

Business Review

Drilling

COSL is the dominant provider of drilling services offshore China with a diversified fleet of nine jack-up and three semi-submersible rigs. Our rig fleet is capable of drilling in water depths up to 1,500 feet.

In 2002, we continued to experience strong demand for our drilling services, our largest business segment, primarily due to strong

development activities offshore China. The number of exploration wells we drilled surged 137.5% to 57 wells in 2002 compared to 24 wells in 2001. This significant increase reflected the fact that offshore China remains relatively under-explored.

The number of development wells decreased from 134 in 2001 to 66 in 2002. This is consistent with the development cycle for E&P projects. In addition, a few development projects were deferred.

FULL 2002 RIG ASSIGNMENT					
Rig	Contract	Contractor	Drilling Start Day	Wells	Location
BH IV	DRILLING (TURNKEY)	SINOPEC GROUP	05/10/2002	4	Bohai Bay
BH IV	DRILLING	CNOOCSES	10/04/2002	3	Indonesia Sea
BH IV	DRILLING	CNOOC	01/01/2002	7	Bohai Bay
BH V	DRILLING	CNOOC	03/30/2002	6	Bohai Bay
BH VII	DRILLING	KERR-McGEE	05/05/2002	5	Bohai Bay
BH VIII	DRILLING (TURNKEY)	AGIP	01/28/2002	1	Bohai Bay
BH VIII	DRILLING	ConocoPhillips	03/29/2002	6	Bohai Bay
BH VIII	DRILLING	CNOOC	08/21/2002	2	Bohai Bay
BH IX	DRILLING	AMNI	02/26/2002	3	Nigeria
BH X	DRILLING & COMPLETION	CNOOC	01/01/2002	12	Bohai Bay
BH XII	DRILLING & COMPLETION	CNOOC	01/01/2002	11	Bohai Bay
NH I	DRILLING	CHEVRON	01/17/2002	5	Bohai Bay
NH I	DRILLING	ConocoPhillips	09/07/2002	11	Bohai Bay
NH IV	DRILLING	CNOOC	02/08/2002	18	South China Sea
NH IV	DRILLING (TURNKEY)	BLIGH	03/01/2002	1	South China Sea
NH II	DRILLING	CNOOC	01/06/2002	6	South China Sea
NH II	DRILLING	CNOOC	01/15/2002	1	South China Sea
NH II	DRILLING	HUSKY	12/01/2002	1	South China Sea
NH V	DRILLING	CNOOC	01/04/2002	8	South China Sea
NH V	DRILLING	CACT	03/25/2002	2	South China Sea
NH VI	DRILLING	CNOOC	02/15/2002	10	South China Sea
				Total	123

WELL SERVICES

COSL is the leading provider of well services offshore China, offering a full range of well services including wire-line logging, drilling fluids, directional drilling, cementing and well completion. COSL also provides some well services for onshore projects. Customers of our well services consist of large oil and gas companies, such as CNOOC Limited, and multinationals, including BP, ConocoPhillips and ChevronTexaco.

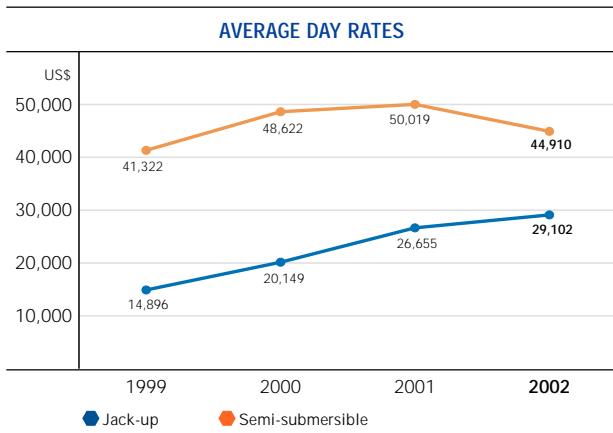
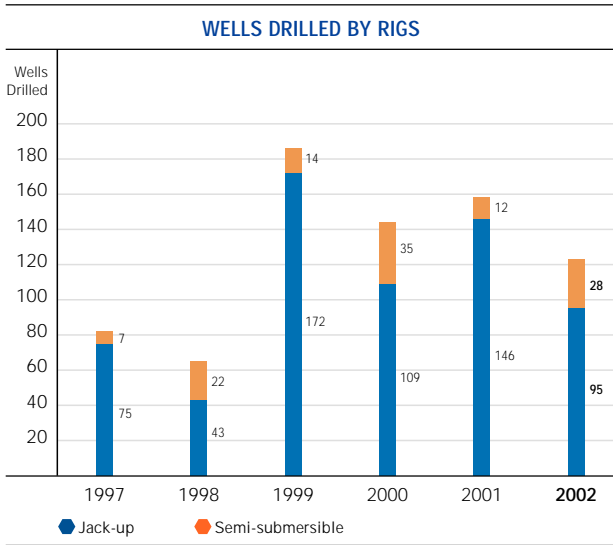


