The following is the text of a report, prepared for the purpose of incorporation in this Prospectus, received from our auditors and reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong. As described in the section headed "Documents Available for Inspection" in Appendix VIII, a copy of the Accountants' Report is available for inspection.

ERNST & YOUNG
安永會計師事務所

15th Floor
Hutchison House
10 Harcourt Road
Central
Hong Kong

November 11, 2002

The Directors
China Oilfield Services Limited
Credit Suisse First Boston (Hong Kong) Limited
Merrill Lynch Far East Limited

Dear Sirs,

We set out below our report on the financial information regarding China Oilfield Services Limited (the "Company") and its subsidiary (hereinafter collectively referred to as the "Group") and joint ventures for each of the three years ended December 31, 1999, 2000 and 2001 and the six-month period ended June 30, 2002 (the "Relevant Periods"), prepared on the basis set out in Section 2 below for inclusion in the prospectus of the Company dated November 11, 2002 (the "Prospectus").

The Company was incorporated on December 25, 2001 in Tianjin, the People's Republic of China (the "PRC"), and as part of the reorganization described below (the "Reorganization"), the Company was restructured into a joint stock limited liability company on September 26, 2002. On September 26, 2002, pursuant to the Reorganization which was effective on April 30, 2002 as described in Section 1 below and the paragraph headed "The Reorganization" in Appendix VII of the Prospectus, the Company acquired from its immediate holding company, China National Offshore Oil Corporation ("CNOOC"), a State-owned enterprise in the PRC:

(1) the assets, liabilities and undertakings which principally relate to the business of the provision of oilfield services including drilling services, well services, marine support and transportation services and geophysical services offshore China (the "Relevant Businesses"), with the exclusion of certain cash and cash equivalents of RMB688 million and a payable to CNOOC of RMB688 million; and

(2) the interests in certain joint ventures which principally carry on the business of the provision of oilfield services including well services and geophysical services offshore China (the "Relevant Companies").

In consideration of the above acquisition, the Company in total issued 2,600 million State legal person shares of par value of RMB1.00 each to CNOOC, and the Company's registered and paid-up capital became RMB2,600 million accordingly.

The Group is principally engaged in the provision of oilfield services including drilling services, well services, marine support and transportation services and geophysical services offshore China.

We have not acted as auditors of any of the companies now comprising the Group, the joint ventures or related associate during the Relevant Periods. For the purpose of preparing the summaries of the combined results and cash flows of the Group for the Relevant Periods and the combined balance sheets of the Group as at December 31, 1999, 2000 and 2001, and June 30, 2002 (the "Summaries"), we have performed independent audits on the management financial statements of the Relevant Businesses and the Relevant Companies in accordance with Hong Kong Statements of Auditing Standards and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants. The financial information for the six-month period ended June 30, 2001, which is included for comparison purposes only, is based on the unaudited management financial statements of the Group.

The Summaries set out in this report have been prepared from the management financial statements of the Relevant Businesses and the Relevant Companies now comprising the Group as if the Reorganization had been completed as at the beginning of the Relevant Periods. Adjustments have been made for the purpose of this report to restate the management financial statements of the Relevant Businesses and the Relevant Companies to conform with the accounting policies referred to in Section 3, which are in compliance with generally accepted accounting principles in Hong Kong ("Hong Kong GAAP").

In our opinion, the Summaries together with the notes thereto give, for the purpose of this report, a true and fair view of the combined results and cash flows of the Group for the Relevant Periods and of the combined financial position of the Group as at December 31, 1999, 2000 and 2001, and June 30, 2002.

1. REORGANIZATION

As a result of a group reorganization of CNOOC in preparation for the listing of the Company's shares on the Hong Kong Stock Exchange, the Company was incorporated on December 25, 2001 and thereafter restructured into a joint stock limited liability company on September 26, 2002. On September 26, 2002, CNOOC transferred the Relevant Businesses and the Relevant Companies to the Company with an effective date of April 30, 2002, and a total of 2,600 million Domestic Shares (in the form of State legal person shares) with a par value of RMB1.00 each were issued by the Company to CNOOC as purchase consideration of the Relevant Businesses and the Relevant Companies. Thereafter, the Company's registered and paid-up capital became RMB2,600 million.

Prior to the Reorganization effective on April 30, 2002, CNOOC was indirectly engaged in the Relevant Businesses through its wholly-owned entities and the Relevant Companies. As a result of the Reorganization, the Group and its joint ventures became the only entities through which CNOOC conducts the respective oilfield services businesses.

As at the date of this report, the Company had direct or indirect interests in the following joint ventures and subsidiary. All of these entities are private limited companies, which have substantially similar characteristics to a private company incorporated in Hong Kong, and were owned by CNOOC upon their incorporation/establishment:

Company name	Place and date of incorporation/ establishment	Nominal Value of registered and paid-up capital	Percentage of equity interest attributable to the Group	Principal activities
Subsidiary				
Lico International Inc.	United States of America November 2, 1994	US$100,000	100	Sales of logging equipment
Joint ventures				
China-France Bohai Geoservices Co., Ltd. ("China-France")	Tianjin, PRC November 30, 1983	US$11,650,000	50	Provision of logging services
China Nanhai-Magcobar Mud Corporation Ltd. ("Magcobar")	Shenzhen, PRC October 25, 1984	US$1,250,000	60	Provision of drilling fluid services
China Petroleum Logging-Atlas Cooperation Service Company ("Logging-Atlas")	Guangdong, PRC May 10, 1984	US$2,000,000	50	Provision of logging services
CNOOC-OTIS Well Completion Services Ltd. ("CNOOC-OTIS")	Tianjin, PRC April 14, 1993	US$2,000,000	50	Provision of well completion services
China Offshore Thales GeoSolutions (Tianjin) Company Ltd. ("China Offshore Thales")	Tianjin, PRC August 24, 1983	US$1,720,000	50	Provision of geophysical services
Tianjin Jinlong Petro-Chemical Company Ltd. ("Jinlong")	Tianjin, PRC September 7, 1993	RMB1,036,000	50	Provision of drilling fluids services

2. BASIS OF PRESENTATION

As discussed in Section 1 above, the Relevant Businesses were operated by wholly-owned subsidiaries of CNOOC and the Relevant Companies were owned directly or indirectly by CNOOC prior to the Reorganization. Accordingly, the Reorganization has been accounted for as a reorganization of companies under common control in a manner similar to a pooling/merging of interests. As a result, the accompanying combined balance sheets have been prepared to present the Group's assets and liabilities as if the Reorganization had been completed as at the beginning of the Relevant Periods. The accompanying combined statements of income and cash flows include the Group's results of operations and cash flows as if the Relevant Businesses and the Relevant Companies had been transferred to the Group at the beginning of the Relevant Periods.

The Summaries have been prepared in accordance with Hong Kong GAAP. This basis of accounting differs from that used in the management financial statements of the Relevant Businesses and the Relevant Companies now comprising the Group. Their management financial statements were prepared in accordance with the accounting principles and the financial regulations applicable to State-owned enterprises or Sino-foreign or domestic joint ventures established in the PRC.

3. PRINCIPAL ACCOUNTING POLICIES

The financial information set out in this report is prepared under the historical cost convention, except for remeasurement of certain fixed assets. The principal accounting policies adopted by the Group in arriving at the financial information set out in this report, which conform with Hong Kong GAAP, are as follows:

(a) Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

— income from day rate contracts is recognized as and when services are performed;

— income from turnkey contracts is recognized to the extent of costs incurred until the specific turnkey depth and other contract requirements are met. Provisions for future losses on turnkey contracts are recognized when it becomes apparent that expenses to be incurred on a specific contract will exceed the revenue from that contract;

— interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

— dividend income, when the shareholders' right to receive payment has been established.

(b) Property, plant and equipment, and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalized as an additional cost of that asset.

Changes in the values of property, plant and equipment are dealt with as movements in the revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. On disposal of a revalued asset, the relevant portion of the revaluation reserve realized in respect of previous valuations is transferred to retained earnings as a movement in reserves.

Depreciation is calculated on the straight-line basis to write off the cost or valuation less residual value of each asset over its estimated useful life. The estimated useful lives of the property, plant and equipment are as follows:

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

The gain or loss on disposal or retirement of property, plant and equipment recognized in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

(c) Construction in progress

Construction in progress represents vessels and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalized borrowing costs on related borrowed funds during the period of construction.

Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

(d) Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated at the higher of the asset's value in use or its net selling price.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortization), had no impairment loss been recognized for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

(e) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. The capitalization is based on the actual cost of the related borrowings.

