equipment	25 years
Buildings	20 years
Tankers	20 years
Vessels	10-15 years
Machinery and equipment	5-10 years
Motor vehicles	5 years

In the future, we plan to spend a significant amount of capital to purchase drilling rigs, marine support and transportation vessels and to modify, refurbish and upgrade our existing fleets. We currently intend to spend approximately Rmb 4.8 billion for capital expenditures from 2002 to 2005. These purchases and expenses will significantly increase our depreciation expense in the future. See the section headed "—Liquidity and Capital Resources—Capital Expenditures and Investments" in this Prospectus.

As part of our Reorganization and as required by applicable PRC regulations, China Consultants of Accounting and Financial Management Company Limited, an independent valuer registered in China, conducted a valuation of our fixed assets on April 30, 2002. The valuation was performed in order to determine the value of our fixed assets and establish amounts for share capital and capital reserves as required by PRC law. The revaluation of the fixed assets has been determined in Renminbi and resulted in approximately Rmb 1,203 million in excess of the prior net book value of our fixed assets. This revaluation is expected to increase our depreciation for the eight-month period ending December 31, 2002 by Rmb 103 million and to increase our annual depreciation charge for next accounting year by approximately Rmb 176 million.

Employee compensation and pension plans. In line with our efforts to become more market-oriented and as a result of competition from other companies, we have gradually moved from an employee compensation system based on social benefits, such as housing, education and pensions, to a plan based on basic salary and performance bonuses. We raised the basic salaries of our employees by approximately 30% in October 1999 and October 2000, respectively, and again by approximately 8% in October 2001. In addition, we have implemented a mid-year and year-end performance bonus system, which awards bonuses based on individual employee performance and our overall results. These salary adjustments and bonuses have affected and may continue to affect our results of operations, especially as we face additional competition from other companies for our skilled employees.

In addition to salary and bonuses, we are required to make annual contributions to a PRC government-regulated pension plan at rates ranging from 19% to 23% of our employees' basic salaries. The expenses attributable to mandatory contributions under the current government pension plan are included in our historical combined income statements as operating expenses. For the three years ended December 31, 2001 and the six-month period ended June 30, 2002, our total pension costs amounted to approximately Rmb 25.4 million, Rmb 29.1 million, Rmb 41.2 million and Rmb 24.3 million, respectively.

Jointly-Controlled Companies. We have direct interests in six oilfield services joint ventures in the PRC. Our interests in these jointly-controlled entities are stated in our combined balance sheet as our share of net assets under the equity method of accounting, less any impairment losses. Our share of the results of these joint ventures is included in our combined income statement. For the three years ended December 31, 2001 and the six-month period ended June 30, 2002, our shares of profits from these ventures were approximately Rmb 24.2 million, Rmb 31.0 million, Rmb 47.8 million and Rmb 21.1 million, respectively. These contributions accounted for approximately 21%, 8%, 12% and 6%, respectively, of our profit before taxation for the same periods.

The following table provides information relating to our six joint ventures including our equity interests, partners and the principal activities of these entities.

Name	Equity interest	Partner	Principal activities
China France Bohai Geoservices Company, Limited	50%	Geoservices S.A.	Logging services
China Nanhai-Magcobar Mud Corporation Limited	60%	M-I Drilling Fluids	Drilling fluid services
China Petroleum Logging-Atlas Cooperation Service Company	50%	Baker Hughes	Logging services
CNOOC-OTIS Well Completion Services Limited	50%	Halliburton	Well completion services
China Offshore Thales GeoSolutions (Tianjin) Company, Limited	50%	Thales	Survey and exploration services
Tianjin Jinlong Petro-Chemical Company, Limited.	50%	CNOOC	Drilling fluid manufacturing

Taxes. As a company incorporated and primarily engaged in business in China, we are subject to PRC corporate income tax at a basic rate of 33% of our taxable income. Our predecessors were exempt from corporate income taxes for two years starting from the first year of profitable operations in 1996 and were entitled to a 50% reduction in corporate income taxes for the three years 1998, 1999 and 2000. This tax exemption reduced our tax liability by approximately Rmb 32.3 million and Rmb 52.2 million in 1999 and 2000, respectively. In 2001, we were again subject to the standard 33% tax rate.

PRC corporate income tax is levied based on taxable income including income from operations as well as other components of earnings, as determined pursuant to PRC GAAP. PRC GAAP differs from Hong Kong GAAP in certain aspects, including timing differences.

Because of timing differences arising from revenue recognition, the re-estimated reasonably useful life of our property, plant and equipment and the revaluations of our fixed assets, for the three years ended December 31, 2001 and the six-month period ended June 30, 2002, we recorded deferred tax liabilities of Rmb 325.0 million, Rmb 367.0 million, Rmb 344.0 million and Rmb 660.3 million on our balance sheet, respectively. Deferred tax is provided, using the liability method, on all significant timing differences in the recognition of revenue and expenses for tax and for financial reporting purposes, to the extent it is probable that the liability will crystallize in the foreseeable future. For further information on the revaluation of our fixed assets, see "—Depreciation and revaluation of assets."

Although we enjoyed a 16.5% corporate income tax rate in 1999 and 2000, our effective tax rates for these periods were 23.3% and 25.8%, respectively. There were two main reasons for these higher effective tax rates. First, the deferred tax charged to these periods was calculated at 33% because this liability crystallized in 2001 when our PRC corporate income tax rate was 33%. Second, under PRC GAAP, we were not allowed to deduct certain expenses and provisions, such as certain unsettled staff welfare costs, from our profit before taxation. For the same reasons, our effective tax rate of 33.7% in 2001 was slightly higher than the standard PRC corporate income tax rate of 33%.

We also pay business tax of 3% to 5% of gross turnover for our business segments. Our turnover figures are net of this business tax. In addition, we pay income tax in the United States because of our limited business operations there. For the three years ended December 31, 2001 and the six-month period ended June 30, 2002, we paid overseas income taxes in the amounts of Rmb 58,000, Rmb 93,000, Rmb 46,000 and Rmb 96,000, respectively.

RESULTS OF OPERATIONS

The following table summarizes the turnover for our operating segments and their respective percentages of our turnover for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	1999		2000		2001		2001		2002	
							(unaudited)			
	(Rmb '000, except percentages)									
Drilling services	644,376	39%	906,103	41%	985,484	42%	458,619	43%	509,219	39%
Well services	413,109	25	606,834	28	595,072	25	282,366	26	352,831	27
Marine support and transportation services	357,571	21	428,050	20	476,924	20	215,041	20	296,613	23
Geophysical services	246,975	15	237,462	11	308,086	13	119,479	11	144,730	11
Total	1,662,031	100%	2,178,449	100%	2,365,566	100%	1,075,505	100%	1,303,393	100%

The following table summarizes our profit from operations as contributed by each operating segment and its percentage contribution to (or deduction from) our total profit from operations for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	1999		2000		2001		2001		2002	
							(unaudited)			
	(Rmb ’000, except percentages)									
Drilling services	4,079	6%	136,321	37%	243,869	70%	149,801	98%	149,583	49%
Well services	39,001	53	151,887	42	93,241	27	56,912	37	96,262	31
Marine support and transportation services	44,836	60	57,662	16	88,276	25	36,964	24	69,391	23
Geophysical services	(13,878)	(19)	19,023	5	(75,796)	(22)	(90,426)	(59)	(10,013)	(3)
Total	74,038	100%	364,893	100%	349,590	100%	153,251	100%	305,223	100%

The following table summarizes our share of profit of jointly-controlled entities for each of our operating segments and their respective percentages of our total share of such profit for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	1999		2000		2001		2001		2002	
							(unaudited)			
	(Rmb ’000, except percentages)									
Drilling services	—	—%	—	—%	—	—%	—	—%	—	—%
Well services	22,894	94	26,900	87	44,170	92	14,946	96	18,419	87
Marine support and transportation services	—	—	—	—	—	—	—	—	—	—
Geophysical services	1,348	6	4,061	13	3,667	8	544	4	2,647	13
Total	24,242	100%	30,961	100%	47,837	100%	15,490	100%	21,066	100%

The following table summarizes the EBITDA for each of our operating segments and their respective percentage contributions to (or deductions from) our total EBITDA for the periods indicated.