A circular inset image showing an offshore oil rig in the ocean. The rig is a complex structure with multiple levels, including a derrick and several tall, black and red striped chimneys. The rig is supported by several legs extending into the water. The background is a cloudy sky and the sea.

Establishing a Firm Foundation

in Our Core Market

MANAGEMENT DISCUSSION & ANALYSIS



Demand for our rigs remained strong as a result of consistently high levels of E&P activity offshore China. Our rigs operated for a total of 3,227 days in 2002, compared to 3,532 days in 2001. The decrease in operating days was due to customer requests for cluster drilling of exploration wells, and a change in drilling assignments as the oil companies served by our drilling rigs experienced unexpected changes in plans. Utilization dropped as the number of operating days decreased and because the number of rig maintenance days fell, which increased the total number of available days. Furthermore, the adoption of cluster drilling technology resulted in a decrease in the number of operating days required to complete certain drilling assignments. The average utilization rate for our jack-up rigs was

86.4%, while the average utilization rate for our semi-submersibles was 93.1%, compared to 97.9% and 100%, respectively, in 2001. In 2002, the average day rate for our jack-up rigs was US\$29,102 / day, while the day rate for our semi-submersibles averaged US\$44,910 / day, compared to US\$26,655 / day and US\$50,019 / day, respectively, in 2001. Despite the drop in utilization and day rates for our semi-submersibles, the overall performance of our drilling segment improved in 2002 as a result of improved operational efficiency and an increase in the average day rates for our jack-up rigs. Another primary factor that contributed to this segment's growth was the significant increase in revenue from other drilling services. The other drilling services include the provision of labor services to maintain and operate platform modular rigs, conduct drilling and workover on our customers' production platforms.

Our drilling rigs performed tasks in the Bohai Bay, as well as in the Eastern and Western South China Sea areas. During the year, we took important steps to realize our selective international expansion plans. In our first drilling assignment as an independent contractor, Bohai IX was assigned to provide drilling services offshore West Africa. Later in the year, COSL entered into a drilling agreement with CNOOC Southeast Sumatra, and sent Bohai IV to offshore Indonesia for a project.

Notable drilling contracts included the drilling of the Pinghu A5 horizontal well and the Pinghu 7 directional well for CNOOC Limited in conjunction with our well services. In an effort to diversify our revenue streams, we entered into a 132-day drilling contract for four development wells of Sinopec Shengli Oilfield's CB32A block, with a total drilling depth of approximately 15,299 meters. This contract, together with other turnkey contracts, such as one with ConocoPhillips China's Peng Lai 19-9-1 and 13-1-1 blocks, were some of our key contracts with E&P companies outside the CNOOC group.

We intend to purchase one or two additional jack-up rigs by the end of 2004, or alternatively, to upgrade existing rigs, in order to meet the increasing demand for our drilling services.