(f) Subsidiary

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital or controls the composition of its board of directors.

(g) Jointly-controlled entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the combined profit and loss accounts and combined reserves, respectively. Where the profit-sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit-sharing ratio. The Group's interests in jointly-controlled entities are stated in the combined balance sheets at the Group's share of net assets under the equity method of accounting, less any impairment losses.

(h) Associate

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the combined profit and loss accounts and combined reserves, respectively. The Group's interests in associates are stated in the combined balance sheets at the Group's share of net assets under the equity method of accounting, less any impairment losses.

(i) Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

(j) Inventories

Inventories consist primarily of materials and supplies used for repairs and maintenance of fixed assets and daily operations. Inventories are stated at the lower of cost and net realizable value after allowances for obsolete or slow-moving items. Cost is determined on the weighted average basis. Materials and supplies are capitalized to fixed assets when used for renewals or betterments of fixed assets or recognized as expenses when used for daily operations.

(k) Research and development costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalized and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

(l) Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

(m) Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallize in the foreseeable future. A deferred tax asset is not recognized unless its realization is assured beyond reasonable doubt.

(n) Retirement benefits costs

The Company's employees in the PRC are required to participate in a central pension scheme administered by local municipal governments. The Company is required to contribute 19% - 23% of its payroll costs to the central pension scheme.

(o) Foreign currencies

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

During the Relevant Periods, substantially all the transactions were denominated in Reminbi. Accordingly, exchange differences recorded during those periods were minimal.

(p) Cash equivalents

For the purpose of the combined cash flow statements, cash equivalents represent short term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, less bank overdrafts. For the purpose of combined balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

(q) Long term investments

Long term investments are non-trading investments in unlisted equity securities intended to be held on a long term basis. Long term investments are stated at cost less impairments in value which are expected to be other than temporary.

(r) Provisions

A provision is recognized when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognized for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

4. RESULTS

The following is a summary of the combined statements of income of the Group for the Relevant Periods and prepared on the basis set out in Sections 1 and 2 above:

	Notes	Year ended December 31, 1999 RMB'000	2000 RMB'000	2001 RMB'000	Six-month period ended June 30, 2001 RMB'000 (Unaudited)	2002 RMB'000
Turnover	*(a)*	1,662,031	2,178,449	2,365,566	1,075,505	1,303,393
Other revenues	*(a)*	1,556	3,196	20,996	7,883	1,079
Operating expenses						
Depreciation of property, plant and equipment		(388,291)	(377,894)	(383,037)	(198,420)	(242,625)
Employee compensation costs	*(c)*	(237,705)	(309,791)	(455,480)	(209,296)	(235,826)
Repair and maintenance costs		(207,337)	(246,230)	(235,003)	(83,740)	(52,673)
Consumption of supplies, materials, fuel, services and others		(611,023)	(719,617)	(793,213)	(336,965)	(393,838)
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	*(d)*	—	(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	*(b)*	74,038	364,893	349,590	153,251	305,223
Finance costs						
Exchange gains/(losses),net		(468)	277	(561)	(232)	(210)
Interest expenses	*(e)*	(2,390)	(6,340)	(9,373)	(5,585)	(5,115)
Interest income		19,535	30,505	28,125	13,597	5,409
		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	*(h)*	(26,750)	(99,659)	(139,106)	(59,229)	(109,225)
Net profit		88,207	286,856	273,078	113,858	217,148
Distributions	*(i)*	88,207	286,856	273,078	113,858	344,921
Earnings per share - Basic	*(k)*	3.39 cents	11.03 cents	10.50 cents	4.38 cents	8.35 cents

Notes:

During the Relevant Periods, no interest income and interest expense were received/imposed on amount due from CNOOC and amount due to CNOOC (Section 5(m) and (p)). In addition, all pension payments relating to the supplementary pension benefits were borne by CNOOC (Section 4(g)).

Had interest income been charged on the amount due from CNOOC and interest expense been charged by CNOOC on the amount due to CNOOC by reference to average interest rate on bank borrowings of the Group, and had the supplementary pension benefits paid by CNOOC as described in Section 4 (g) been borne by the Group itself, the Group would have earned additional interest income, incurred additional interest expenses and pension payments as detailed below:

	Year ended December 31,			Six-month period ended June 30,	
	1999	**2000**	**2001**	**2001**	**2002**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Notional interest income on amount due from CNOOC	6,242	4,635	2,936	1,468	137
Notional interest expense on amount due to CNOOC	(33,358)	(36,056)	(46,869)	(22,565)	(21,421)
Notional supplementary pension benefits payments	(25,300)	(37,977)	(41,937)	(20,969)	(27,892)

The aforesaid notional amounts are disclosed for information purposes only and have not been recorded in the Group's financial statements for the Relevant Periods.

(a) Turnover and other revenues

Turnover represents the net invoiced value of offshore oilfield services rendered, net of sales surtaxes. All significant intra-group transactions have been eliminated on combination.

Other revenues comprise the following:

	Year ended December 31,			Six-month period ended June 30,	
	1999	**2000**	**2001**	**2001**	**2002**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Gain on disposal of property, plant and equipment	—	1,244	16,360	7,302	—
Gain on disposal of scrapped materials	125	1,273	1,177	—	2
Others	1,431	679	3,459	581	1,077
Total	1,556	3,196	20,996	7,883	1,079

(b) Profit from operating activities

Profit from operating activities is arrived at after charging/(crediting):

	Year ended December 31, 1999 RMB'000	2000 RMB'000	2001 RMB'000	Six-month period ended June 30, 2001 RMB'000 (Unaudited)	2002 RMB'000
Auditors' remuneration	112	127	172	73	271
Employee compensation costs (Section 4(c))	237,705	309,791	455,480	209,296	235,826
Depreciation of property, plant and equipment	388,291	377,894	383,037	198,420	242,625
Loss/(gain) on disposal of property, plant and equipment, net	9,812	(1,244)	(16,360)	(7,302)	69
Minimum lease payment under operating leases in respect of land and buildings, berths and equipment	16,692	33,466	32,006	10,806	6,564
Provision for/(write-back) of doubtful debts	13,813	(3,977)	(7,023)	647	2,429
Provision for/(write-back) of inventories	2,544	29,253	1,359	(174)	(448)
Provision for impairment of long term investments	12,023	—	—	—	—
Provision for impairment of property, plant and equipment	—	30,800	38,000	38,000	—
Repair and maintenance costs	207,337	246,230	235,003	83,740	52,673
Research and development costs included in:					
Depreciation of property, plant and equipment	6,180	7,027	9,487	4,719	1,066
Employee compensation costs	1,340	2,569	8,059	2,025	2,013
Repair and maintenance costs	571	269	252	232	11
Consumption of supplies, materials, fuel, services and others	13,090	7,237	6,706	3,651	4,282
Other operating expenses	6,290	7,579	5,460	1,471	3,276
	27,471	24,681	29,964	12,098	10,648

(c) Employee compensation costs

	Year ended December 31, 1999 RMB'000	2000 RMB'000	2001 RMB'000	Six-month period ended June 30, 2001 RMB'000 (Unaudited)	2002 RMB'000
Wages, salaries and bonuses	148,024	206,205	307,064	135,692	156,358
Social security costs	64,329	74,446	107,194	52,070	55,137
Retirement benefits contributions (Section 4(g))	25,352	29,140	41,222	21,534	24,331
	237,705	309,791	455,480	209,296	235,826

(d) Provision for impairment of property, plant and equipment

Due to the deterioration of some of the Group's marine support and transportation vessels and geophysical vessels, a provision for impairment has been made to write down the carrying value of such vessels to their respective recoverable amount, which is determined based on the vessels' value in use. The discount rate used in determining value in use is 10% per annum.

(e) Interest expenses

	Year ended December 31,			Six-month period ended June 30,	
	1999	2000	2001	2001	2002
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Interest on bank loans and other loans wholly repayable within five years	2,390	6,445	12,458	7,549	5,270
Less: interest capitalized	—	105	3,085	1,964	155
	2,390	6,340	9,373	5,585	5,115

The interest capitalization rate represents the cost of capital from raising the related borrowings and ranged from 5.3% to 5.4% per annum.