	Year ended December 31,						Six months ended June 30,			
	1999		2000		2001		2001		2002	
							(unaudited)			
	(Rmb ’000, except percentages)									
EBITDA										
Drilling services	155,913	30%	309,994	38%	396,680	50%	225,868	57%	258,232	45%
Well services	143,975	28	266,241	32	177,629	22	107,847	27	141,822	25
Marine support and transportation services	132,957	26	167,546	20	173,900	22	85,559	21	134,282	24
Geophysical services	80,550	16	82,847	10	43,595	6	(21,523)	(5)	35,480	6
Total	513,395	100%	826,628	100%	791,804	100%	397,751	100%	569,816	100%

EBITDA refers to earnings, including share of profit from jointly-controlled entities but excluding other revenues, before interest income, interest expense, income taxes, share of loss of an associate, exchange losses or gains, depreciation and amortization, and provisions for inventories and doubtful debt, impairment of long-term investments and impairment of property, plant and equipment as computed under Hong Kong GAAP. EBITDA is not a generally accepted accounting measure under Hong Kong GAAP and should not be considered in isolation or construed as an alternative to operating income, operating cash flows or any other measure of performance or as an indicator of our operating performance, liquidity or profitability or cash flows generated by operating, investing and financing activities.

The following table sets forth, for the periods indicated, certain income and expense items in our combined income statements as a contributing or offsetting percentage to our turnover and other revenues.

	Year ended December 31,			Six months ended June 30,	
	1999	2000	2001	2001	2002
				(unaudited)	
Turnover	99.9%	99.9%	99.1%	99.3%	99.9%
Other revenues	0.1	0.1	0.9	0.7	0.1
Operating expenses					
Consumption of supplies, materials, fuel, services and others	(36.7)	(33.0)	(33.2)	(31.1)	(30.2)
Depreciation of property, plant and equipment	(23.3)	(17.4)	(16.0)	(18.3)	(18.6)
Repair and maintenance costs	(12.5)	(11.3)	(9.8)	(7.8)	(4.0)
Employee compensation costs	(14.3)	(14.2)	(19.1)	(19.3)	(18.1)
Other selling, general and administrative expenses	(2.0)	(1.0)	(0.9)	(1.1)	(1.4)
Other operating expenses	(6.0)	(5.0)	(4.6)	(4.8)	(4.3)
Provision for impairment of long-term investments	(0.7)	—	—	—	—
Provision for impairment of property, plant and equipment	—	(1.4)	(1.6)	(3.5)	—
Total operating expenses	(95.5)	(83.3)	(85.2)	(85.9)	(76.6)
Profit from operations	4.5	16.7	14.8	14.1	23.4
Finance costs					
Exchange gain/(loss), net	—	—	—	—	—
Interest expenses	(0.2)	(0.3)	(0.4)	(0.5)	(0.4)
Interest income	1.2	1.4	1.2	1.3	0.4
Total finance costs	1.0	1.1	0.8	0.8	—
Share of profit of jointly-controlled entities	1.4	1.4	2.0	1.4	1.6
Share of loss of an associate	—	(1.5)	(0.2)	(0.3)	—
Profit before tax	6.9	17.7	17.4	16.0	25.0
Tax	(1.6)	(4.6)	(5.9)	(5.5)	(8.4)
Net profit	5.3%	13.1%	11.5%	10.5%	16.6%

Overview of Our Operations

Turnover. Our turnover primarily consists of (i) income based on day rates charged for our drilling rigs and support vessels, (ii) volume-based fees earned from our oil tankers, (iii) contract service fees received from the provision of well and geophysical services, (iv) proceeds from the sale of seismic data independently collected by geophysical services, and (v) fixed fees from turnkey contracts pursuant to which we provide various drilling and well services. Our revenue is generally recognized when services are performed, except in the case of turnkey projects, where revenue is accrued to the extent of costs incurred until the specific contract requirements are met; losses are recognized when it becomes apparent that expenses to be incurred on a specific contract will exceed the revenue from that contract. Our turnover is net of any business tax payable by us.

Other revenues. Our other revenues consist primarily of gains on the disposal of property, plant and equipment and scrapped materials.

Operating expenses. Our principal operating expenses include (i) consumption of supplies, materials, fuel, services and others in our operations, (ii) depreciation of fixed assets, which is calculated using a straight-line method; it includes the amortization of capitalized costs incurred for major overhauls to our fixed assets over the overhaul cycle on a straight-line basis, (iii) repair and maintenance costs that we expense currently, (iv) employee compensation costs including salaries, benefits and bonuses, (v) other selling, general and administrative expenses, and (vi) other operating expenses including office rental expenses, travel expenses, and consulting fees, among others.

Finance costs. Finance costs represent the net of (i) exchange gains and losses, and (ii) interest income and expense. We record exchange gains and incur exchange losses due to periodic adjustments of recorded foreign currency assets and liabilities and foreign currency transactions. We record interest income as a result of interest received from time deposits and other loan receivables and incur interest expense for short-term and long-term indebtedness.

Share of profit of jointly-controlled entities. Our share of profit of jointly-controlled entities refers to our share of post-acquisition results and reserves of joint venture companies in which we hold joint control (as opposed to unilateral control) with other parties.

Share of loss of an associate. Our share of loss of an associate refers to our share of the operating losses of Hailong Geophysical Company, Limited, a company, not being a subsidiary or jointly-controlled entity, in which we had a long-term interest of not less than 20% of the equity voting rights and over which we were in a position to exercise significant influence.

Six Months Ended June 30, 2002 Compared to Six Months Ended June 30, 2001

Turnover. Turnover for the first half of 2002 was Rmb 1,303.4 million, representing an increase of Rmb 227.9 million, or 21.2%, over the same period in 2001. This increase resulted from a substantial increase in turnover from marine support and transportation services and well services, and moderate increases in turnover from drilling services and geophysical services.

Turnover from drilling services in the first six months of 2002 increased by Rmb 50.6 million, or 11.0%, to Rmb 509.2 million, compared to turnover of Rmb 458.6 million in the first six months of 2001. This increase was primarily due to an increase in operating activity and an increase in the rates charged for our drilling rigs. Turnover from drilling services in the first half of 2002 included an amount of Rmb 47.7 million in other drilling revenue, which was primarily related to the provision of labor services to maintain and operate platform drilling units on production platforms owned by our customers.

Well services turnover rose by Rmb 70.5 million, or 25.0%, to Rmb 352.8 million in the first half of 2002, compared to Rmb 282.4 million in the first half of 2001. This rise was primarily related to an increase in business activity, especially in our logging and drilling fluid divisions which benefited from additional exploration well drilling during this period.

Turnover from marine support and transportation services was Rmb 296.6 million in the first six months of 2002, an increase of Rmb 81.6 million, or 37.9%, over turnover of Rmb 215.0 million in the first six months of 2001. This substantial increase primarily resulted from the addition to our fleet of six vessels in the second half of 2001 and one vessel in the first half of 2002 and from a general increase in the rates charged for our vessels.

Geophysical services turnover increased by Rmb 25.3 million, or 21.1%, to Rmb 144.7 million in the first half of 2002, compared to turnover of Rmb 119.5 million in the first half of 2001. Geophysical services turnover benefited from an increase in survey activity by PSC partners offshore China, new survey contracts outside China and an increase in the average price for our seismic data collection. As part of our geophysical operations, we conduct seismic surveys of undeveloped offshore areas and then sell the data to third parties that are interested in exploring and developing these regions.

Other revenues. Other revenues were Rmb 1.1 million in the first half of 2002, compared to Rmb 7.9 million in the first half of 2001. Other revenues declined in the first six months of 2002 primarily because of a fall in proceeds from the disposal of property, plant and equipment.

Operating expenses. Operating expenses in the six months ended June 30, 2002 were Rmb 999.2 million, representing an increase of Rmb 69.1 million, or 7.4%, over the same period in 2001. Generally higher business activity and expanded operations in the drilling, marine support and transportation and well services divisions led to an increase of Rmb 56.9 million in costs related to the consumption of supplies, materials, fuel, services and others. Depreciation costs also rose by Rmb 44.2 million in the first half of 2002, mainly due to the revaluation of our assets on April 30, 2002 and the addition of seven new vessels. In addition to these increases, our employee compensation costs rose by Rmb 26.5 million, primarily due to a company-wide salary increase of approximately 8% in October 2001 and a corresponding rise in employee benefit costs. Offsetting these increases, our repair and maintenance costs fell by Rmb 31.1 million, or 37.1%, to Rmb 52.7 million in the first half of 2002, primarily because most of our periodic repairs and maintenance have been scheduled for the second half of this year.

