



Combining Our Strengths

to Achieve Success

DRILLING SERVICES

COSL is the dominant provider of drilling services offshore China. We provide E&P operators drilling services with our fleet of twelve mobile offshore drilling rigs, consisting of nine jack-ups and three semi-submersibles. Our rig fleet is capable of drilling in water depths up to 1,500 feet. COSL has drilled over 700 exploration wells and approximately 800 development wells since 1967.



MANAGEMENT DISCUSSION & ANALYSIS

Industry Review

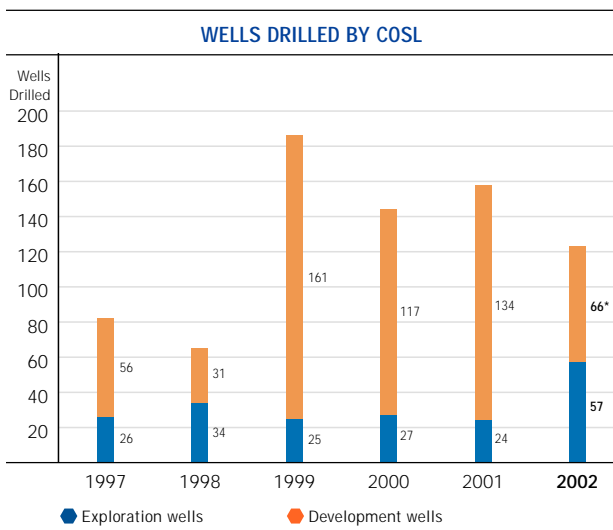
From 1990 to 2000, China's petroleum consumption increased at a compound annual growth rate of 6.7% and China's oil production grew at a compound annual growth rate of 1.6%. At the same time, natural gas production grew at a compound rate of 6.1%. Since 1996, China has been a net importer of crude oil,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

From 1995 to 1998, and again from mid-2000 to mid-2001, the offshore oilfield services sector experienced generally strong market conditions. This high demand was reflected in high rig counts, utilization rates and day rates across most major regions. In 1999 and early 2000, on the other hand, rig counts, day rates and utilization rates were generally lower. These downturns largely resulted from lower oil prices and the impact of

consolidation among large integrated oil and gas companies as well as an increase in the amount of new equipment entering the marketplace. Conditions were generally strong in the first part of 2001 but weakened substantially in late 2001 and 2002 as a weak U.S. economy led to lower commodity prices, particularly natural gas, and reduced drilling activity in the dominant U.S. Gulf of Mexico market.

Given the major discoveries in recent years, demand for offshore China oilfield services remains relatively high. Over the past few years, the offshore China market has experienced a strong oil development cycle. With the high development drilling activity in the market between 1999 and 2001, offshore China began to see more exploration than development activity in the year 2002. Out of the total number of wells drilled offshore China, COSL drilled 57 exploration wells and 82 development wells. Included in the 82 development wells, 22 were drilled by COSL with modular rigs owned by our customers in which COSL provided a substantial amount of labor services in modular rig operation. Modular rigs are drilling rigs with several small-sized modulators tightly built together on the production platform. They are easily installed and removed in well drilling activities.

Integrated oilfield services providers, such as COSL, have a market advantage in that their operations generally are not affected by changes in the E&P cycle. COSL's oilfield services – drilling services, well services, marine support and transportation services and geophysical services – span each phase of the exploration, development and production of oil and natural gas.



* Including 60 wells drilled offshore China and 6 wells drilled overseas