(f) Directors' and senior executives' emoluments

Details of directors' remuneration are as follows:

	Year ended December 31,			Six-month period ended June 30,	
	1999	2000	2001	2001	2002
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Fees	—	—	—	—	—
Basic salaries, housing benefits, other allowances and benefits in kind	140	178	278	116	131
Bonuses	75	116	204	89	122
Pension scheme contributions	35	50	84	36	44
	250	344	566	241	297

The number of directors whose remuneration fell within the following band is as follows:

	Year ended December 31,			Six-month period ended June 30,	
	1999	2000	2001	2001	2002
	Number of director	*Number of director*	*Number of director*	*Number of director* (Unaudited)	*Number of director*
RMB nil to RMB1,000,000	7	7	7	7	7

Two directors of the Company received emoluments during each of the Relevant Periods as follows:

	Year ended December 31,			Six-month period ended June 30,	
	1999	2000	2001	2001	2002
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
First director	157	222	344	152	159
Second director	93	122	222	89	138
	250	344	566	241	297

The five highest paid individuals in the Group during the Relevant Periods included two directors. Information relating to their emoluments has been disclosed above. The emoluments paid to the remaining three non-director, highest paid individuals during the years ended December 31, 1999, 2000 and 2001, and six-month periods ended June 30, 2001 and June 30, 2002, respectively, were as follows:

	Year ended December 31,			Six-month period ended June 30,	
	1999	**2000**	**2001**	**2001**	**2002**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Basic salaries, housing benefits, other allowances and benefits in kind	149	254	359	180	193
Bonuses	48	108	247	124	164
Pension scheme contributions	30	60	103	51	61
	227	422	709	355	418

The remuneration of these remaining highest paid individuals for each of the Relevant Periods fell within the band of nil to RMB1 million.

During the Relevant Periods, no emoluments were paid by the Group to the directors or any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. No directors waived or agreed to waive any emoluments during the Relevant Periods.

(g) Retirement benefits

All the Group's full-time employees in the PRC are covered by a government-regulated pension, and are entitled to an annual pension determined by their basic salaries upon their retirement. The PRC government is responsible for the pension liabilities to these retired employees. The Group is required to make annual contributions to the government-regulated pension at rates ranging from 19% to 23% of the employees' basic salaries. This defined contribution plan continues to be available to the Group's employees after the Reorganization. The related pension costs are expensed as incurred.

As part of the CNOOC group, the employees of the Group are entitled to supplementary pension benefits (the "Supplementary Pension Benefits") provided by CNOOC in addition to the benefits under the government-regulated pension fund described above. The Supplementary Pension Benefits are calculated based on factors including number of years of services and salary level on the date of retirement of the employees. As the obligations under the Supplementary Pension Benefits were fully assumed by CNOOC, the costs of such supplemental pension have not been recorded in the Group's financial statements during the Relevant Periods. Following the Reorganization, CNOOC agreed with the Group that the Supplementary Pension Benefits of the Group's current employees attributed to the period prior to the Company's public listing in Hong Kong and the Supplementary Pension Benefits of the Group's retired employees will continue to be assumed by CNOOC.

In 1999, the CNOOC group implemented an early retirement plan for certain employees, and as part of the CNOOC group, the pension benefits payable to the early retired employees of the Group prior to their joining the government-regulated pension scheme described above were assumed by CNOOC. Upon reaching the normal retirement age, the employees that took early retirement are entitled to both the government-regulated pension scheme and the Supplementary Pension Benefits. As the Group is not liable to any pension benefit obligations payable to the employees that took early retirement, the pension costs of these individuals have not been recorded in the Group's financial statements for the Relevant Periods. Following the Reorganization, the employees of the Group that took early retirement were all transferred to CNOOC and CNOOC has agreed to continue to assume the pension benefits obligations payable to such former employees until they reach their respective normal retirement ages when they can join the government-regulated pension scheme and Supplementary Pension Benefits.

The expenses attributed to the PRC government-regulated pension are as follows:

	Year ended December 31,			Six-month period ended June 30,	
	1999	2000	2001	2001	2002
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Contributions to PRC government-regulated pension scheme (Section 4(c))	25,352	29,140	41,222	21,534	24,331

(h) Tax

The Group is subject to income tax on an entity basis on profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. The Group is not liable for income tax in Hong Kong as it does not have assessable income currently sourced from Hong Kong. In accordance with an approval document issued by relevant tax authorities, the filing of tax returns of the Company prior to its transformation into a joint stock company, which became effective on April 30, 2002, was handled by CNOOC on a group basis. The share of the Company's income tax liability was determined based on the applicable tax rate on the Company's profits determined in accordance with PRC accounting principles applicable to State-owned enterprises. Such tax is payable to CNOOC which in turn would settle the tax liability with the relevant tax bureau. Following the Reorganization, the Company becomes subject to enterprise income taxes at the rate of 33% and the Company will settle its tax liability by itself with the respective tax bureaus. The predecessors of the Group were fully exempted from enterprise income taxes for two years starting from the first year of profitable operations in 1996 and were entitled to a 50% reduction of enterprise income tax for three years starting from 1998.

The determination of current and deferred income tax was based on enacted tax rates.

An analysis of the provision for tax in the combined statements of income is as follows:

	Year ended December 31,			Six-month period ended June 30,	
	1999	2000	2001	2001	2002
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
Hong Kong profits tax:	—	—	—	—	—
Overseas income taxes:					
Current income taxes	58	93	46	28	96
Deferred income taxes	—	—	—	—	—
PRC corporate income tax:					
Current income taxes	32,289	52,237	153,973	60,376	147,178
Deferred income taxes (Section 5(o))	(11,000)	42,000	(23,000)	(4,000)	(41,000)
Share of tax attributable to:					
jointly-controlled entities	5,403	5,329	8,087	2,825	2,951
	26,750	99,659	139,106	59,229	109,225

(i) Distributions

Distributions during the Relevant Periods represented distributions declared by the predecessor companies to CNOOC.

Following the Reorganization, the payment of future dividends will be determined by the Company's board of directors. The payment of dividends will depend upon, inter alia, the future earnings, capital requirements and financial condition and general business conditions of the Company. As the controlling shareholder, CNOOC will be able to influence the Company's dividend policy.

Cash dividends to shareholders in Hong Kong will be paid in Hong Kong dollars.

Following the establishment of the Company, under the PRC Company Law and the Company's articles of association, net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowance has been made for the following:

(i) Making up prior years' cumulative losses, if any.

(ii) Allocations to the statutory common reserve fund of at least 10% of after-tax profit, until the fund aggregates 50% of the Company's registered capital. For the purposes of calculating the transfer to reserves, the profit after tax shall be the amount determined under PRC accounting principles. The transfer to this reserve must be made before any distribution of dividends to shareholders.

The statutory common reserve can be used to offset previous years' losses, if any, and part of the statutory common reserve can be capitalized as the Company's share capital provided that the amount of such reserve remaining after the capitalization shall not be less than 25% of the registered capital of the Company.

(iii) Allocations of 5% to 10% of after-tax profit, as determined under PRC accounting principles and regulations, to the Company's statutory public welfare fund, which will be established for the purpose of providing for the Company's employees collective welfare benefits such as the construction of dormitories, canteens and other staff welfare facilities. The fund forms part of the shareholder's equity as only individual employees can use these facilities, while the title of such facilities is held by the Company. The transfer to this fund must be made before any distribution of dividends to shareholders.

(iv) Allocations to the discretionary common reserve if approved by the shareholders.

In accordance with the articles of association of the Company, the net profit after tax of the Company for the purpose of profit distribution will be deemed to be the lesser of (i) the net profit determined in accordance with the PRC accounting principles and financial regulations and (ii) the net profit determined in accordance with Hong Kong accounting standards.

Prior to the Reorganization effective on April 30, 2002, the predecessor companies were not required to make any profit appropriations to the reserve funds.

(j) Related party transactions

The Group is part of a larger group of companies under CNOOC and has extensive transactions and relationships with members of CNOOC. As such, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties. Related parties refer to corporations in which CNOOC is a shareholder and is able to exercise control or significant influence. The transactions were made on terms agreed between the parties.