Drilling services operating expenses increased by Rmb 47.0 million, or 15.0%, from Rmb 312.6 million in the first half of 2001 to Rmb 359.6 million in the first half of 2002. As a result of the revaluation of our assets on April 30, 2002, depreciation expenses increased by Rmb 29.5 million, or 37.2%, to Rmb108.9 million in the first half of 2002. The use of additional materials and spare parts to prepare Bohai IX and Bohai IV for overseas operations led to an increase of Rmb 28.6 million, or 30.0%, to Rmb 123.9 million in costs related to the consumption of supplies, materials, fuel, services and others. Offsetting these increases, repair and maintenance costs fell by Rmb 10.2 million, or 22.7%, to Rmb 34.7 million in the first six months of 2002, primarily because our periodic repairs and maintenance have been scheduled for the second half of this year.

Operating expenses for well services were Rmb 257.3 million in the six months ended June 30, 2002, an increase of Rmb 32.9 million, or 14.7%, over operating expenses of Rmb 224.4 million in the same period in 2001. In addition to higher employee compensation costs, which increased by Rmb 15.3 million, or 36.9%, to Rmb 56.8 million, costs related to the consumption of supplies, materials, fuel, services and others rose by Rmb 14.6 million, or 11.5%, to Rmb 141.6 million, primarily as a result of increased business activity. These cost increases were partially offset by a decrease of Rmb 7.3 million, or 20.7%, in depreciation expense, from Rmb 35.2 million in the first half of 2001 to Rmb 27.9 million in the same period earlier this year. We recorded less depreciation in the first half of 2002 primarily because we transferred some of our well services assets to a joint venture, China France Bohai Geoservices Company, Limited in the second half of 2001 as part of an additional capital contribution to it and sold other well services assets to the joint venture for cash consideration.

Operating expenses for marine support and transportation services increased by Rmb 48.5 million, or 27.1%, from Rmb 179.1 million in the first half of 2001 to Rmb 227.6 million in the first half of 2002. The addition of seven new vessels to our marine support fleet during late 2001 and early 2002 raised costs related to the consumption of supplies, materials, fuel, services and others by Rmb 21.7 million, or 47.2%, to Rmb 67.7 million and depreciation charges by Rmb 13.5 million, or 27.3%, to Rmb 63.0 million. In addition, because of the company-wide salary and benefit increase, employee compensation costs rose by Rmb 18.1 million, or 36.0%, to Rmb 68.4 million.

Geophysical services operating expenses fell by Rmb 59.4 million, or 27.7%, from Rmb 214.1 million in the first six months of 2001 to Rmb 154.7 million in the same period this year. Operating expenses were lower in the first half of 2002 primarily because of a Rmb 38.0 million provision in the previous period for the impairment of two seismic vessels that were distributed to us as part of the liquidation of an associated entity, Hailong Geophysical Company, Limited ("Hailong"). We made this provision shortly after receiving the vessels because we believed that their fair value was lower than their book carrying value. In addition, depreciation expenses increased by Rmb 8.4 million, or 24.4%, to Rmb 42.8 million in the first half of 2002, primarily because of the addition of the two seismic vessels. Offsetting these factors, repair and maintenance expenses fell by Rmb 12.1 million, or 80.7%, to Rmb 2.9 million and costs related to the consumption of supplies, materials, fuel, services and others decreased by Rmb 8.1 million, or 11.8%, to Rmb 60.6 million, mainly because this year most of our repair and maintenance is scheduled for the second half of the year.

Profit from operations. Our profit from operations in the first half of 2002 increased by Rmb 152.0 million, or 99.2%, to Rmb 305.2 million, compared to profit from operations of Rmb 153.3 million in the first half of 2001. Our operating profit benefited from a reduction of Rmb 80.4 million, or 88.9%, in losses related to our geophysical division, from Rmb 90.4 million in the first six months of 2001 to Rmb 10.0 million in the same period earlier this year. In addition, operating profit from well services rose by Rmb 39.4 million, or 69.1%, to Rmb 96.3 million, while operating profit from marine support and transportation operations grew by Rmb 32.4 million, or 87.7%, to Rmb 69.4 million. Operating profit from our drilling operations remained stable at Rmb 149.6 million, compared to Rmb 149.8 million in the first six months of 2001.

Financing gain/loss. We recorded a financing gain of Rmb 84,000 in the first six months of 2002, compared to a financing gain of Rmb 7.8 million in the first six months of 2001. This decline was primarily due to lower interest income, which fell by Rmb 8.2 million, or 60.2%, to Rmb 5.4 million in the most recent period, mainly because of the settlement of an entrusted loan to CNOOC Engineering and a decrease in fixed deposits. This interest income was largely offset by interest expenses of Rmb 5.1 million, which fell slightly by Rmb 0.5 million, or 8.4%, compared to interest expense of Rmb 5.6 million in the first half of 2001.

Share of profit of jointly-controlled entities. Our share of profit of jointly-controlled entities increased by Rmb 5.6 million, or 36.0%, from Rmb 15.5 million in the first half of 2001 to Rmb 21.1 million in the first half of 2002. This rise was attributable to an increase of Rmb 3.5 million in income contributed by our well services joint ventures and an increase of Rmb 2.1 million in income earned from our geophysical joint ventures.

Share of loss of an associate. We did not record a profit or loss from an associate in the first half of 2002. In the first six months of 2001, we recorded a loss of Rmb 3.4 million, which represented our share of the operating losses of Hailong.

Profits before tax. Our profits before tax increased by Rmb 153.3 million, or 88.6%, to Rmb 326.4 million in the first half of 2002, compared to Rmb 173.1 million in the same period in 2001 . This increase primarily resulted from the improving financial position of our geophysical division, which saw its losses before taxation fall by Rmb 88.6 million, or 91.8%, from Rmb 96.5 million in the first half of 2001 to Rmb 7.9 million in the same period earlier this year. In addition, well services recorded an increase in profits before tax of Rmb 40.6 million, or 55.1%, to Rmb 114.3 million, while marine and transportation services, registered an increase of Rmb 32.3 million, or 86.4%, to Rmb 69.7 million. There was a slight decline in drilling services profit before tax, which fell by Rmb 8.2 million, or 5.2%, to Rmb 150.3 million in the first half of 2002.

Taxes. Our tax expenses increased by Rmb 50.0 million, or 84.4%, to Rmb 109.2 million in the first six months of 2002, compared to Rmb 59.2 million in the same period in 2001, following the increase in our pre-tax profit over the same time periods.

Net profit. Our net profit in the six months ended June 30, 2002 was Rmb 217.1 million, an increase of Rmb 103.3 million, or 90.7%, over Rmb 113.9 million in the same period in 2001.

Distributions. In the first half of 2002, we declared a distribution of Rmb 344.9 million in connection with our Reorganization.

Year Ended December 31, 2001 Compared to Year Ended December 31, 2000

Turnover. Turnover for 2001 was Rmb 2,365.6 million, representing an increase of Rmb 187.2 million, or 8.6%, over turnover for 2000 of Rmb 2,178.4 million. This increase was primarily due to an increase in revenues from drilling services, marine support and transportation services and geophysical services of Rmb 79.4 million, Rmb 48.9 million and Rmb 70.6 million, respectively. Offsetting these increases, turnover from well services fell by Rmb 11.7 million in 2001.

Turnover from drilling services increased by Rmb 79.4 million, or 8.8%, from Rmb 906.1 million in 2000 to Rmb 985.5 million in 2001. This increase was primarily due to an increase in the rates charged for our drilling rigs, especially our jackups. Our turnover from drilling services included Rmb 38.6 million in other drilling income in 2001, down from other drilling income of Rmb 88.7 million in 2000.

Well services turnover fell by Rmb 11.7 million, or 1.9%, from Rmb 606.8 million in 2000 to Rmb 595.1 million in 2001. This small decrease was mainly attributable to a decline in the number of exploration wells in our primary market of offshore China in 2001, offset in part by an increase in CNOOC Limited's use of our well services for new development wells and a Rmb 33.0 million increase in revenues from the sale of perforation equipment.

Turnover from marine support and transportation services increased by Rmb 48.9 million, or 11.4%, from Rmb 428.0 million in 2000 to Rmb 476.9 million in 2001. This rise was primarily due to additional revenue from two new standby vessels, one new AHTS vessel and four new platform supply vessels, which were added to our fleet beginning at the end of 2000 and during 2001. The increase in turnover was also related to an increase in the day rates charged for some of our marine support vessels.

