

**Financing gain / loss.** We realized a financing gain of RMB 5.0 million in 2002, representing a decrease of RMB 13.2 million, or 72.8%, from the gain of RMB 18.2 million in 2001. This decrease was primarily due to lower interest income, which resulted from lower cash deposits in 2002, the repayment of RMB 230.0 million in bank and other loans, as well as lower interest rates during this period.

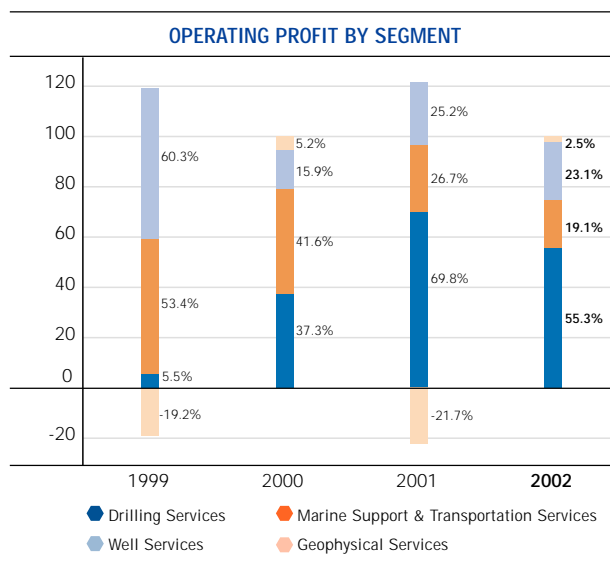
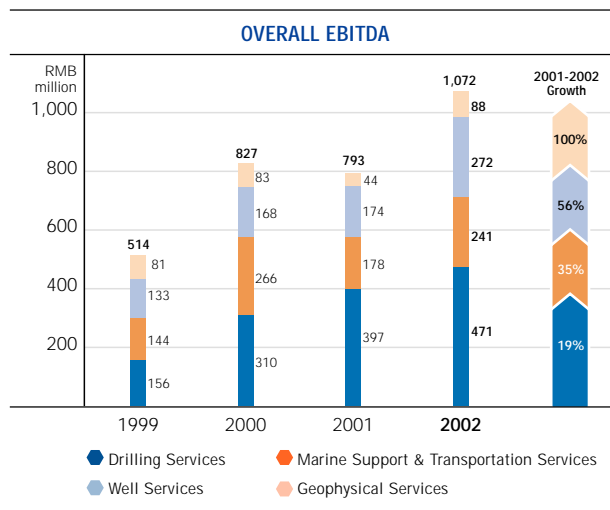
**Share of profit of jointly-controlled entities.** Our share of profit from jointly-controlled entities fell by RMB 5.2 million, or 10.9%, from RMB 47.8 million in 2001 to RMB 42.6 million in 2002, primarily due to a decrease in profits received from our well services joint ventures which contributed RMB 39.2 million of the total amount, compared to RMB 44.2 million in 2001. Our geophysical services joint ventures added RMB 3.4 million in 2002, compared to RMB 3.7 million in 2001.

**Profit before tax.** Our profits before tax increased by RMB 118.4 million, or 28.7%, from RMB 412.2 million in 2001 to RMB 530.6 million in 2002. This increase primarily resulted from the improved operating results of our geophysical division, which saw a turnaround from a loss of RMB 75.8 million in 2001 to a profit of RMB 12.1 million in 2002.

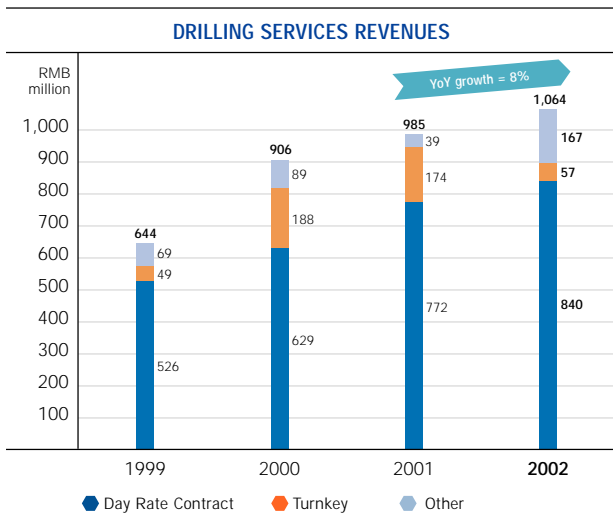
**Taxes.** Our tax expenses increased by RMB 37.1 million, or 26.7%, to RMB 176.2 million in 2002, compared to RMB 139.1 million in 2001. This increase was directly related to the increase in our profits before tax.

**Net profit.** Our net profit in 2002 was RMB 354.4 million, an increase of RMB 81.3 million, or 29.8%, over net profit of RMB 273.1 million in 2001.