Continuing transactions:

The following is a summary of significant recurring transactions carried out in the ordinary course of business between the Group and i) CNOOC Limited, its subsidiaries and associates (collectively known as "CNOOC Limited Group"), ii) CNOOC, its subsidiaries and associates other than CNOOC Limited Group (collectively known as the "CNOOC Group") and iii) its jointly-controlled entities and associate:

	Year ended December 31,			Six-month period ended June 30,	
	1999	**2000**	**2001**	**2001**	**2002**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
A. Included in revenue					
Gross revenue earned from provision of services to the following related parties:					
a. CNOOC Limited Group					
Provision of drilling services	280,697	265,352	317,471	89,431	238,945
Provision of well services	301,118	381,690	325,160	118,352	134,979
Provision of marine support and transportation services	110,096	126,642	168,424	77,898	98,041
Provision of geophysical services	81,421	73,366	78,880	22,798	59,760
	773,332	847,050	889,935	308,479	531,725
b. CNOOC Limited Group as operator under production sharing contracts					
Provision of drilling services	7,853	115,181	180,383	107,198	52,150
Provision of well services	4,803	105,053	175,620	105,998	140,116
Provision of marine support and transportation services	15,051	43,758	46,147	17,431	50,652
Provision of geophysical services	10,391	448	1,485	504	—
	38,098	264,440	403,635	231,131	242,918
c. CNOOC Group					
Provision of drilling services	12,656	13,708	25,006	18,777	2,300
Provision of well services	38,017	41,621	58,990	38,237	8,297
Provision of marine support and transportation services	43,400	45,611	65,648	21,166	55,437
Provision of geophysical services	1,178	6,791	5,884	1,408	—
	95,251	107,731	155,528	79,588	66,034
d. Jointly-controlled entities and associate					
Provision of well services	10,894	6,837	2,685	1,324	—
Provision of geophysical services	623	219	—	—	—
	11,517	7,056	2,685	1,324	—

	Year ended December 31,			Six-month period ended June 30,	
	1999	2000	2001	2001	2002
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
				(Unaudited)	
B. Included in operating expenses					
Services provided by the CNOOC Group:					
Labour services	52,204	42,817	52,681	25,249	28,717
Materials, utilities and other ancillary services	55,840	67,459	67,717	25,572	38,575
Transportation services	5,131	7,039	9,268	3,131	3,445
Lease of office, warehouse and berths	2,515	3,716	5,501	4,299	3,170
Lease of equipment	422	1,791	2,862	23	769
Repair and maintenance services	21,648	20,555	60,998	25,122	24,445
Management services	233	2,640	2,788	1,129	113
	137,993	146,017	201,815	84,525	99,234
C. Included in interest income/expenses					
Interest income earned from the CNOOC Group	7,631	5,640	4,446	2,220	1,629
Interest expenses paid to the CNOOC Group	2,114	6,339	6,106	3,053	4,372

In connection with the Reorganization, the Company entered into several agreements with the CNOOC Group which govern employee benefits arrangements, the provision of materials, utilities and ancillary services, the provision of technical services, the lease of properties and various other commercial arrangements. The details of such agreements are set out in the paragraph headed "Connected Transactions" in the Prospectus.

During the Relevant Periods, the Group occupied certain properties owned by CNOOC at no consideration. The Company signed various property lease agreements in September 2002 with CNOOC Group to lease the aforesaid properties together with other properties for a term of one year. Pursuant to these lease agreements, the Company is required to pay an aggregate annual rental of RMB7.6 million effective from August 1, 2002 to CNOOC Group.

Discontinuing transactions:

	Year ended December 31,			Six-month period ended June 30,	
	1999	2000	2001	2001	2002
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
A. Transfer of fixed assets:					
Purchases of fixed assets from the CNOOC Group	1,466	2,321	200	200	—
Sale of fixed assets to CNOOC Group	10,385	1,776	—	—	84,553
Sale of oil reservoir business to the Company's jointly-controlled entities	—	—	91,057	—	—
	10,385	1,776	91,057	—	84,553
B. Deposits and loans:					
Deposits placed with CNOOC Trust and Investment Company Limited ("CNOOC Trust Company")	306,225	162,775	74,410	196,060	—
Advance made by CNOOC	—	—	—	—	238,000
Entrusted loans advanced to CNOOC Engineering Company Limited ("CNOOC Engineering") (Section 5(i))	—	70,000	70,000	70,000	—
Short term loans advanced from CNOOC and CNOOC Trust Company	94,500	120,000	100,000	100,000	—

(k) Earnings per share

The calculation of basic earnings per share for each of the Relevant Periods is based on the net profit from operating activities for the Relevant Periods and on the number of shares in issue during the Relevant Periods on the assumption that 2,600,000,000 shares in issue as at the date of this report had been in issue throughout the Relevant Periods.

No diluted earnings per share amounts have been presented as the Company did not have any dilutive potential ordinary shares during the Relevant Periods.

5. COMBINED BALANCE SHEETS

A summary of the combined balance sheets of the Group as at the end of each of the Relevant Periods prepared on the basis set out in Sections 1 and 2 above is set out below:

		As at December 31,			As at June 30,
		1999	**2000**	**2001**	**2002**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS					
Property, plant and equipment	*(a)*	2,480,273	2,721,901	3,048,945	4,134,958
Interests in jointly-controlled entities	*(b)*	69,270	81,149	193,922	155,310
Interest in an associate	*(c)*	—	36,487	—	—
Long term investments	*(d)*	6,195	—	—	—
CURRENT ASSETS					
Accounts receivable	*(e)*	249,210	300,990	350,967	787,276
Inventories	*(f)*	127,848	150,085	182,964	168,488
Due from CNOOC	*(g)*	61,141	105,593	—	12,096
Due from other CNOOC group companies	*(h)*	12,825	4,686	28,470	32,218
Prepayments, deposits and other receivables		101,378	85,462	134,800	177,842
Entrusted loans receivable	*(i)*	—	70,000	70,000	—
Pledged deposits	*(j)*	31,726	91,705	148,870	150,113
Cash and cash equivalents	*(j)*	935,072	870,376	871,124	164,315
		1,519,200	1,678,897	1,787,195	1,492,348
CURRENT LIABILITIES					
Short term loans	*(k)*	90,000	120,000	165,000	35,000
Trade and other payables	*(l)*	153,446	219,358	368,997	380,407
Salary and welfare payables		110,833	113,190	124,261	119,066
Tax payable		—	—	—	35,425
Due to CNOOC	*(m)*	677,512	906,308	1,052,701	275,719
Due to other CNOOC group companies	*(h)*	7,917	13,136	10,098	5,118
		1,039,708	1,371,992	1,721,057	850,735
NET CURRENT ASSETS		479,492	306,905	66,138	641,613
TOTAL ASSETS LESS CURRENT LIABILITIES		3,035,230	3,146,442	3,309,005	4,931,881
NON-CURRENT LIABILITIES					
Bank and other loans	*(n)*	4,500	55,000	30,000	—
Deferred tax liability	*(o)*	325,000	367,000	344,000	660,300
Long term payable to CNOOC	*(p)*	—	—	—	600,000
NET ASSETS		2,705,730	2,724,442	2,935,005	3,671,581
OWNER'S/SHAREHOLDER'S EQUITY	*6*	2,705,730	2,724,442	2,935,005	3,671,581

Notes:

(a) Property, plant and equipment

	As at December 31, 1999		
	Cost or valuation	Accumulated depreciation and impairment	Net book value
	RMB'000	*RMB'000*	*RMB'000*
Buildings	129,815	25,966	103,849
Tankers and vessels	2,356,061	1,411,913	944,148
Drilling equipment	3,284,079	2,104,595	1,179,484
Machinery and equipment	980,956	746,617	234,339
Motor vehicles	39,457	27,071	12,386
Construction in progress	6,067	—	6,067
	6,796,435	4,316,162	2,480,273

	As at December 31, 2000		
	Cost or valuation	Accumulated depreciation and impairment	Net book value
	RMB'000	*RMB'000*	*RMB'000*
Buildings	120,735	27,858	92,877
Tankers and vessels	2,564,604	1,579,269	985,335
Drilling equipment	3,451,626	2,257,050	1,194,576
Machinery and equipment	960,948	783,361	177,587
Motor vehicles	42,580	31,710	10,870
Construction in progress	260,656	—	260,656
	7,401,149	4,679,248	2,721,901

	As at December 31, 2001		
	Cost or valuation	Accumulated depreciation and impairment	Net book value
	RMB'000	*RMB'000*	*RMB'000*
Buildings	116,523	30,871	85,652
Tankers and vessels	3,070,856	1,770,933	1,299,923
Drilling equipment	3,529,027	2,287,962	1,241,065
Machinery and equipment	922,682	632,545	290,137
Motor vehicles	42,518	31,402	11,116
Construction in progress	121,052	—	121,052
	7,802,658	4,753,713	3,048,945

	As at June 30, 2002		
	Cost or valuation	Accumulated depreciation and impairment	Net book value
	RMB'000	*RMB'000*	*RMB'000*
Tankers and vessels	3,938,475	2,225,485	1,712,990
Drilling equipment	5,183,321	3,354,436	1,828,885
Machinery and equipment	950,544	593,319	357,225
Motor vehicles	44,034	10,216	33,818
Construction in progress	202,040	—	202,040
	10,318,414	6,183,456	4,134,958

Pursuant to instructions dated January 3, 1995 from the Ministry of Finance to major State-owned enterprises in the PRC, the CNOOC Group was required to carry out a valuation of its property, plant and equipment with base date of December 31, 1994. As part of the CNOOC Group, the Group's property, plant and equipment were valued by the management and the revaluation amount was approved by the Ministry of Finance. The valuation was mainly on a depreciated replacement cost basis. The revaluation increase in cost of RMB2,516 million and accumulated depreciation of RMB1,632 million have been incorporated in the financial statements for the Relevant Periods. The local tax bureau has confirmed that the additional depreciation arising from revaluation surplus on fixed assets revaluation carried out in 1995 is tax deductible and accordingly, no deferred tax liabilities shall arise from the revaluation for that year.

