

MANAGEMENT DISCUSSION & ANALYSIS

Financial Review

Turnover. Turnover for 2002 was RMB 2,725.8 million, an increase of RMB 360.2 million, or 15.2%, over turnover for 2001 of RMB 2,365.6 million.

Turnover from drilling services contributed 39.0% of our total turnover, growing by RMB 78.9 million, or 8.0%, from RMB 985.5 million in 2001 to RMB 1,064.4 million in 2002. This increase was primarily due to an increase in other drilling services, an increase in the day rates we charged for our jack-up drilling rigs and the income increase from our two rigs that operated abroad. Our turnover from drilling services included RMB 166.6 million in other drilling income in 2002, an increase from other drilling income of RMB 38.6 million in 2001. Other drilling income relates to labor services provided to maintain and operate platform drilling units on production platforms owned by our customers. This activity increased in 2002 because several new production wells offshore China and older production wells required additional maintenance services. These increases were offset in part by a drop in revenues generated by our semi-submersibles, which experienced a lower number of operating days and lower utilization rates in 2002.

Well services turnover increased by RMB 76.5 million, or 12.9%, from RMB 595.1 million in 2001 to RMB 671.6 million in 2002, representing 24.6% of our total turnover. This increase was mainly attributable to a significant increase in the number of exploration wells drilled offshore China in 2002, which generated higher revenues for our wire-line logging, drilling fluids and cementing services. We also raised some service charges in 2002 to reflect the new technology and materials, including formation evaluation tools and advanced drilling fluids, that we incorporated in our operations. These increases were offset in part by a drop in the number of development wells drilled offshore China, which resulted in lower revenue for our directional drilling services.

Turnover from marine support and transportation services was RMB 602.7 million in 2002, representing an increase of RMB 125.8 million, or 26.4%, from RMB 476.9 million in 2001. This segment contributed 22.1% of our total turnover. The increase was largely related to the seven vessels we added to our fleet between the second half of 2001 and January 2002, and an increase in the day rates that we charged for some of our vessels. The average utilization rate for our marine support vessels remained relatively high at 94.8%. Offsetting these developments, we retired one vessel, Binhai 206, in 2002, and the amount of product transported by our oil tankers fell by 9.4% compared to 2001.

Turnover from our geophysical services increased by RMB 78.9 million, or 25.6%, from RMB 308.1 million in 2001 to RMB 387.0 million in 2002, and represented 14.2% of our total turnover. This increase was mainly attributable to increased activity in our geotech survey services, as well as an average price increase of approximately 30% for our 2D seismic data collection services.

Other revenues. Other revenues were RMB 4.6 million in 2002, compared to RMB 21.0 million in 2001.