WELLS DRILLED BY AREA

	1998	1999	2000	2001	2002
Bohai Bay	36	167	109	144	76
East China Sea	1	–	4	1	–
Eastern South China Sea	19	11	7	4	7
Western South China Sea	9	8	24	9	40
Total Wells Drilled	65	186	144	158	123

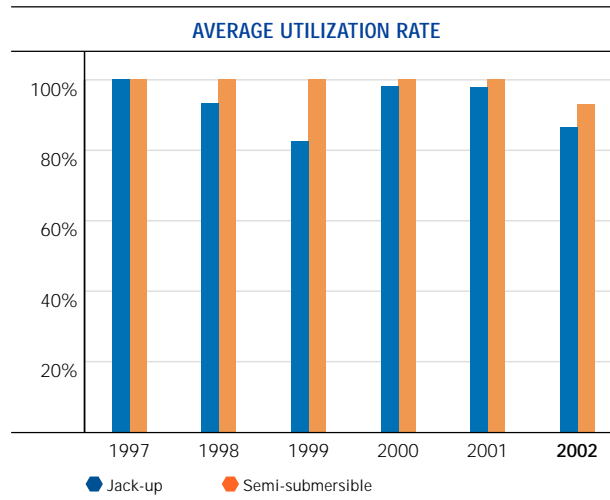
Well Services

We are the leading provider of well services offshore China, offering a full range of services including wire-line logging, fluids, cementing, directional drilling and well completion. Our customers consist of large oil and gas companies, such as CNOOC Limited, and international oil and gas companies or their associates.

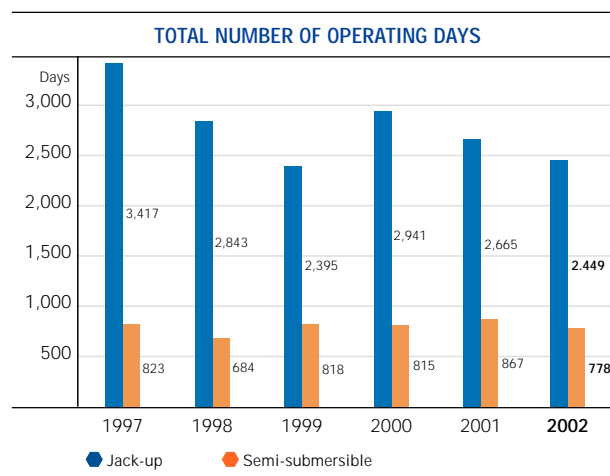
COSL offers well services in conjunction with its own drilling operations and on a stand-alone basis. In 2002, well services activity grew as a whole, benefiting from a rise in exploration drilling activities. During the year, COSL performed wire-line logging, drilling fluids, directional drilling, cementing and well completion services in many oilfields. These developments contributed to an increase of RMB 76.5 million in well services turnover in 2002. The revenue growth was primarily due to revenue increases from the wire-line logging, drilling fluids and cementing services performed on exploration wells, which typically generate higher fees than development wells. However, because of a decrease in the number of development wells, the revenue generated from directional drilling fell. In addition, the adoption of new technology, such as formation evaluation tools and new drilling fluids, enhanced our operational capabilities, widened our service scope and contributed to the overall profitability of the segment.

COSL has made use of in-house technology developments, including an Enhanced Logging Image System, a Wireline

AVERAGE UTILIZATION RATE



TOTAL NUMBER OF OPERATING DAYS



Formation Testing Tool and New Mud Systems, all of which have allowed us to provide even better service to our clients.

In 2003 and 2004, we will work hard to improve our well services technological capabilities. We will enhance our logging-while drilling (LWD) capabilities by acquiring additional MWD and LWD tools, which could increase our competitiveness in the bidding for directional drilling assignments. In an effort to strengthen our wire-line logging services line, we also plan to acquire HTHP and horizontal well logging tools.

A circular inset image showing an offshore oil rig and a support vessel. The rig is a large, complex structure with multiple towers and pipes, situated in the middle of the ocean. To the left of the rig is a red and white support vessel with the number '255' on its side. The background is a blue sky with some clouds. The entire scene is framed within a circular border.

Demand for Oilfield Services and Revenue

Growing Side by Side