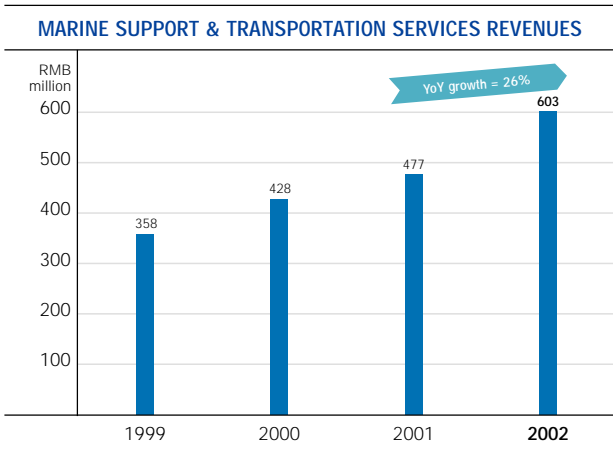
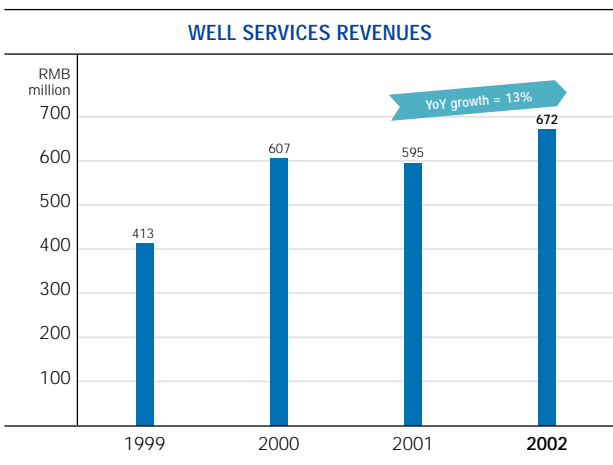
**Distributions.** In connection with the restructuring of our operations in preparation for our global offering in November 2002, we declared a distribution of RMB 344.9 million to our then sole shareholder, CNOOC.



## MANAGEMENT DISCUSSION & ANALYSIS



Note : 2002 drilling revenue includes all well workover revenues



### Liquidity and Capital Resources

#### Cash Generated from Operations

Although profit from operations grew by RMB 133.4 million and our depreciation charges increased by RMB 169.5 million during 2002, cash generated from operations in 2002 fell by RMB 156.7 million, or 18.0%, from RMB 870.0 million in 2001 to RMB 713.3 million in 2002. This decrease was primarily due to the decrease in working capital by RMB 197.4 million and RMB 243.9 million related to the changes of the net balance with the ultimate holding company and the trade and other payables, respectively.

#### Capital Expenditures and Investments

Total capital expenditures for 2002 were RMB 763.5 million, as compared to RMB 924.8 million in the year 2001. For drilling services, well services, marine support and transportation services and geophysical services in 2002, we spent RMB 134.6 million, RMB 120.5 million, RMB 465.1 million and RMB 43.3 million, respectively.

#### Cash Provided by Financing Activities

We had a net cash inflow from financing activities of RMB 1,488.8 million in 2002. We received proceeds of RMB 2,487.5 million from our global offering in November 2002 and an advance of RMB 238.0 million from CNOOC during 2002. These cash inflows were offset in part by the payment of RMB 926.0 million to settle a balance due to CNOOC, the repayment of RMB 230.0 million in bank and other loans and the payment of RMB 115.7 million for expenses related to our global offering.

We believe our current cash position and our future cash flows from operations, plus our borrowing capacity will be sufficient to fund our planned capital expenditures and investments, debt maturities and working capital requirements through at least 2004.

## Employment, Training and Development

At the end of 2002, COSL had 4,971 employees, compared to 5,186 employees in 2001. In addition to salary, allowances and performance based bonuses, our employees receive subsidized housing, health benefits and other miscellaneous subsidies. We also pay a special allowance to employees that work on our drilling rigs and various marine support and transportation vessels. These personnel also are entitled to mandatory home leave. Moreover, we are required to make annual contributions to a government regulated pension plan at rates ranging from 19% to 22% of the employees' basic salaries.

We comply fully with the "Beijing Municipal Basic Medical Insurance Guidelines". Our Tianjin office has implemented the "CNOOC Bohai Operation Health Insurance Guidelines", while the Zhanjiang office has been complying with the "Zhanjiang City Basic Operational Medical Insurance Standard". Our compliance with the above medical insurance measures has not had a significant impact on our overall operating results.

Total employee compensation costs for the year ended December 31, 2002 were RMB 462.3 million.

COSL believes that its success lies in its employees. We have focused on developing an effective staff training program that promotes safe and effective operations.