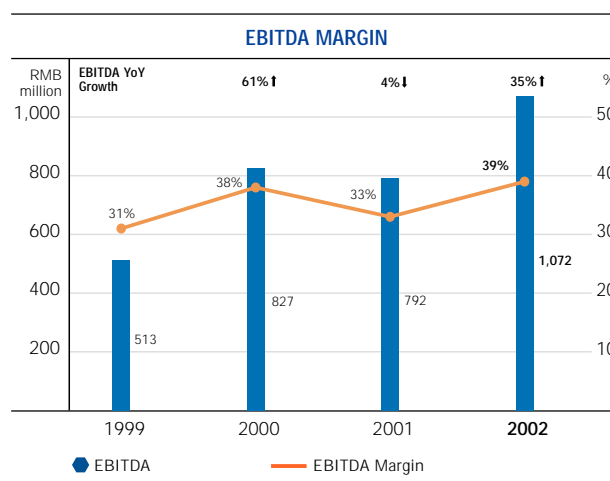
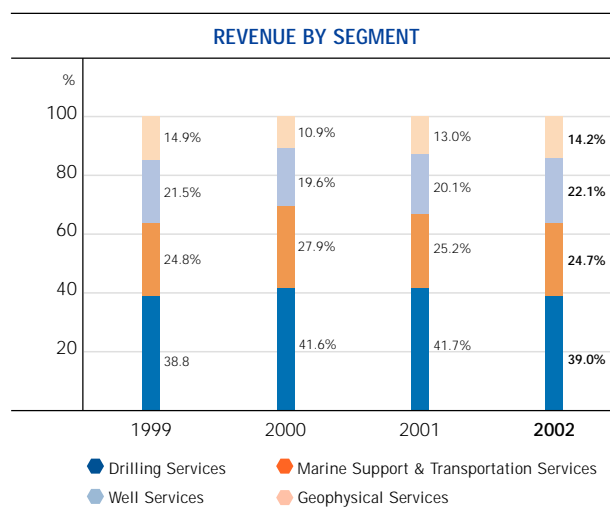
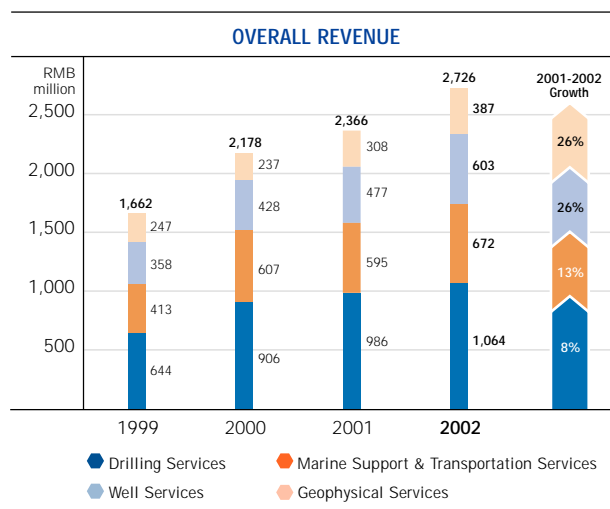
Operating expenses. Operating expenses were RMB 2,247.4 million in 2002, representing an increase of RMB 210.4 million, or 10.3%, over operating expenses of RMB 2,037.0 million in 2001. Depreciation costs rose by RMB 169.5 million, or 44.2%, mainly due to a revaluation of our assets that was required in connection with our group reorganization for global offering; this revaluation substantially increased the base value of our assets for depreciation purposes. The expansion of our marine support fleet by seven vessels also increased depreciation costs in 2002. In addition, the rise in operating costs was attributable to an increase of RMB 90.6 million, or 82.1%, in other operating expenses primarily related to our two drilling rigs performing

overseas assignments, an increase in work volume due to our seven new marine support vessels and an increase in the positioning, navigation and convoy rental charges for our geophysical services. Offsetting these increases, repair and maintenance costs fell by RMB 82.3 million, or 35.0%, primarily because our drilling rigs and vessels required fewer major repairs and maintenance in 2002 and because the maintenance departments of our four business units were consolidated into one entity, which resulted in substantial savings.