Our geophysical services turnover increased by Rmb 70.6 million, or 29.7%, from Rmb 237.5 million in 2000 to Rmb 308.1 million in 2001. This increase reflected stronger sales of independently collected seismic data and revenue generated from two additional survey vessels. In 2001, our sales of seismic data increased because of higher oil prices and increased oil and gas activity in areas that we had surveyed.

Other revenues. Other revenues increased from Rmb 3.2 million in 2000 to Rmb 21.0 million in 2001. This significant increase was primarily related to the sale of our Bohai VI jackup drilling rig in January 2001, and a gain on the sale of certain well services assets to China France Bohai Geoservices Company Limited in January 2001.

Operating expenses. Operating expenses for 2001 were Rmb 2,037.0 million, representing an increase of Rmb 220.2 million, or 12.1%, over 2000 operating expenses of Rmb 1,816.8 million. This increase was primarily due to an increase of Rmb 145.7 million in employee compensation costs. We raised all of our employees' basic salaries by approximately 30% in October 2000 and again by approximately 8% in October 2001, and also increased our employee benefits during this period. The increase in operating expenses in 2001 was also attributable to an increase of Rmb 73.6 million in costs related to the consumption of supplies, materials, fuel, services and others, which resulted from increased activity in our well and marine and transportation services. In addition to these increases, we made a provision for impairment of property, plant and equipment of Rmb 38.0 million in 2001, compared to a provision of Rmb 30.8 million in 2000. Offsetting these increases, our repair and maintenance costs fell by Rmb 11.2 million in 2001.

Drilling services operating expenses fell by Rmb 22.0 million, or 2.9%, from Rmb 771.7 million in 2000 to Rmb 749.7 million in 2001. This decline primarily resulted from lower repair and maintenance costs, which fell by Rmb 43.4 million, or 24.7%, to Rmb 132.1 million and lower costs related to the consumption of supplies, materials, fuel, services and others, which decreased by Rmb 15.8 million, or 5.7%, to Rmb 260.8 million. Our depreciation charge also decreased by Rmb 10.4 million, or 6.0%, to Rmb 161.8 million in 2001. A major overhaul of some of our rigs in 2000 decreased the need for repair and maintenance in 2001, while the sale of our Bohai VI drilling rig in 2001 lowered our consumption of supplies, materials, fuel, services and other commodities and resulted in a lower depreciation charge for the year. Offsetting these declines, employee compensation costs increased by Rmb 51.6 million, or 48.3%, to Rmb 158.4 million in 2001.

Operating expenses for well services were Rmb 514.0 million in 2001, an increase of Rmb 57.9 million, or 12.7%, from Rmb 456.1 million in 2000. Employee compensation costs increased by Rmb 46.0 million, or 62.1%, to Rmb 120.1 million, while expenses related to the consumption of supplies, materials, fuel, services and others increased by Rmb 19.4 million, or 7.5%, to Rmb 278.2 million in 2001, primarily as a result of higher sales volume. Our repair and maintenance expenses also rose by Rmb 5.1 million to Rmb 12.4 million in 2001, mainly because of overhauls conducted on cement pumps. These increases were partially offset by a decrease of Rmb 9.7 million in depreciation expenses from Rmb 64.8 million in 2000 to Rmb 55.1 million in 2001. Depreciation fell in this period because we used some of our well services assets as a further capital contribution to China France Bohai Geoservices Company Limited. We also sold some well services assets to this joint venture for cash consideration during this period.

Operating expenses for marine support and transportation services increased by Rmb 19.6 million, or 5.3%, from Rmb 370.4 million in 2000 to Rmb 390.0 million in 2001. Employee compensation costs increased by Rmb 30.5 million during this period, while the addition of seven new vessels to our marine support fleet during the last few months of 2000 and 2001 contributed to an increase of Rmb 8.3 million, or 10.4%, in depreciation costs, an increase of Rmb 6.0 million, or 13.4%, in repair and maintenance costs and an increase of Rmb 3.3 million in costs associated with the consumption of supplies, materials, fuel, services and others. Our total operating expenses for this business segment only increased moderately over 2000 because of a provision of Rmb 30.8 million in 2000 for the impairment of our Nanhai 216 vessel.

Geophysical services operating expenses increased by Rmb 164.7 million, or 75.3%, to Rmb 383.3 million in 2001. The two vessels that we received as part of the liquidation of Hailong in June 2001 contributed to higher consumption of supplies, materials, fuel, services and others, which rose by Rmb 66.7 million, or 100.5%, to Rmb 133.1 million, and higher repair and maintenance costs, which increased by Rmb 21.0 million, or 111.7%, to Rmb 39.8 million. In addition, our employee compensation costs increased by Rmb 17.5 million, or 33.5%, to Rmb 69.7 million, while depreciation expenses rose by Rmb 17.0 million, or 27.7%, to Rmb 78.3 million. Because we believed that the fair value of the two survey vessels was lower than their book carrying value, we made a provision of Rmb 38.0 million for the impairment of these two vessels in 2001.

Profit from operations. Our profit from operations fell by Rmb 15.3 million, or 4.2%, from Rmb 364.9 million in 2000 to Rmb 349.6 million in 2001. This decline was principally due to a loss of Rmb 75.8 million in our geophysical services division compared to a profit of Rmb 19.0 million for that division in 2000. In addition, profit from our well services operations declined by Rmb 58.7 million, or 38.6%, to Rmb 93.2 million. These declines were partially offset by an increase in our profit from operations for drilling services, which rose by Rmb 107.6 million, or 78.9%, to Rmb 243.9 million in 2001, and an increase in our profit from operations for marine support and transportation services, which grew by Rmb 30.6 million, or 53%, to Rmb 88.3 million in 2001.

Financing gain/loss. Our financing gain fell by Rmb 6.2 million, or 25.4%, from Rmb 24.4 million in 2000 to Rmb 18.2 million in 2001. This decrease was primarily due to lower interest income, higher interest charges and currency exchange losses. Our interest income fell by Rmb 2.4 million to Rmb 28.1 million in 2001, mainly because of lower interest rates on our bank deposits. At the same time, our interest expense rose by Rmb 3.1 million to Rmb 9.4 million, mainly due to interest payments made on new short-term debt that was taken out to meet a temporary working capital shortfall in our geophysical division.

Share of profit of jointly-controlled entities. Our share of profit of jointly-controlled entities increased by Rmb 16.8 million, or 54.2%, from Rmb 31.0 million in 2000 to Rmb 47.8 million in 2001. This increase was mainly attributable to our well services joint ventures, which contributed Rmb 44.2 million to our share of profits of jointly-controlled entities in 2001, an increase of 64.3% over Rmb 26.9 million in 2000. There was however a slightly lower contribution from our geophysical services joint ventures, which added Rmb 3.7 million to our share of profits of jointly-controlled entities in 2001, compared to Rmb 4.1 million in 2000.

Share of loss of an associate. We recorded a loss of Rmb 3.4 million from an associate in 2001, compared to a loss of Rmb 33.8 million in 2000. These losses represented our share of the operating losses of Hailong. We held a 46.8% interest in Hailong from the date it was established in late 1999 (with the actual capital injection occurring in 2000) until it was liquidated in the second half of 2001. Hailong was liquidated because it was not profitable as an independent entity.

Profits before tax. Our profits before tax increased by Rmb 25.7 million, or 6.6%, from Rmb 386.5 million in 2000 to Rmb 412.2 million in 2001. This increase was mainly attributable to our drilling services division, which registered an increase of Rmb 108.6 million, or 71.0%, in profits before tax, and our marine and transportation services, which recorded an increase of Rmb 24.0 million, or 36.6%, in profits before tax. These increases were partially offset by our geophysical services division, which recorded a loss before tax of Rmb 82.3 million in 2001, compared to a loss before tax of Rmb 13.4 million in 2000. In addition, well services profits before tax decreased by Rmb 38.0 million, or 20.9%, in 2001.

Taxes. Our tax expense increased by Rmb 39.4 million, or 39.5%, from Rmb 99.7 million in 2000 to Rmb 139.1 million in 2001. This increase was mainly due to higher revenues and the end of a tax holiday in 2001. We were entitled to a 50% reduction in our PRC enterprise income taxes in 2000, but reverted to the standard PRC enterprise income tax rate of 33% in 2001.