Under Hong Kong GAAP, the Group is obliged to regularly revalue its fixed assets if a revaluation was carried out in a prior year. However, the transitional provision of Hong Kong Statement of Standard Accounting Practice 17 "Property, plant and equipment" allows exemptions for fixed assets revaluations carried out prior to periods ended September 30, 1995. Accordingly, prior to the Reorganization on April 30, 2002, the Group had not made any regular revaluation of fixed assets.

As part of the Reorganization and pursuant to relevant PRC regulations, the Company's fixed assets as at April 30, 2002 were revalued by China Consultant of Accounting and Financial Management Company Limited ("CCAF") using the depreciated replacement cost approach and the revaluation increase in cost of RMB2,426 million and accumulated depreciation and impairment of RMB1,223 million were recorded in the Group's balance sheet as at April 30, 2002. The effect of this revaluation will increase the depreciation charge by RMB23 million and RMB103 million for the six months ended June 30, 2002 and the eight months ending December 31, 2002 respectively. Further, the annual depreciation charge for the next accounting year will increase by approximately RMB176 million.

The additional depreciation arising from the revaluation surplus at April 30, 2002 is not tax deductible under the latest applicable tax regulations in the PRC, and the deferred tax liabilities of RMB357.3 million arising from the difference between the tax base and accounting base of the fixed assets under revaluation has been recorded in the balance sheet as at April 30, 2002. Thereafter, part of deferred tax liabilities of RMB8 million has been credited to the profit and loss account and the balance of deferred tax on revaluation surplus carried to June 30, 2002 was reduced to RMB349.3 million.

Had the Group's revalued property, plant and equipment been carried at cost less accumulated depreciation, they would have been included in the Group's balance sheet at approximately RMB2,000 million, RMB2,295 million, RMB2,677 million and RMB2,609 million, respectively, at the end of each of the Relevant Periods.

(b) Interests in jointly-controlled entities

	As at December 31,			As at June 30,
	1999	2000	2001	2002
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Share of net assets	67,766	76,103	132,305	140,874
Due from jointly-controlled entities	1,504	5,046	61,617	14,436
	69,270	81,149	193,922	155,310

Pursuant to the Reorganization effective on April 30, 2002, the fixed assets of the jointly-controlled entities have been revalued and the Group's share of revaluation surplus thereon of approximately RMB7,407,000 (Section 6) has been recorded in the Group's share of net assets of jointly-controlled entities as at June 30, 2002.

The amounts due from jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the jointly-controlled entities are as follows:

Name	Business structure	Place of incorporation/ establishment and operations	Percentage of interests attributable to the Group during the Relevant Periods	Principal activities
China-France	Corporate	Tianjin, PRC	50	Provision of logging services
Magcobar	Corporate	Shenzhen, PRC	60*	Provision of drilling fluid services
CNOOC - OTIS	Corporate	Tianjin, PRC	50	Provision of well completion services
Logging - Atlas	Corporate	Guangdong, PRC	50	Provision of logging services
China Offshore Thales	Corporate	Tianjin, PRC	50	Provision of geophysical services
Jinlong	Corporate	Tianjin, PRC	50	Provision of drilling fluid services

* In the opinion of the directors, the Company does not have control over Magcobar's financial and operating decisions, and accordingly, the financial statements of Magcobar have not been incorporated into the Group's combined financial statements. The financial statements of Magcobar have been dealt with in the Group's combined financial statements under the equity accounting method.

(c) Interest in an associate

	As at December 31,			As at June 30,
	1999	**2000**	**2001**	**2002**
	RMB'000	*RMB'000* *(Note)*	*RMB'000*	*RMB'000*
Share of net assets	—	28,287	—	—
Due from an associate	—	8,200	—	—
	—	36,487	—	—

Particulars of the associate are as follows:

Name	Business structure	Place of establishment and operations	Percentage of interest attributable to the Group	Principal activities
Hailong Geophysical Co., Ltd. ("Hailong")	Corporate	Tianjin, PRC	46.8	Acquisition of 2-D and 3-D seismic data

The amount due from the associate was unsecured, interest-free and had no fixed terms of repayment.

Note: The associate was liquidated in 2001, and the loss on liquidation of RMB3,434,000 has been dealt with as share of loss of an associate in the Group's profit and loss account for the year ended December 31, 2001.

(d) Long term investments

	As at December 31,			As at June 30,
	1999	**2000**	**2001**	**2002**
	RMB'000 *(Note)*	*RMB'000*	*RMB'000*	*RMB'000*
Unlisted equity investments, at cost	20,000	—	—	—
Provision for impairment	(13,805)	—	—	—
	6,195	—	—	—

Note: The long term investment as at December 31, 1999 was disposed of during 2000 and the loss on disposal of RMB32,000 incurred by the Company was dealt with in the Group's combined statements of income for the year ended December 31, 2000 as other operating expenses.

(e) Accounts receivable

An aged analysis of the accounts receivable, net of provision for bad and doubtful debts, is analyzed as follows:

	As at December 31,			As at June 30,
	1999	**2000**	**2001**	**2002**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Outstanding balances aged:				
Within one year	240,887	288,740	350,073	787,178
Within one to two years	8,043	11,872	392	82
Within two to three years	280	378	502	16
	249,210	300,990	350,967	787,276

The general credit terms of the Group range from 30 days to 90 days.

Included in the Group's accounts receivable are the following amounts due from the CNOOC Group and CNOOC Limited Group, which are repayable on similar credit terms to those offered to independent third party customers:

	As at December 31,			As at June 30,
	1999	**2000**	**2001**	**2002**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Due from the CNOOC Group and CNOOC Limited Group	122,713	212,177	196,084	550,608

(f) Inventories

Inventories consist of materials and supplies.

(g) Due from CNOOC

The amount due from CNOOC is unsecured, interest-free and has no fixed terms of repayment.

Had interest been charged on the amount due from CNOOC based on the average interest rate charged on the Group's bank borrowings, the Group would have received interest income of approximately RMB6,242,000, RMB4,635,000, RMB2,936,000 and RMB137,000, respectively, for the three years ended December 31, 1999, 2000 and 2001 and the six-month period ended June 30, 2002.

(h) Balances with other CNOOC group companies

The balances with other CNOOC group companies are unsecured, interest-free and have no fixed terms of repayment.

(i) Entrusted loans receivable

On November 2, 2000, the Company entered into an entrusted loan agreement with CNOOC Engineering and CNOOC Trust Company, both of which are related parties of the Company. According to the entrusted loan agreement, the Company placed deposits with CNOOC Trust Company of RMB70 million and entrusted CNOOC Trust Company to advance the same amount to CNOOC Engineering with a maturity date in November 2001. In November 2001, the Company extended the maturity date to May 2002. The amounts and period of the above-mentioned trust loans are as follows:

	As at December 31,			As at June 30,
	1999	**2000**	**2001**	**2002**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
November 29, 2000 to November 28, 2001	—	70,000	—	—
November 28, 2001 to May 27, 2002	—	—	70,000	—
	—	70,000	70,000	—

Pursuant to the entrusted loan agreements, the Company was required to pay a commission to CNOOC Trust Company based on an annual rate of 0.1% of the amounts of the entrusted loans. The annual interest rate of the entrusted loans was 5.02%, which was charged to CNOOC Engineering. The interest expenses together with the loan principals were to be settled by CNOOC Engineering with CNOOC Trust Company upon maturity date. The above-mentioned entrusted loans were unsecured.