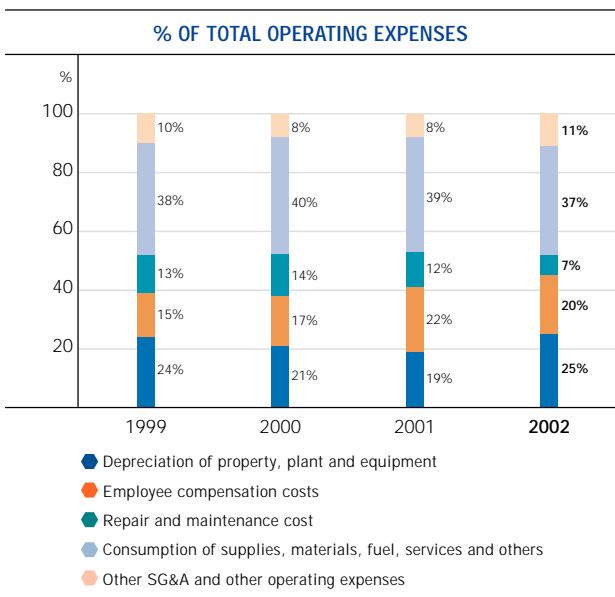
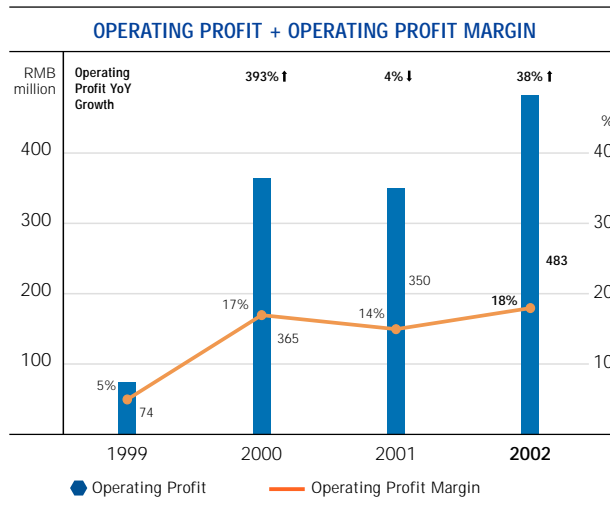
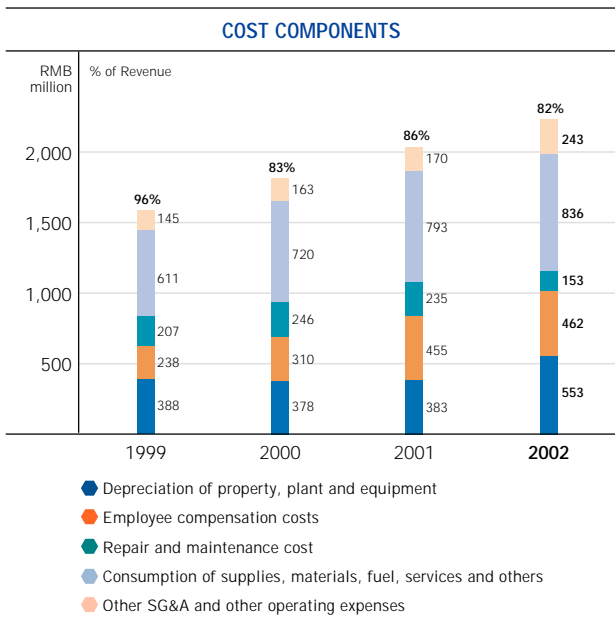
Drilling services operating expenses increased by RMB 47.9 million, or 6.4%, from RMB 749.7 million in 2001 to RMB 797.6 million in 2002. The revaluation of our assets led to an increase of RMB 43.6 million in depreciation costs. Overseas deployment of drilling rigs resulted in a RMB 3.7 million increase in employee compensation costs, RMB 4.0 million increase in other selling, general and administrative expenses and RMB 47.3 million increase in other operating expenses. Consumption of supplies, materials, fuel, services and others also increased RMB 10.0 million. Offsetting these expense increases, repair and maintenance costs fell by RMB 60.7 million.

Well services operating expenses were RMB 581.7 million in 2002, representing an increase of RMB 67.7 million, or 13.2%, over operating expenses of RMB 514.0 million in 2001. This increase was primarily due to an increase of RMB 57.0 million in depreciation charges.

Operating expenses for marine support and transportation services increased by RMB 103.2 million, or 26.4%, from RMB 390.0 million in 2001 to RMB 493.2 million in 2002. The addition of seven new vessels between the second half of 2001 and January 2002 and the revaluation of our assets in 2002 resulted in an increase of RMB 75.0 million in depreciation costs and an increase of RMB 17.1 million in costs related to the consumption of supplies, materials, fuel, services and others.



MANAGEMENT DISCUSSION & ANALYSIS



Geophysical services operating expenses fell by RMB 8.4 million, or 2.2%, from RMB 383.3 million in 2001 to RMB 374.9 million in 2002. The drop in operating costs primarily resulted from our cost control efforts, a decrease in the amount of work in this business segment, and lower repair and maintenance costs.

Profit from operations. Our profit from operations grew by RMB 133.4 million, or 38.2%, from RMB 349.6 million in 2001 to RMB 483.0 million in 2002. Our operating profit benefited from the turnaround in our geophysical business, which recorded an operating profit of RMB 12.1 million as compared to a loss of RMB 75.8 million in 2001. Operating profit from marine support and transportation services increased by RMB 23.4 million, or 26.5%, to RMB 111.7 million in 2002, compared to RMB 88.3 million in 2001. In addition, operating profit from our drilling services rose by RMB 23.0 million, or 9.4%, to RMB 266.8 million, while operating profit from well services decreased by RMB 0.9 million to RMB 92.4 million.