Net profit. Our net profit fell to Rmb 273.1 million in 2001, a decrease of Rmb 13.8 million, or 4.8%, compared to Rmb 286.9 million in 2000.

Distributions. In 2001, we declared dividends of Rmb 273.1 million, which represented all of our net profit for the year. This distribution was Rmb 13.8 million lower than our 2000 payment of Rmb 286.9 million.

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

Turnover. Our turnover for 2000 was Rmb 2,178.4 million, representing an increase of Rmb 516.4 million, or 31.1%, over 1999 turnover of Rmb 1,662.0 million. This rise was due to an increase in revenues from drilling services, well services and marine support and transportation services of Rmb 261.7 million, Rmb 193.7 million and Rmb 70.4 million, respectively. These increases were partially offset by a decrease of Rmb 9.5 million in turnover from geophysical services.

Drilling services turnover increased by Rmb 261.7 million, or 40.6%, to Rmb 906.1 million in 2000, compared to Rmb 644.4 million in 1999. This increase was mainly attributable to increased drilling activity offshore China and an increase in the day rates that we charge for our drilling rigs. Our drilling services turnover in 2000 included Rmb 88.7 million in other drilling income, which was up slightly from other drilling income of Rmb 68.6 million in 1999. Our other drilling income for the period primarily consisted of services related to maintaining and operating platform drilling units on production platforms.

Turnover from well services increased from Rmb 413.1 million in 1999 to Rmb 606.8 million in 2000. This 46.9% increase was primarily due to the provision of well services for approximately 120 new development wells drilled by CNOOC Limited during this period and an increase of our sales to CNOOC Limited of perforation equipment, cementing materials, drilling fluids and other materials and equipment.

Turnover from marine support and transportation services grew by Rmb 70.4 million, or 19.7%, from Rmb 357.6 million in 1999 to Rmb 428.0 million in 2000. This increase was primarily attributable to increased oil and gas production activity offshore China and an increase in the prices that we charge for some of our marine support and transportation vessels.

Turnover from geophysical services fell by 3.8% from Rmb 247.0 million in 1999 to Rmb 237.5 million in 2000. This decrease was mainly attributable to lower sales of independently collected seismic data in 2000.

Other revenue. Other revenue increased slightly from Rmb 1.6 million in 1999 to Rmb 3.2 million in 2000. This increase was mainly attributable to an increase in gains on the disposal of property, plant and equipment and a gain on the disposal of scrapped materials.

Operating expenses. Our 2000 operating expenses were Rmb 1,816.8 million, representing an increase of Rmb 227.3 million, or 14.3%, over 1999 operating expenses of Rmb 1,589.5 million. This increase was primarily due to increases in employee compensation costs, repair and maintenance costs and costs related to the consumption of supplies, materials, fuel, services and others. Employee compensation costs rose by Rmb 72.1 million because we raised the basic salaries of our employees and increased employee benefits in 2000. Costs related to the consumption of supplies, materials, fuel, services and others rose by Rmb 108.6 million, primarily as a result of increased business activity in our drilling, well and marine support and transportation divisions. Repair and maintenance costs increased by Rmb 38.9 million, mainly due to maintenance work performed on our drilling rigs.

Drilling services operating expenses increased by Rmb 131.1 million, or 20.5%, to Rmb 771.7 million in 2000. The increased use of our drilling rigs during this period led to an increase of Rmb 43.7 million, or 18.8%, in costs related to the consumption of supplies, materials, fuel, services and others, from Rmb 232.9 million in 1999 to Rmb 276.6 million in 2000. Overhauls to some of our drilling rigs also incurred higher repair and maintenance costs, which rose by Rmb 40.5 million, or 30.0%, to Rmb 175.5 million in this period. As a result of our salary and benefit increases, employee compensation costs increased by Rmb 26.9 million to Rmb 106.8 million in 2000.

Operating expenses for well services increased by Rmb 80.9 million, or 21.6%, from Rmb 375.2 million in 1999 to Rmb 456.1 million in 2000. This increase was mainly attributable to an increase of Rmb 62.6 million in expenses related to the consumption of supplies, materials, fuel, services and others, from Rmb 196.2 million in 1999 to Rmb 258.8 million in 2000. These costs increased in 2000 primarily because of higher business volume. In addition to this increase, employee compensation costs rose by Rmb 18.1 million, or 32.3%, from Rmb 56.0 million in 1999 to Rmb 74.1 million in 2000.

Our operating expenses for marine support and transportation services increased by Rmb 57.6 million, or 18.4%, from Rmb 312.8 million in 1999 to Rmb 370.4 million in 2000. Employee compensation costs rose from Rmb 58.6 million in 1999 to Rmb 76.8 million in 2000. In addition, higher fuel prices and the addition of two new marine support vessels in the fourth quarter of 1999 increased our fleet's consumption of supplies, materials, fuel, services and others by Rmb 18.1 million to Rmb 117.9 million in 2000. These increases were partially offset by a slight decrease in our repair and maintenance costs, which fell to Rmb 44.7 million in 2000, compared to Rmb 48.8 million in 1999 primarily because of a major overhaul of our marine support and transportation fleet in 1999. Our depreciation costs were also lower in 2000, falling by Rmb 7.2 million to Rmb 79.6 million, primarily because some of our vessels reached the end of their depreciation life during this period.

Operating expenses for geophysical services decreased by Rmb 42.3 million, or 16.2%, from Rmb 260.9 million in 1999 to Rmb 218.6 million in 2000. This decline primarily resulted from decreases in consumption of supplies, materials, fuel, services and others, depreciation and other selling, general and administrative expenses, offset in part by higher employee compensation costs. Consumption of supplies, materials, fuel, services and others fell by Rmb 15.7 million to Rmb 66.4 million in 2000, primarily because we capitalized approximately Rmb 38.4 million in costs related to data collected for a speculative seismic project during this period. Depreciation costs decreased by Rmb 15.7 million to Rmb 61.3 million, largely because substantial machinery and equipment assets that we purchased in 1994 were fully depreciated in 1999. Selling, general and administrative expenses also declined by Rmb 6.6 million to Rmb 1.8 million in 2000, mainly due to a lower provision for doubtful debts and other receivables. In addition, we did not make any provisions for the impairment of long-term investments during this period. In 1999, we made a provision of Rmb 12.0 million for a diminution in the value of a long-term investment in a private PRC company that incurred operating losses in 1999. Offsetting the above decreases in operating expenses, our employee compensation costs rose by Rmb 9.1 million, or 21.1%, to Rmb 52.2 million in 2000.

Profit from operations. Profit from operations was Rmb 364.9 million in 2000, an increase of Rmb 290.9 million over profit from operations of Rmb 74.0 million for 1999. Profit from operations for drilling services increased by Rmb 132.2 million, from Rmb 4.1 million in 1999 to Rmb 136.3 million in 2000, while well services profit from operations rose by Rmb 112.9 million to Rmb 151.9 million in 2000, compared to Rmb 39.0 million in 1999. Marine support and transportation services recorded an increase of Rmb 12.9 million in profit from operations, from Rmb 44.8 million in 1999 to Rmb 57.7 million in 2000, while geophysical services added profit from operations of Rmb 19.0 million in 2000, compared to a loss of Rmb 13.9 million in 1999.

Financing gain/loss. We realized a financing gain of Rmb 24.4 million in 2000, representing an increase of 46.1% over our financing gain of Rmb 16.7 million in 1999. In 2000, interest income earned from bank deposits increased by 56.2% to Rmb 30.5 million. Offsetting this increase, our interest expense in 2000 grew by Rmb 3.9 million to Rmb 6.3 million, primarily due to Rmb 70.0 million in new loans for our well services and geophysical services divisions.

Share of profit of jointly-controlled entities. Our share of profits from jointly-controlled entities increased by Rmb 6.8 million, or 28.1%, from Rmb 24.2 million in 1999 to Rmb 31.0 million in 2000. Our well services joint ventures contributed Rmb 26.9 million of this amount in 2000, compared to Rmb 22.9 million in 1999, while our geophysical services joint ventures added Rmb 4.1 million in 2000, compared to Rmb 1.3 million in 1999.

Share of loss of an associate. We recorded a loss of Rmb 33.8 million from an associate in 2000. This loss represented our share of the operating losses of Hailong during this period.

