

COO'S REPORT



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**Yuan Guangyu**  
*President and Chief Operating Officer*

## Dear Shareholders,

COSL experienced considerable success in 2002 on an operational level. As President and Chief Operating Officer of COSL, I am both proud and encouraged by our annual results in our first year as a listed company. Looking forward to the year of 2003, I am confident of our prospects.

## Significant Growth in Revenue and Profit

Despite generally lower drilling activity in most international markets, investment in drilling offshore China has grown consistently over the years as a result of increased oil consumption and demand driven by China's rapidly growing economy. In 2002, COSL benefited from this strong demand and achieved solid financial results. Total turnover was RMB 2,725.8 million in 2002, compared to turnover of RMB 2,365.6 million in the year 2001. This represented an increase of 15.2% over last year. All four business segments of our company achieved impressive growth, especially the marine support and transportation services segment, which recorded a turnover increase of 26.4% compared to 2001. The rise was primarily related to the expansion of our marine support fleet and an increase in our service charges. Geophysical services also recorded an increase of 25.6% in turnover, signaling a significant turnaround in operations. Operating profit generated from geophysical services amounted to RMB 12.1 million as compared to a loss of RMB 75.8 million in 2001. Drilling services and well services also recorded moderate turnover increases of 8.0% and 12.9%, respectively, compared to 2001. Net profit was RMB 354.4 million, representing an increase of 29.8% over last year's net profit of RMB 273.1 million.



## Enhanced Operational Capacity and Capability

In 2002, we won 70%, or 60 out of the 86 open bids in which we participated, and we were involved in the operation of 441 contracts. Operational capacity and capability managed to grow continuously.

During the year, we completed the drilling of 123 wells offshore China, 57 of which were exploration wells. The 137.5% increase from 24 exploration wells in 2001 has created more business opportunities for our well services segment, in which wire-line logging and drilling fluids achieved the most prominent growth. In addition, COSL completed the drilling of 66 development wells in 2002. Although this number has dropped from that in 2001, the volume of other drilling services including modular rig drilling for production wells increased. As an increasing number of oilfields commence production, other drilling services will become a major driver for our business growth.

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As we further integrate our business lines, we will enhance our one-stop services and put ourselves in an even better position to satisfy customers' increasing demand for high quality services at each stage, from exploration to development to production. In 2002, we successfully performed services on the AGIP, BLIGH, and Shengli oilfield turnkey projects, among others.

### Increased Investment in Research and Development

Throughout the year 2002, we increased our investment in research and development for oilfield services technology, to raise the standards of technology and operational efficiency in our four service segments. We successfully developed the 2002 Surface Acquisition System during this year. This system significantly reduces the risk of wasting resources as a result of imprecision and at the same time it dramatically lowers overall operating costs. We have received an order for several units of the system from Geoservices S.A., marking the first time an

international peer has purchased our intellectual property. We are proud of this technological accomplishment.

### Utilization Rates Remain at a High Level; Healthy Growth in Day Rates

In the past year, the day rates for our jack-up rigs recorded a 9.2% increase. However, the day rates for drilling rigs in the offshore China market remain lower compared to other regions. The prices we charge are set according to supply and demand as well as the past relationship with our clients. At the present price level, we are able to achieve healthy growth in revenue while maintaining an entry barrier for international operators who want to enter the offshore China market. In 2002, the average day rates for most of our drilling rigs and marine support vessels recorded an increase, and at the same time, their utilization rates remained at a relatively high level. The average utilization rates for our jack-up and semi-submersible rigs were 86.4% and 93.1% respectively, while the average utilization rate of our marine support vessels stood at 94.8%, all of which are relatively high compared to our international peers.



### Quality, Health, Safety and Environment ("QHSE") Accomplishments

In recognition of our integrated QHSE management system and International Safety Management ("ISM") systems, we were awarded the DOC (Document Compliance Certificate) certification in the year 2002. We recorded incident ratios of 0.36 and 0.45, respectively (calculations based on the 200,000 man hour IADC and OSHA occupational safety methodologies).

## Full Confidence in the Outlook for 2003

As many discoveries in the Bohai Bay area enter into the development phase, demand for our drilling services and well services is expected to be especially high. In particular we expect the demand for our jack-up rigs will be particularly strong. As a result, we expect the utilization rate for our rig fleet will remain high, and average day rates could increase. With respect to our well services segment, we expect this segment to be a main growth driver for our business as we see more development and production activity coming on-line. In order to accommodate the expected growth in exploration and development activities as well as the increase in the number of oilfields entering into production, we plan to purchase seven new vessels in 2003, expanding our fleet to a total of 67 vessels for our marine support and transportation business. We expect this business segment to be a significant contributor to our growth.



## Our Long-term Business Strategies are as Follows:

- Expand our operating capacity to enable us to meet increasing demand for oilfield services offshore China;
- Further integrate our service lines in order to offer our customers a more convenient and cost efficient platform of oilfield services;
- Continue to increase our technical capabilities in order to enhance operational efficiency and maintain our competitive low cost structure;
- Strengthen and expand our client relationships; and
- Selectively pursue good international opportunities.

Our business and operational accomplishments in 2002 have reflected our commitment to our five key business strategies. In the coming year, we shall abide by our philosophy – “We must do better”, to continue to implement our strategies in order to bring the best returns to our shareholders, while adhering to the highest standards for environmental protection and employee safety.

**Yuan Guangyu**

*President and Chief Operating Officer*  
Hong Kong, April 2, 2003