CNOOC Engineering made an early settlement of the above-mentioned entrusted loans and the related interest to the Company via CNOOC Trust Company in January 2002.

(j) Cash and cash equivalents and pledged deposits

	As at December 31,			As at June 30,
	1999	**2000**	**2001**	**2002**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Cash and bank balances	428,729	307,771	688,118	119,955
Deposits with CNOOC Trust Company	172,583	43,655	4,150	—
Time deposits - bank	231,844	491,535	257,466	194,473
- CNOOC Trust Company	133,642	119,120	70,260	—
Cash and balances with banks and a financial institution	966,798	962,081	1,019,994	314,428
Less: Pledged time deposits for letter of credit facilities	(31,726)	(91,705)	(148,870)	(150,113)
Cash and cash equivalents	935,072	870,376	871,124	164,315

As described in a previous section, pursuant to the Reorganization effective on April 30, 2002, an amount of cash and cash equivalent of RMB688 million was excluded from the assets and liabilities to be transferred into the Company, accordingly, such amount of cash and cash equivalent was excluded from the Company's cash and cash equivalents since April 30, 2002.

(k) Short term loans

	As at December 31,			As at June 30,
	1999	**2000**	**2001**	**2002**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans, unsecured	—	—	65,000	35,000
Other loans, unsecured	90,000	120,000	100,000	—
	90,000	120,000	165,000	35,000

The annual interest rates of bank loans ranged from 5.27% to 5.85% for the year ended December 31, 2001 and 4.54% for the six-month period ended June 30, 2002.

Other loans were granted by CNOOC and CNOOC Trust Company. The annual interest rates of other loans ranged from 5.45% to 6.39% (year ended December 31, 1999), 5.27% to 5.85% (year ended December 31, 2000), 5.27% to 5.85% (year ended December 31, 2001) and 5.27% (six-month period ended June 30, 2002), respectively.

At December 31, 2001, part of the Group's other loans in the amount of RMB50 million (2000: RMB50 million; 1999: RMB50 million) was guaranteed by CNOOC. Other loans in the amount of RMB100 million outstanding at December 31, 2001 were fully settled prior to June 30, 2002.

(l) Trade and other payables

An aged analysis of trade and other payables is set out below:

	As at December 31,			As at June 30,
	1999	**2000**	**2001**	**2002**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Outstanding balances aged:				
Within one year	149,810	216,884	364,173	373,347
Within one to two years	3,343	497	2,569	4,443
Within two to three years	293	1,967	381	2,335
Over three years	—	10	1,874	282
	153,446	219,358	368,997	380,407

Included in the Group's trade and other payables are the following amounts due to CNOOC Group:

	As at December 31,			As at June 30,
	1999	**2000**	**2001**	**2002**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Due to the CNOOC Group	7,497	20,687	12,218	9,983

(m) Due to CNOOC

The amount due to CNOOC mainly comprised distribution payable and income tax paid on behalf of the Group.

Pursuant to the Reorganization effective on April 30, 2002, certain payable to CNOOC of RMB688 million was excluded from the assets and liabilities to be transferred to the Company. Accordingly, an equal amount due to CNOOC was excluded from the balance due to CNOOC after April 30, 2002. Further, certain payables to CNOOC as at April 30, 2002 of RMB600 million were restructured to be a long term payable to CNOOC as of April 30, 2002, and was reclassified from a short term payable to a long term payable on that date. The amount due to CNOOC of RMB276 million as of June 30, 2002 was fully settled by the Company with CNOOC prior to the date of this report.

The amount due to CNOOC is unsecured and interest-free.

Had interest been charged on the amount due to CNOOC based on the average interest rate charged on the Group's bank borrowings, the Group would have paid interest expense of approximately RMB33,358,000, RMB36,056,000, RMB46,869,000 and RMB16,881,000, respectively, for the three years ended December 31, 1999, 2000 and 2001 and the six-month period ended June 30, 2002.

(n) Bank and other loans

	As at December 31,			**As at June 30,**
	1999	**2000**	**2001**	**2002**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans, unsecured	—	55,000	30,000	—
Other loan, unsecured	4,500	—	—	—
	4,500	55,000	30,000	—
Bank loans repayable:				
In the second year	—	—	30,000	—
In the third to fifth year, inclusive	—	55,000	—	—
Total bank loans repayable after one year	—	55,000	30,000	—
Other loan repayable in the third to fifth year, inclusive	4,500	—	—	—
Total bank and other loans	4,500	55,000	30,000	—

The annual interest rates of bank loans for the years ended December 31, 2000 and 2001 were 5.35%.

The other loan as at December 31, 1999 was granted by CNOOC. The annual interest rate of the other loan was 5.94%.

(o) Deferred tax liability

	Year ended December 31,			Six-month period ended June 30,	
	1999	**2000**	**2001**	**2001**	**2002**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
Balance at beginning of year/period	336,000	325,000	367,000	367,000	344,000
Charge/(credit) for the year/period (Section 4 (h))	(11,000)	42,000	(23,000)	(4,000)	(41,000)
Deferred tax on revaluation surplus (Section 5 (a))	—	—	—	—	357,300
Balance at end of year/period	325,000	367,000	344,000	363,000	660,300

The principal components of the Group's provision for deferred tax are as follows:

	As at December 31,			As at June 30,
	1999	**2000**	**2001**	**2002**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Deferred tax liabilities:				
-Accelerated depreciation	307,000	306,000	302,000	311,000
-Deferral of revenue recognition	18,000	61,000	42,000	—
-Revaluation surplus	—	—	—	349,300
Total deferred tax liabilities	325,000	367,000	344,000	660,300

There were no unprovided deferred taxes during the Relevant Periods.

(p) Long term payable to CNOOC

The long term payable to CNOOC is unsecured, interest-free and is repayable over three years on an annual equal installment basis with repayments commencing from May 1, 2005.

Had interest been charged on the long-term payable to CNOOC based on the average interest rate charged on the Group's bank borrowings, the Group would have paid interest expense of approximately RMB4,540,000 for the six-month period ended June 30, 2002.

(q) Contingent liabilities

The Group did not have any significant contingent liabilities at the end of each of the Relevant Periods.

(r) Commitments

(i) Capital commitments

The Group had the following capital commitments, principally for fixed assets construction and purchases:

	As at December 31,			As at June 30,
	1999	**2000**	**2001**	**2002**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Contracted, but not provided for	1,933	360,044	136,756	344,909
Authorized, but not contracted for	290,500	—	—	—
	292,433	360,044	136,756	344,909

(ii) Operating lease commitments

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are generally negotiated for terms ranging from 1 to 2 years.

The Group had the following minimum lease payments under non-cancelable operating leases:

	As at December 31,			As at June 30,
	1999	**2000**	**2001**	**2002**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	2,284	4,204	5,159	4,920
In the second to fifth years, inclusive	6,520	5,787	27	2,147
After five years	—	—	—	142
	8,804	9,991	5,186	7,209

(s) Net assets of the Company

The Company was incorporated on December 25, 2001. On the basis set out in Sections 1 and 2 above, the net assets of the Company as at June 30, 2002 was approximately RMB3.67 billion.

(t) Distributable reserves

As at June 30, 2002, in accordance with the PRC Company Law, an amount of approximately RMB999 million standing to the credit of the Company's capital reserve account, as determined under the PRC accounting standards and regulations, was available for distribution by way of future capitalization issue. In addition, the Company had retained profits of approximately RMB72 million available for distribution as dividends after allowance has been made as set forth in Section 4(i). Save as aforesaid, the Company did not have any reserves available for distribution to its shareholders at June 30, 2002.