Profits before tax. Profits before tax grew by Rmb 271.5 million to Rmb 386.5 million in 2000, compared with profits before tax of Rmb 115.0 million in 1999. Drilling services and well services accounted for most of this increase. Drilling services recorded profits before tax of Rmb 152.9 million in 2000, compared to Rmb 12.6 million in 1999, while well services realized profits before tax of Rmb 181.5 million in 2000, compared to Rmb 65.6 million in 1999. In addition, marine support and transportation services contributed profits before tax of Rmb 65.5 million, an increase of Rmb 15.1 million compared to Rmb 50.4 million in 1999. These gains were partially offset by our geophysical services division, which registered a loss before tax of Rmb 13.4 million in 2000, compared to a loss of Rmb 13.7 million in the prior period.

Taxes. Our tax payments increased by Rmb 72.9 million to Rmb 99.7 million in 2000, compared to Rmb 26.8 million in 1999. This significant increase was mainly attributable to higher revenues in 2000.

Net profit. Net profit amounted to Rmb 286.9 million in 2000, compared to Rmb 88.2 million in 1999.

Distributions. We declared distributions of Rmb 286.9 million in 2000, compared to a distribution of Rmb 88.2 million in 1999. Our declared distributions in 2000 were equal to our net profit for the year.

FINANCIAL POSITION

	As of December 31,			As of June 30,
	1999	2000	2001	2002
	Rmb ’000	Rmb ’000	Rmb ’000	Rmb ’000
Interests in jointly-controlled entities	69,270	81,149	193,922	155,310
Property, plant and equipment	2,480,273	2,721,901	3,048,945	4,134,958
Accounts receivable	249,210	300,990	350,967	787,276
Inventories	127,848	150,085	182,964	168,488
Due from CNOOC	61,141	105,593	—	12,096
Due from other CNOOC group companies	12,825	4,686	28,470	32,218
Prepayments, deposits and other receivables	101,378	85,462	134,800	177,842
Entrusted loans receivables[1]	—	70,000	70,000	—
Pledged deposits	31,726	91,705	148,870	150,113
Cash and cash equivalents	935,072	870,376	871,124	164,315
Total Assets	4,074,938	4,518,434	5,030,062	5,782,616
Long term payable to CNOOC	—	—	—	600,000
Deferred tax liability	325,000	367,000	344,000	660,300
Bank and other loans	4,500	55,000	30,000	—
Due to other CNOOC group companies	7,917	13,136	10,098	5,118
Due to CNOOC	677,512	906,308	1,052,701	275,719
Salary and welfare payables	110,833	113,190	124,261	119,066
Trade and other payables	153,446	219,358	368,997	380,407
Short-term loans	90,000	120,000	165,000	35,000
Total Liabilities	1,369,208	1,793,992	2,095,057	2,111,035

(1) Entrusted loans receivables represented loans granted by us to others through approved financial institutions. All of these loans were repaid as of June 30, 2002, and this program has now been discontinued.

Total Assets. Our total assets at June 30, 2002, were Rmb 5,782.6 million, which represented an increase of Rmb 752.5 million, or 15.0%, over our total assets of Rmb 5,030.1 million at December 31, 2001. This increase was primarily due to an increase of Rmb 1,086.0 million, or 35.6%, in property, plant and equipment and an increase of Rmb 436.3 million, or 124.3%, in accounts receivable, offset in part by a decrease of Rmb 706.8 million, or 81.1%, in cash and cash equivalents and a decrease of Rmb 38.6 million, or 19.9%, in interests in jointly-controlled entities.

Property, plant and equipment. Property, plant and equipment was Rmb 4,135.0 million at June 30, 2002, compared with a total of Rmb 3,048.9 million at December 31, 2001. This 35.6% increase was due to a revaluation of our assets as required by PRC law for our Global Offering.

Accounts receivable. Our accounts receivable balance was Rmb 787.3 million at June 30, 2002, compared to Rmb 351.0 million at December 31, 2001. This significant increase resulted in part from an increase of 21.2% in our total revenues in the first half of 2002, compared to the same period in 2001. This rise was also related to the longer than expected time taken for us to verify the final amount to be paid in respect of certain contracts. As at August 31, 2002, our accounts receivable balance was Rmb 577.4 million.

Cash and cash equivalents. Cash and cash equivalents were Rmb 164.3 million at June 30, 2002, representing a decrease of Rmb 706.8 million, or 81.1%, from a cash and cash equivalents balance of Rmb 871.1 million at December 31, 2001. Our cash and cash equivalents balance decreased primarily because we used Rmb 688.0 million of our cash and cash equivalents to pay down the amount due to CNOOC in connection with our Reorganization. See section 5, note (m) to the Accountants' Report in Appendix I to this Prospectus.

Total liabilities. Our total liabilities were Rmb 2,111.0 million at June 30, 2002. This amount represented an increase of Rmb 15.9 million, or 0.8%, over total liabilities of Rmb 2,095.1 million at December 31, 2001.

Deferred tax liability. We recorded a deferred tax liability of Rmb 660.3 million at June 30, 2002, compared to a deferred tax liability of Rmb 344.0 million at December 31, 2001. This significant increase was primarily because our revaluation resulted in higher depreciation expenses going forward. However, since we are a PRC-incorporated company, these additional depreciation expenses are not tax deductible under the PRC tax regime. As such, we incurred a deferred tax liability of Rmb 357.0 million, which is roughly equal to the revaluation surplus multiplied by the PRC income tax rate.

Due to CNOOC. At December 31, 2001, the amount due to CNOOC was Rmb 1,052.7 million, which largely consisted of declared but unpaid dividends. At June 30, 2002, the amount due to CNOOC was Rmb 275.7 million. The primary reason for this decrease was that as part of our Reorganization, we paid down Rmb 688.0 million of the amount due to CNOOC and converted an amount of Rmb 600.0 million due to CNOOC into an interest free long-term payable that will be repaid in three equal annual installments beginning on May 1, 2005.

LIQUIDITY AND CAPITAL RESOURCES

The following table sets forth our cash flow for operating activities as determined under Hong Kong GAAP for the periods indicated:

	Year ended December 31,			Six months ended June 30,	
	1999	2000	2001	2001	2002
	Rmb '000	Rmb '000	Rmb '000	Rmb '000 (unaudited)	Rmb '000
Cash provided by (used for):					
Operations	636,542	779,463	869,952	191,936	79,464
Interest paid	(2,390)	(6,340)	(9,373)	(5,585)	(5,115)
Tax paid	(32,347)	(52,330)	(154,019)	(60,404)	(99,299)
Investing activities	(415,929)	(721,871)	(631,602)	(293,478)	25,714
Financing activities	(15,602)	13,415	59,919	88,179	(610,000)
Net increase (decrease) in cash and cash equivalents	170,274	12,337	134,877	(79,352)	(609,236)

Cash Provided by Operations

Cash provided by operations in the first six months of 2002 fell by Rmb 112.4 million, or 58.6%, to Rmb 79.5 million, from Rmb 191.9 million in the same period in 2001. This decrease resulted primarily from an increase of Rmb 430.7 million in accounts receivable and increase of Rmb 45.2 million in prepayments, deposits and other receivables, which was offset in part by a decrease of Rmb 20.3 million in inventories.

Our accounts receivable rose substantially in the first half of 2002, primarily because of an increase of 21.2% in our total revenues in this period, compared to the first six months of 2001. This rise was also related to the longer than expected time taken for us to verify the final amount to be paid in respect of certain contracts. As at August 31, 2002, our accounts receivable balance was Rmb 577.4 million.

Cash provided by operations in 2001 increased by Rmb 90.5 million, or 11.6%, to Rmb 870.0 million, from Rmb 779.5 million in 2000. This increase was primarily attributable to an increase of Rmb 149.6 million in trade and other payables and an increase of Rmb 114.6 million in our net outstanding balance with CNOOC.

Cash provided by operations in 2000 increased by Rmb 143.0 million, or 22.5%, to Rmb 779.5 million, from Rmb 636.5 million in 1999. The increase resulted primarily from an increase of Rmb 290.9 million in profits from operations, an increase of Rmb 30.8 million in provisions for impairment of property, plant and equipment and an increase of Rmb 26.8 million in provisions for inventories. These trends were largely offset by an increase of Rmb 17.2 million in working capital in 2000, compared to a decrease of Rmb 136.6 million in working capital in 1999.

The significant increase in working capital in 2000 resulted primarily from an increase of Rmb 53.6 million in accounts receivable, an increase of Rmb 50.2 million in inventories and a decrease of Rmb 16.7 million in our net outstanding balance with CNOOC. These trends were offset in part by an increase of Rmb 65.9 million in trade and other payables, a decrease of Rmb 21.7 million in prepayments, deposits and other receivables and a decrease of Rmb 13.4 million in our net outstanding balance with CNOOC group companies.

Cash provided by operations in 1999 was Rmb 636.5 million. In addition to profits from operations of Rmb 74.0 million, our cash provided by operations reflected a depreciation charge of Rmb 388.3 million and a decrease of Rmb 136.6 million in working capital. The reduction in working capital primarily resulted from a decrease of Rmb 143.0 million in prepayments, deposits and other receivables, an increase of Rmb 88.3 million in the amount of our net balance due to CNOOC, offset in part by a decrease of Rmb 142.3 million in trade and other payables.

Capital Expenditures and Investments

The following table sets forth the capital expenditures for each of our business segments for the three years ended December 31, 2001, and the capital expenditures for each segment as a percentage of our total capital expenditures.

	Year ended December 31,				% of total capital expenditures
	1999	2000	2001	Total	
	(Rmb millions)				
Drilling services	180.0	148.7	284.5	613.2	30.7%
Well services	70.8	88.6	120.7	280.1	14.0%
Marine support and transportation services	75.3	409.0	267.5	751.8	37.6%
Geophysical services	83.9	18.0	252.1	354.0	17.7%
Total	410.0	664.3	924.8	1,999.1	100.0%

The majority of our capital expenditures have been related to investments in our marine support and transportation business and our drilling business, accounting for 37.6% and 30.7% of our total capital expenditures, respectively, during the last three years. Capital expenditures for marine support and transportation included the purchase of one AHTS vessel and the initial payments for the purchase of seven newbuild support vessels in 2000 and an additional six newbuild support vessels in 2001. Our drilling capital expenditures during the last three years primarily consisted of renovations and upgrades to our drilling rigs, including the installation of cantilevers in two of our jackup rigs in 2001 and the purchase of drilling equipment.

Total capital expenditures for the year 2001 were approximately Rmb 925 million (US$112 million) as compared to approximately Rmb 664 million (US$80 million) for the year 2000.

The following table sets forth our planned capital expenditures by business segment for each of the years 2002 through 2005, and the planned capital expenditures in each business segment as a percentage of total capital expenditures. Actual capital expenditures may differ materially from those currently planned.

	Year ending December 31,					
	2002	2003	2004	2005	Total	% of total capital expenditures
	(Rmb millions)					
Drilling services	166.2	662.9	773.6	139.1	1,741.8	36.1%
Well Services	134.1	230.5	86.9	159.6	611.1	12.7%
Marine support and transportation services	414.7	649.0	679.7	476.9	2,220.3	46.1%
Geophysical services	61.6	72.5	73.4	40.7	248.2	5.1%
Total	776.6	1,614.9	1,613.6	816.3	4,821.4	100.0%

During the second half of 2002, we expect to spend approximately Rmb 137.2 million, Rmb 111.3 million, Rmb 257.3 million and Rmb 56.0 millions on our drilling services, well services, marine support and transportation services and geophysical services, respectively.

We plan to continue to focus our investment on our drilling and marine support and transportation segments, which account for approximately 36.1% and 46.1% of our planned capital expenditures through 2005. Our planned investment for our drilling segment through 2005 includes approximately Rmb 994 million (US$120 million) for potential purchases of two second-hand jackup rigs by 2004 and approximately Rmb 572 million (US$69 million) for major overhauls and upgrades to our other drilling rigs. Our planned investment for marine support and transportation includes funding several newbuild support vessels that are scheduled to be under construction during this period.

We also plan to invest approximately Rmb 611 million (US$74 million) in our well services business segment and approximately Rmb 248 million (US$30 million) in our geophysical business segment through 2005. Major planned capital expenditures in well services include approximately Rmb 181 million (US$22 million) for logging equipment through 2005 and approximately Rmb 66 million (US$8 million) for a LWD tool in 2003. Geophysical planned capital expenditures include approximately Rmb 98 million (US$12 million) for a new survey vessel that is scheduled to be delivered in 2004.

We plan to fund the capital and related expenditures described in this Prospectus principally through the net proceeds we receive from this Global Offering, cash provided by operating activities, and, as necessary, with short-term and long-term debt.

See the section headed "Business" in this Prospectus for further details of our planned capital expenditures for each of our business segments.

Cash Provided by Financing Activities

We had a net cash outflow from financing activities of Rmb 610.0 million in the first six months of 2002. Our cash outflow in the first half of 2002 largely consisted of an outflow of Rmb 688.0 million to pay down the amount due to CNOOC and Rmb 195.0 million to repay bank and other loans.

We had a net cash inflow from financing activities of Rmb 59.9 million in 2001. Our cash outflow for financing activities in 2001 consisted of Rmb 45.0 million in repayment of bank and other loans and Rmb 135.6 million in payments to CNOOC. Our cash inflow from financing activities in 2001 consisted of Rmb 30.0 million in proceeds from new bank and other loans and Rmb 210.6 million in contributions from CNOOC.

We had a net cash inflow from financing activities of Rmb 13.4 million in 2000. Our cash inflow from financing activities in 2000 consisted of Rmb 85.0 million in proceeds from new bank and other loans and Rmb 18.7 million in capital contributions from CNOOC. Our cash outflow from financing activities in 2000 consisted of Rmb 4.5 million to repay bank loans and Rmb 85.8 million in payments to CNOOC.

We had a net cash outflow for financing activities of Rmb 15.6 million in 1999. Our cash outflow for financing activities in 1999 consisted of Rmb 3.0 million to repay bank and other loans and Rmb 136.8 million in payments to CNOOC. Our cash inflow from financing activities in 1999 consisted of Rmb 90.0 million in proceeds from new bank and other loans and Rmb 34.2 million in capital contributions from CNOOC.

Our distributions to CNOOC for the years ended December 31, 1999, 2000 and 2001 accounted for 100% of our net income for each of those periods.

Prior to the Reorganization, the businesses transferred to us by CNOOC were financed by CNOOC. In connection with the Reorganization, all of CNOOC's loans relating to the businesses were transferred to us, and this debt is reflected in our financial statements included in Appendix I to this Prospectus. As of June 30, 2002, our total combined debt was Rmb 910.7 million, Rmb 310.7 million of which was short-term debt and Rmb 600 million was an interest free long-term payable to CNOOC.

We believe that we have sufficient financial resources to support our operations. We have established good relationships and credibility with various international and PRC financial institutions. We have entered into agreements with PRC financial institutions for loan facilities. However, our ability to obtain or access adequate financing to satisfy our capital expenditure and debt service requirements may be limited by our financial condition and results of operations and the liquidity of international and domestic financial markets, in particular:

- Any failure by us to achieve timely rollover, extension or refinancing of our short-term debt may result in an inability to meet our obligations in connection with debt service, accounts payable and/or other liabilities when they become due and payable.

- We are a PRC incorporated company. Therefore, prior to any future attempts to access the international capital markets, we will be subject to limitations imposed by various PRC Government authorities, including the State Administration for Foreign Exchange and the PBOC, depending on the type of international financing. We may also need to obtain PRC Government support for any project involving significant capital investment.

- In addition, financing sources often look to similarly situated entities when determining whether, and at what rates, to provide financing. Successful or unsuccessful financings by Hong Kong and PRC entities similarly situated to us could have an impact on our ability to obtain external financing.

See "Risk Factors—Risks Relating to Our Business—Our business requires us to make significant capital expenditures, which depend on our ability to secure financing that is acceptable to us" and "—The execution of our capital expenditure plan is subject to some uncertainty."

WORKING CAPITAL

Taking into account the net proceeds available to us from the Global Offering and our operating cash flow, we believe that we have sufficient working capital for our present requirements.

INFLATION

According to the China Statistical Bureau and as represented by the general consumer price index, China experienced a deflation rate of 1.5% in 1999 and inflation rates of 0.4% in 2000 and 0.7% in 2001. Some of our expenses are denominated in foreign currencies and may be subject to inflation in foreign countries. Inflation or deflation in China and overseas has not had a material impact on our results of operations in recent years.