6. STATEMENT OF MOVEMENTS IN EQUITY

The movements in the owner's/shareholder's equity of the Group for the Relevant Periods, prepared on the basis set out in Sections 1 and 2 above, are as follows:

	Owner's/ Shareholder's equity *RMB'000*
As at January 1, 1999	2,671,566
Capital contributions	34,164
Profit for the year	88,207
Distributions declared	(88,207)
As at January 1, 2000	2,705,730
Capital contributions	18,712
Profit for the year	286,856
Distributions declared	(286,856)
As at January 1, 2001	2,724,442
Capital contributions	210,563
Profit for the year	273,078
Distributions declared	(273,078)
As at January 1, 2002	2,935,005
Profit for the period	217,148
Distributions declared	(344,921)
Revaluation surplus of fixed assets and other assets	1,214,242
Recognition of deferred tax liability (Section 5 (a))	(357,300)
Share of revaluation surplus of fixed assets owned by jointly-controlled entities (Section 5(b))	7,407
As at June 30, 2002	3,671,581

Note: Upon the Company becoming a joint stock limited liability company and pursuant to the Reorganization effective on April 30, 2002, the Company's shareholder's equity is represented by:

	April 30, 2002 *RMB'000*
2,600 million State legal person shares of RMB1.00 each	2,600,000
Capital reserve	999,354
	3,599,354

As at June 30, 2002, the Company's shareholder's equity is represented by:

	June 30, 2002 *RMB'000*
2,600 million State legal person shares of RMB1.00 each	2,600,000
Capital reserve	999,354
Retained profit	72,227
	3,671,581

7. COMBINED CASH FLOW STATEMENTS

The combined cash flow statements of the Group, prepared by early adoption of the revised SSAP 15 "Cash Flow Statements" made in December 2001, for the Relevant Periods prepared on the basis set out in Sections 1 and 2 above are as follows:

	Year ended December 31,			Six-month period ended June 30,	
	1999	2000	2001	2001	2002
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit from operations	74,038	364,893	349,590	153,251	305,223
Adjustments for:					
Exchange gains/(losses), net	(468)	277	(561)	(232)	(210)
Loss/(gain) on disposal of property, plant and equipment	9,812	(1,244)	(16,360)	(7,302)	69
Loss on disposal of long-term investments	—	32	—	—	—
Depreciation	388,291	377,894	383,037	198,420	242,625
Provision for/(write-back) of doubtful debts	13,813	(3,977)	(7,023)	647	2,429
Provision for/(write-back) of inventories	2,544	29,253	1,359	(174)	(448)
Gain on disposal of scrap materials	(125)	(1,273)	(1,177)	—	(2)
Provision for impairment of long term investments	12,023	—	—	—	—
Provision for impairment of property, plant and equipment	—	30,800	38,000	38,000	—
Operating profit before working capital changes	499,928	796,655	746,865	382,610	549,686
Decrease/(increase) in inventories	7,271	(50,217)	(33,061)	5,818	20,287
Decrease/(increase) in accounts receivable	16,123	(53,618)	(46,186)	(112,188)	(430,711)
Decrease/(increase) in net balance with CNOOC	88,304	(16,715)	114,552	(83,659)	(12,096)
Decrease/(increase) in net balances with other CNOOC group companies	5,634	13,358	(26,822)	1,431	(8,728)
Decrease/(increase) in prepayments, deposits and other receivables	143,001	21,731	(46,106)	(57,165)	(45,189)
Increase/(decrease) in trade and other payables	(142,283)	65,912	149,639	59,424	11,410
Increase/(decrease) in salary and welfare payables	18,564	2,357	11,071	(4,335)	(5,195)
Cash generated from 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:					
Mainland China corporate income tax paid	(32,289)	(52,237)	(153,973)	(60,376)	(99,203)
Overseas taxes paid	(58)	(93)	(46)	(28)	(96)
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	601,805	720,793	706,560	125,947	(24,950)
INVESTING ACTIVITIES					
Purchases of property, plant and equipment	(409,976)	(664,329)	(864,936)	(366,721)	(215,057)
Proceeds from disposal of property, plant and equipment	103,343	15,251	158,549	111,514	4,898
Acquisition of jointly-controlled entities	—	(3,812)	(6,869)	—	—
Acquisition of an associate	—	(62,068)	—	—	—
Disposal of long term investments	—	6,163	—	—	—
Decrease/(increase) in amounts due from jointly-controlled entities	149	(3,542)	(56,571)	4,096	47,181
Decrease/(increase) in amount due from an associate	—	(8,200)	8,200	8,200	—
Decrease/(increase) in entrusted loans receivable	—	(70,000)	—	—	70,000
Decrease/(increase) in time deposits with original maturity of more than three months	(118,673)	77,033	134,129	(94,883)	97,573
Decrease/(increase) in pledged time deposits	(31,726)	(59,979)	(57,165)	20,128	(1,243)
Interest received	19,535	30,505	28,125	13,597	5,409
Dividend received from jointly-controlled entities	21,419	21,107	24,936	10,591	16,953
Net cash inflow/(outflow) from investing activities	(415,929)	(721,871)	(631,602)	(293,478)	25,714
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING ACTIVITIES	185,876	(1,078)	74,958	(167,531)	764
FINANCING ACTIVITIES					
New bank and other loans	90,000	85,000	30,000	30,000	35,000
Repayment of bank and other loans	(3,000)	(4,500)	(45,000)	(18,000)	(195,000)
Settlements of balance due to CNOOC	(136,766)	(85,797)	(135,644)	—	(688,000)
Advance from CNOOC	—	—	—	—	238,000
Capital contributions from CNOOC	34,164	18,712	210,563	76,179	—
Net cash inflow/(outflow) from financing activities	(15,602)	13,415	59,919	88,179	(610,000)
INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	170,274	12,337	134,877	(79,352)	(609,236)
Cash and cash equivalents at beginning of year/period	456,063	626,337	638,674	638,674	773,551
CASH AND CASH EQUIVALENTS AT END OF YEAR/PERIOD	626,337	638,674	773,551	559,322	164,315

	Year ended December 31, 1999	2000	2001	Six-month period ended June 30, 2001	2002
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (Unaudited)	*RMB'000*
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS					
Cash and balances with banks and a financial institution (Section 5(j))	966,798	962,081	1,019,994	957,484	314,428
Less: Pledged time deposits for letter of credit facilities (Section 5(j))	(31,726)	(91,705)	(148,870)	(71,577)	(150,113)
Cash and cash equivalents for balance sheet presentation purpose (Section 5(j))	935,072	870,376	871,124	885,907	164,315
Less: Non-pledged time deposits with original maturity of more than three months when acquired:					
- bank deposits	(175,093)	(112,582)	(27,313)	(136,885)	—
- CNOOC Trust Company	(133,642)	(119,120)	(70,260)	(189,700)	—
Cash and cash equivalents for cash flow statement presentation purpose	626,337	638,674	773,551	559,322	164,315

Notes to the combined cash flow statements:

(a) Major non-cash transactions

(i) Hailong, an associate of the Company, was liquidated in 2001 and a distribution of net assets of RMB25 million was received by the Company upon liquidation. Further details are set out in Section 5(c) above.

(ii) During 2001, the Company disposed of its oil reservoir business to China-France, one of its jointly-controlled entities for a consideration of RMB91,057,000. Part of the consideration amounting to RMB34,519,000 was settled by increasing the Company's capital contributions to China-France of the same amount.

(iii) As described in Section 5(a) above, the Group's fixed assets at April 30, 2002 have been revalued, and the revaluation surplus of approximately RMB1,203 million and deferred tax of RMB357.3 million arising therefrom were dealt with in the owner's equity account.

(iv) During the six-month period ended June 30, 2002, the Company disposed of its land and buildings at net book value of RMB84,452,000 to CNOOC, and the consideration thereof not yet settled at June 30, 2002 was set off against the amount payable to CNOOC.

8. SEGMENT INFORMATION

The Group is engaged in a broad range of petroleum related activities through its four major business segments: geophysical, drilling, well services and marine support and transportation services.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the services they provide. Each of the Group's business segments represents a strategic business unit that provides services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

(a) the geophysical segment is engaged in the provision of offshore seismic data collection, marine surveying and data processing.

(b) the drilling segment is engaged in the provision of oilfield drilling services.

(c) the well services segment is engaged in the provision of logging and downhole services, such as drilling fluids, directional drilling, cementing, well completion and well workovers.

(d) the marine support and transportation segment is engaged in the transportation of materials, supplies and personnel to offshore facilities, moving and positioning drilling structures and the transportation of crude oil and refined products.

Almost all of the Group's assets and operations are located in the PRC, which is considered as one geographic location in an economic environment with similar risks and returns.

The accounting policies of each of the operating segments are the same as those described in Section 3. Intersegment sales are transacted at prices with reference to prices determined internally by the Group.