INDEBTEDNESS STATEMENT

At the close of business on August 31, 2002, being the most recent practicable date, we had the following outstanding unsecured borrowings, all denominated in Renminbi. The exchange rate used to translate Hong Kong dollars into Renminbi at August 31, 2002 was HK$1.00 to Rmb 1.06.

	Repayable within one year		Repayable after one year		Total
	Rmb	**HK$**	**Rmb**	**HK$**	**HK$**
			(in millions)		
Bank loans	35.0	33.0	—	—	33.0
Loan from CNOOC Finance Corporation Limited	75.0	70.8	—	—	70.8
Due to CNOOC	285.6	269.4	600.0	566.0	835.4
Total	395.6	373.2	600.0	566.0	939.2

The Directors have confirmed that, as at October 31, 2002, they were not aware of any circumstances which, had we been required to comply with Practice Note 19 of the Listing Rules, would give rise to a disclosure requirement under that Practice Note.

Secured Financing

We occasionally pledge our time deposits to secure letters of credit for purposes of purchasing equipment. As of the Latest Practicable Date, we did not have any debt securities, mortgages and charges or other contingent liabilities.

NO MATERIAL ADVERSE CHANGE

Save as aforesaid or as otherwise disclosed herein and apart from intra-group liabilities, our Directors confirm that we did not have, at the close of business on the Latest Practicable Date, any outstanding liabilities or any mortgages, charges, debentures or loan capital, bank overdrafts, loans, liabilities under acceptance or similar indebtedness, hire purchase or finance lease commitments or any guarantees or other material contingent liabilities.

The Directors have confirmed that there has not been any material change in our liabilities and contingent liabilities since the Latest Practicable Date.

MARKET RISKS

Commodity Price Risk

We are exposed to commodity price risks because the demand for our services is closely related to the prices for offshore crude oil and natural gas, which are influenced by global as well as regional supply and demand conditions. A decline in the prices of crude oil, natural gas and refined products could adversely affect the volume of offshore petroleum exploration and development and therefore the demand for our services and our financial performance.

Foreign Currency Exchange Risk

We are exposed to foreign exchange risk because most of our revenue is denominated in the Renminbi, but we purchase many of the assets used in our operations from outside China with foreign currencies. These assets may include drilling rigs, support vessels, tankers, survey and seismic ships and instruments and equipment used in our operations. During the years ended December 31, 1999, 2000 and 2001 and the six-month period ended June 30, 2002, 39.8%, 57.1%, 30.9% and 56.3%, respectively, of our capital expenditures were denominated in foreign currencies.

Under the current foreign exchange system in China, we are not able to hedge effectively against currency risk, including any possible future depreciation of Renminbi. We believe that our U.S. dollar-denominated and U.S. dollar linked revenues partially limit our foreign exchange risk. During the years ended December 31, 1999, 2000 and 2001 and the six-month period ended June 30, 2002, approximately 51%, 32%, 34% and 27%, respectively, of our total turnover were denominated in U.S. dollars or U.S. dollar linked currencies. Nevertheless, any depreciation in the value of Renminbi versus the U.S. dollar or other currencies could adversely affect our results of operations and financial condition.

Foreign currency transactions are recorded at the applicable rate of exchange prevailing on the transaction date. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates of exchange prevailing on that date. Exchange differences are dealt with in the profit and loss account.

Interest Rate Risk

As of the Latest Practicable Date, we do not have any floating interest rate debt. However, if we obtain floating interest rate debt in the future, we will be exposed to interest rate risks resulting from fluctuations in interest rates. Upward fluctuations in interest rates increase the cost of new debt and the interest cost of outstanding floating rate borrowings. Fluctuations in interest rates can lead to significant fluctuations in the fair values of such debt obligations.

ADJUSTED NET TANGIBLE ASSETS

The following statement of adjusted net tangible assets is based on our audited combined net tangible assets as of June 30, 2002 included in Appendix I "Accountants' Report" to this Prospectus, adjusted as described below:

	Rmb '000
Audited net tangible assets as of June 30, 2002	3,671,581
Unaudited profit after taxation for the two months ended August 31, 2002	44,768
Estimated net proceeds of the Global Offering(1)	1,895,496
Adjusted net tangible assets	5,611,845
Adjusted net tangible asset value per Share(2)	Rmb 1.47

(1) Our portion of the estimated net proceeds of the Global Offering is based on the Offer Price of HK$1.55 per H Share (being the mid-point of the estimated Offer Price range of HK$1.40 and HK$1.70 per H Share), is translated into Renminbi at the rate of HK$1.00=Rmb 1.0606, being the PBOC Rate on June 30, 2002, and takes no account of any H Shares which may be issued upon the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, our estimated net proceeds of the Global Offering will be approximately HK$2,059.4 million.

(2) The adjusted net tangible asset value per Share is arrived at after the adjustments referred to in this section and on the basis of 3,813,320,000 Shares in issue and to be issued as mentioned herein but it takes no account of any H Shares which may be issued upon the exercise of the Over-allotment Option.

PROFIT FORECAST

The Directors forecast that, on the bases set out in Appendix II to this Prospectus, the combined profit after taxation but before extraordinary items for the year ending December 31, 2002 is unlikely to be less than Rmb 354.0 million. The Directors are not aware of, nor do they expect, any extraordinary items which have arisen in respect of the year ending December 31, 2002.

On a pro forma fully diluted basis and assuming that the Global Offering had been completed and a total of 3,813,320,000 Shares were in issue throughout the year ending December 31, 2002 (taking no account of any H Shares that may be issued pursuant to the exercise of the Over-allotment Option), the estimated earnings per Share for the year ending December 31, 2002 would be HK$0.0875, representing a price/earnings multiple of 17.7 times based on the Offer Price of HK$1.55 per H Share (being the mid-point of the estimated Offer Price range of HK$1.40 to HK$1.70 per H Share).

The text of the letters from Ernst & Young, CSFB and Merrill Lynch in respect of the profit forecast is set out in Appendix II "Profit Forecast" to this Prospectus.

DIVIDEND POLICY AND DISTRIBUTABLE RESERVES

Before the Global Offering, we were a wholly owned subsidiary of CNOOC and thus declared all of our net profits as dividends. For the three years ended December 31, 2001, we declared distributions of Rmb 88.2 million, Rmb 286.9 million, and Rmb 273.1 million, respectively. In connection with our Reorganization and in preparation for this Global Offering, we declared a special distribution of Rmb 344.9 million for the four-month period ended April 30, 2002. The amount of distributions that we have declared historically as a private company are not indicative of the dividends that we may pay in the future.

After completion of the Global Offering, our Shareholders will be entitled to receive dividends declared by our Board of Directors. The payment and the amount of any dividends will be at the discretion of our Directors and will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that our Directors deem relevant. In addition, as our controlling shareholder (as defined in the Listing Rules), CNOOC, subject to our Articles of Association and relevant PRC legal provisions, will be able to influence our dividend policy.

Subject to the factors described above, we plan to distribute 20% to 30% of our net profit for periods subsequent to our Reorganization. However, we have not yet determined the dividend amounts payable for the period from the effective date of our Reorganization, April 30, 2002, to the end of the year ending December 31, 2002. Cash dividends on our H Shares, if any, will be paid in Hong Kong dollars. Other distributions, if any, will be paid to our Shareholders by any means our Directors deem legal, fair and practical.

Since we are a joint stock limited liability company in China, our dividend distribution policy is subject to the PRC Company Law and certain provisions required by PRC law to be included in our Articles of Association. These measures stipulate that we can only distribute net profit attributable to Shareholders as dividends after we have allocated:

- sufficient funds to make up for cumulative prior year losses, if any;
- at least 10% of our after tax profit to a statutory common reserve fund, provided that we have no obligation to contribute to such fund when it in aggregate amounts to 50% of our registered capital;
- from 5% to 10% of our after tax profit to our statutory public welfare fund; and
- a discretionary amount to a common reserve fund if approved by our Shareholders.

As at June 30, 2002, in accordance with the PRC Company Law, an amount of approximately Rmb 999 million standing to the credit of our capital reserve account, as determined under the PRC accounting standards and regulations, was available for distribution by way of future capitalization issue. In addition, as of that date we had retained profits of approximately Rmb 72 million that were available for distribution as dividends after allowances having been made as set forth in Section 4(i) of Accountants' Report in Appendix I to this Prospectus. Save as aforesaid, we did not have any other reserves available for distribution to our Shareholders at June 30, 2002.