Operating segment information for the years ended December 31, 1999, 2000 and 2001 and the six-month periods ended June 30, 2001 (unaudited) and June 30, 2002 is presented below:

Six-month period ended June 30, 2002	**Drilling**	**Well services**	**Marine support and transportation**	**Geophysical**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
TURNOVER					
Sales (including intersegment)	509,219	352,831	304,352	144,730	1,311,132
Less: Intersegment sales	—	—	7,739	—	7,739
Total sales from external customers	509,219	352,831	296,613	144,730	1,303,393
PROFIT FROM OPERATIONS					
Segment results	149,583	96,262	69,391	(10,013)	305,223
Exchange losses, net					(210)
Interest expenses					(5,115)
Interest income					5,409
Share of profit of jointly-controlled entities		18,419		2,647	21,066
Profit before tax					326,373
Tax					(109,225)
Net profit					217,148
ASSETS					
Segment assets	2,328,290	1,291,413	1,366,123	641,480	5,627,306
Interests in jointly-controlled entities	—	144,204	—	11,106	155,310
Total assets	2,328,290	1,435,617	1,366,123	652,586	5,782,616
LIABILITIES					
Segment liabilities	912,799	271,870	264,087	27,279	1,476,035
Unallocated corporate liabilities					635,000
					2,111,035
OTHER INFORMATION					
Capital expenditure	29,035	22,842	157,375	5,605	214,857
Depreciation of property, plant and equipment	108,940	27,863	63,015	42,807	242,625
Provision for doubtful debts	25	67	2,251	86	2,429
Provision for/(write-back) of inventories	(308)	(96)	3	(47)	(448)

Six-month period ended June 30, 2001 (Unaudited)	Drilling	Well services	Marine support and transportation	Geophysical	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
TURNOVER					
Sales (including intersegment)	458,619	282,911	222,073	122,483	1,086,086
Less: Intersegment sales	—	545	7,032	3,004	10,581
Total sales from external customers	458,619	282,366	215,041	119,479	1,075,505
PROFIT FROM OPERATIONS					
Segment results	149,801	56,912	36,964	(90,426)	153,251
Exchange losses, net					(232)
Interest expenses					(5,585)
Interest income					13,597
Share of profit of jointly-controlled entities		14,946		544	15,490
Share of loss of an associate				(3,434)	(3,434)
Profit before tax					173,087
Tax					(59,229)
Net profit					113,858
OTHER INFORMATION					
Capital expenditure	216,590	19,402	47,784	142,572	426,348
Depreciation of property, plant and equipment	79,350	35,190	49,500	34,380	198,420
Provision for doubtful debts	188	153	153	153	647
Provision for/(write-back) of inventories	289	(407)	(43)	(13)	(174)
Provision for impairment of property, plant and equipment	—	—	—	38,000	38,000

Year ended December 31, 2001	Drilling	Well services	Marine support and transportation	Geophysical	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
TURNOVER					
Sales (including intersegment)	985,568	595,072	485,329	316,769	2,382,738
Less: Intersegment sales	84	—	8,405	8,683	17,172
Total sales from external customers	985,484	595,072	476,924	308,086	2,365,566
PROFIT FROM OPERATIONS					
Segment results	243,869	93,241	88,276	(75,796)	349,590
Exchange losses, net					(561)
Interest expenses					(9,373)
Interest income					28,125
Share of profit of jointly-controlled entities		44,170		3,667	47,837
Share of loss of an associate				(3,434)	(3,434)
Profit before tax					412,184
Tax					(139,106)
Net profit					273,078
ASSETS					
Segment assets	1,976,098	934,883	1,362,705	562,454	4,836,140
Interests in jointly-controlled entities	—	185,006	—	8,916	193,922
Total assets	1,976,098	1,119,889	1,362,705	571,370	5,030,062
LIABILITIES					
Segment liabilities	1,273,869	365,489	257,771	2,928	1,900,057
Unallocated corporate liabilities					195,000
					2,095,057
OTHER INFORMATION					
Capital expenditure	284,554	120,684	267,457	252,094	924,789
Depreciation of property, plant and equipment	161,794	55,102	87,880	78,261	383,037
Write-back of doubtful debts	(2,752)	(2,343)	(824)	(1,104)	(7,023)
Provision for/(write-back) of inventories	1,811	(360)	(80)	(12)	1,359
Provision for impairment of property, plant and equipment	—	—	—	38,000	38,000

Year ended December 31, 2000	Drilling	Well services	Marine support and transportation	Geophysical	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
TURNOVER					
Sales (including intersegment)	906,170	606,834	434,902	242,076	2,189,982
Less: Intersegment sales	67	—	6,852	4,614	11,533
Total sales from external customers	906,103	606,834	428,050	237,462	2,178,449
PROFIT FROM OPERATIONS					
Segment results	136,321	151,887	57,662	19,023	364,893
Exchange gains, net					277
Interest expenses					(6,340)
Interest income					30,505
Share of profit of jointly-controlled entities		26,900		4,061	30,961
Share of loss of an associate				(33,781)	(33,781)
Profit before tax					386,515
Tax					(99,659)
Net profit					286,856
ASSETS					
Segment assets	1,953,993	844,868	1,159,534	442,403	4,400,798
Interests in jointly-controlled entities	—	70,550	—	10,599	81,149
Interest in an associate	—	—	—	36,487	36,487
Total assets	1,953,993	915,418	1,159,534	489,489	4,518,434
LIABILITIES					
Segment liabilities	1,126,833	281,721	187,590	22,848	1,618,992
Unallocated corporate liabilities					175,000
					1,793,992
OTHER INFORMATION					
Capital expenditure	148,757	88,570	409,035	17,967	664,329
Depreciation of property, plant and equipment	172,213	64,774	79,643	61,264	377,894
Write-back of doubtful debts	(1,460)	(603)	(490)	(1,424)	(3,977)
Provision for/(write-back) of inventories	4,796	24,459	(44)	42	29,253
Provision for impairment of property, plant and equipment	—	—	30,800	—	30,800

Year ended December 31, 1999	Drilling	Well services	Marine support and transportation	Geophysical	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
TURNOVER					
Sales (including intersegment)	644,433	413,109	361,239	246,975	1,665,756
Less: Intersegment sales	57	—	3,668	—	3,725
Total sales from external customers	644,376	413,109	357,571	246,975	1,662,031
PROFIT FROM OPERATIONS					
Segment results	4,079	39,001	44,836	(13,878)	74,038
Exchange losses, net					(468)
Interest expenses					(2,390)
Interest income					19,535
Share of profit of jointly-controlled entities		22,894		1,348	24,242
Profit before tax					114,957
Tax					(26,750)
Net profit					88,207
ASSETS					
Segment assets	1,734,288	711,755	1,054,140	505,485	4,005,668
Interests in jointly-controlled entities	—	65,992	—	3,278	69,270
Total assets	1,734,288	777,747	1,054,140	508,763	4,074,938
LIABILITIES					
Segment liabilities	936,681	133,863	123,423	80,741	1,274,708
Unallocated corporate liabilities					94,500
					1,369,208
OTHER INFORMATION					
Capital expenditure	179,974	70,787	75,351	83,864	409,976
Depreciation of property, plant and equipment	148,022	76,485	86,817	76,967	388,291
Provision for doubtful debts	4,332	3,885	1,420	4,176	13,813
Provision for/(write-back) of inventories	(198)	2,797	(44)	(11)	2,544
Provision for impairment of long term investments	—	—	—	12,023	12,023

9. DIRECTORS' REMUNERATION

Save as disclosed herein, no remuneration has been paid or is payable in respect of any of the Relevant Periods referred to in this report by the Company or any of the companies now comprising the Group, to the directors of the Company. Under the arrangements currently in force, the estimated amount of directors' fees and other emoluments payable to the directors of the Company for the year ending December 31, 2002 will be approximately RMB767,000, excluding discretionary bonuses payable under directors' service contracts, the terms of which are set out in the paragraph headed "Further Information about our Directors, Supervisors, Management and Staff" in Appendix VII to the Prospectus.

10. ULTIMATE HOLDING COMPANY

The directors consider CNOOC, a company established in the PRC, as the ultimate holding company.

11. SUBSEQUENT EVENTS

(a) The companies now comprising the Group underwent a reorganization in preparation for the listing of the Company's H shares on The Stock Exchange of Hong Kong Limited. Further details of the reorganization are set out in the paragraph headed "The Reorganization" in Appendix VII to the Prospectus.

(b) CNOOC Group and the Company have entered into various property lease agreements under which the Company leases certain land and buildings from the CNOOC Group effective from August 1, 2002 for a period of one year. Annual rental is approximately RMB7,603,000, payable on a monthly or quarterly basis.

(c) The Company and CNOOC Group entered into an agreement under which CNOOC Group provides materials, utilities and ancillary support services to the Group for a period of one year at an annual services charges of approximately RMB22,858,000.

Save as aforesaid, no other significant events took place subsequent to June 30, 2002.

12. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any periods subsequent to June 30, 2002.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong