NOTES TO FINANCIAL STATEMENTS

31 December 2002

1. Group Reorganisation and Basis of Presentation of Financial Statements

The Company was established on 25 December 2001 by China National Offshore Oil Corporation ("CNOOC"), a State-owned enterprise in the People's Republic of China (the "PRC"), in Tianjin, the PRC, as a limited liability company under the Company Laws of the PRC. As part of the reorganisation (the "Reorganisation") of CNOOC in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "HKSE") and pursuant to an approval document obtained from the relevant government authority dated 26 September 2002, the Company was restructured into a joint stock limited liability company. Pursuant to the Reorganisation which was effective on 30 April 2002, the Company acquired from the wholly-owned subsidiaries of CNOOC:

(1) the assets, liabilities and undertakings which principally relate to the business of the provision of oilfield services including drilling services, well services, marine support and transportation services and geophysical services offshore China (the "Relevant Businesses"), with the exclusion of certain cash and cash equivalents of RMB688 million and a payable amount to CNOOC of RMB688 million; and

(2) the interests in certain joint ventures which principally carry on the business of the provision of oilfield services including well services and geophysical services offshore China (the "Relevant Companies").

In consideration of the above acquisition, the Company in total issued 2,600 million State legal person shares of par value of RMB1.00 each to CNOOC, and the Company's registered and paid-up capital became RMB2,600 million accordingly.

Further details of the Reorganisation are set out in the Company's prospectus dated 11 November 2002 issued in respect of the listing of the Company's shares on the HKSE.

The Group's financial statements are presented using the following bases:

i) The consolidated profit and loss account includes the results of the Company and its subsidiary (the "Group") for the period from 25 December 2001 (date of establishment of the Company) to 31 December 2002. Since the Group did not engage in any operations until 30 April 2002, the date of the Reorganisation, no separate consolidated profit and loss account has been presented for the period from 25 December 2001 (date of establishment of the Company) to 31 December 2001.

ii) The Reorganisation involved companies under common control. The Relevant Businesses and the Relevant Companies are regarded as a continuing group. Accordingly, for information purposes, the pro forma combined profit and loss accounts for the two years ended 31 December 2002 have been prepared which include the operating results of the Relevant Businesses and the Relevant Companies as if the current Group structure had been in existence throughout the two years ended 31 December 2002. In particular, the results of operations of the Relevant Businesses and the Relevant Companies have been included in the pro forma combined profit and loss accounts as if the Relevant Businesses and the Relevant Companies had been transferred to the Company as at 1 January 2001.

iii) The consolidated balance sheets as at 31 December 2001 and 2002 are prepared based on the Group structure in place at those dates.

iv) For information purposes, the pro forma combined balance sheet as at 31 December 2001 has been prepared on the basis as set forth in note (ii) above.

NOTES TO FINANCIAL STATEMENTS

31 December 2002

1. Group Reorganisation and Basis of Presentation of Financial Statements continued

v) The consolidated cash flow statement includes the cash flows of the Company and its subsidiary for the period from 25 December 2001 (date of establishment of the Company) to 31 December 2002. The only cash transaction of the Company for the period from 25 December 2001 (date of establishment of the Company) to 31 December 2001 was a capital contribution of RMB300 million made by CNOOC. As such, no separate consolidated cash flow statement for the period from 25 December 2001 to 31 December 2001 has been presented.

vi) For information purposes, the pro forma combined cash flow statements for the two years ended 31 December 2002 have been prepared on the basis as set forth in note (ii) above.

Although the reorganised Group structure did not legally exist until 30 April 2002, the directors consider that it is appropriate to present pro forma combined profit and loss accounts, a pro forma combined balance sheet and pro forma combined cash flow statements on the bases as set out in notes (ii), (iv) and (vi) above since the principal activities of the Group were carried out by wholly-owned subsidiaries of CNOOC or certain joint ventures invested by the wholly-owned subsidiaries of CNOOC prior to the Reorganisation. Subsequent to the Reorganisation, all the Relevant Businesses and the Relevant Companies were transferred to the Company.

2. Corporate Information

The registered office of China Oilfield Services Limited is located at 3-1516 Hebei Road, Haiyang New and Hi-Tech Development Zone, Tanggu, Tianjin 300451, China.

The principal activities of the Group consisted of the provision of oilfield services including drilling services, well services, marine support and transportation services, and geophysical services offshore China.

In the opinion of the directors, the Company's ultimate holding company is CNOOC.

3. Impact of New and Revised Statements of Standard Accounting Practice ("SSAPs")

The following recently-issued and revised SSAPs are effective for the first time for the current year's financial statements:

SSAP 1	(Revised)	:	"Presentation of financial statements"
SSAP 11	(Revised)	:	"Foreign currency translation"
SSAP 15	(Revised)	:	"Cash flow statements"
SSAP 34		:	"Employee benefits"

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs are summarised as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The principal impact of the revision to this SSAP is that a consolidated statement of changes in equity is now presented on page 48 of the financial statements in place of the consolidated statement of recognized gains and losses that was previously required and in place of the Group reserves note.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of the revision of this SSAP on the consolidated financial statements is that the profit and loss accounts of overseas subsidiaries are now translated to RMB at the weighted average exchange rates for the year, whereas previously they were translated at the exchange rates at the balance sheet date. The adoption of the revised SSAP 11 has had no material effect on the financial statements.

3. Impact of New and Revised Statements of Standard Accounting Practice ("SSAPs") continued

SSAP 15 (Revised) prescribes the revised format for the cash flow statement. The principal impact of the revision of this SSAP is that the consolidated cash flow statement now presents cash flows under three headings, cash flows from operating, investing and financing activities, rather than the five headings previously required. In addition, cash flows from overseas subsidiaries arising during the year are now translated to RMB at the exchange rates at the dates of the transactions, or at an approximation thereto, whereas previously they were translated at the exchange rates at the balance sheet date, and the definition of cash equivalents for the purpose of the cash flow statement has been revised. The adoption of the revised SSAP 15 has had no material effect on the financial statements.

SSAP 34 prescribes the recognition and measurement criteria to apply to employee benefits, together with the required disclosures in respect thereof. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatments for employee benefits. In addition, disclosures are now required in respect of the company's share option scheme. These share option scheme disclosures are similar to the Listing Rules disclosures previously included in the Report of the Directors, which are now required to be included in the notes to the financial statements as a consequence of the SSAP.

4. Summary of Significant Accounting Policies

Basis of Preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the disclosure requirements of Hong Kong Companies Ordinance. They have been prepared under the historical cost convention.

Basis of Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiary. The results of the subsidiary acquired or disposed of during the year are consolidated from or to its effective date of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Revenue Recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) income from day rate contracts is recognised as and when services are performed;

(b) income from turnkey contracts is recognised to the extent of costs incurred until the specific turnkey depth and other contract requirements are met. When the turnkey depth and contract requirements are met, revenue on turnkey contracts is recognized based on the percentage of completion. Provisions for future losses on turnkey contracts are recognised when it becomes apparent that expenses to be incurred on a specific contract will exceed the revenue from that contract;

(c) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable; and

(d) dividends, when the shareholders' right to receive payment has been established.

NOTES TO FINANCIAL STATEMENTS

31 December 2002

4. Summary of Significant Accounting Policies continued

Property, Plant and Equipment, and Depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost less residual value of each asset over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

Buildings	20 years
Vessels	10-15 years
Tankers	20 years
Drilling equipment	25 years
Machinery and equipment	5-10 years
Motor vehicles	5 years

The gain or loss on disposal or retirement of property, plant and equipment recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in Progress

Construction in progress represents vessels and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction.

Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Impairment of Assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated at the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

4. Summary of Significant Accounting Policies continued

Subsidiaries

A subsidiary is a company whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

Jointly-controlled Entities

A jointly-controlled entity is a joint venture company which is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The results of jointly-controlled entities are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in jointly-controlled entities are treated as long term assets and are stated at cost less any impairment losses.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under equity method of accounting, less any impairment losses.

The results of associates are included in the Company's profit and loss account to the extent of dividends received and receivable. The Company's interests in associates are treated as long term assets and are stated at cost less any impairment losses.

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

Related Parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

4. Summary of Significant Accounting Policies continued

Inventories

Inventories primarily consist of materials and supplies used for repairs and maintenance of plant and equipment and daily operations. Inventories are stated at the lower of cost and net realisable value after allowances for obsolete or slow-moving items. Cost is determined on the weighted average basis. Materials and supplies are capitalised to plant and equipment when used for renewals or betterments of plant and equipment or recognised as expenses when used for daily operations.

Research and Development Costs

All research costs are charged to the profit and loss account as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Operating Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Rentals applicable to such operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Deferred Tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Retirement Benefits Costs

The Company's employees in the PRC are required to participate in a central pension scheme administered by local municipal governments. The Company is required to contribute 19%-22% of its payroll costs of the central pension scheme.

Foreign Currencies

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable exchange rates ruling at that date. Exchange differences are dealt with in the profit and loss account.

During the period, substantially all the transactions were denominated in Renminbi. Accordingly, exchange differences recorded during the period were minimal.

On consolidation, the balance sheet of overseas subsidiaries, joint-controlled entities and associates are translated into Renminbi at the applicable exchange rates ruling at the balance sheet date whereas the profit and loss account of overseas subsidiaries, jointly-controlled entities and associates are translated into Renminbi at the weighted average exchange rates for the year. The resulting translation differences are included in the exchange fluctuation reserves.

Cash Equivalent

For the purpose of the consolidated cash flow statements, cash equivalents represent short term highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value, less bank overdrafts. For the purpose of consolidated balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

4. Summary of Significant Accounting Policies continued

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within capital and reserves in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

5. Segment Information

The Group is engaged in a broad range of petroleum related activities through its four major business segments: drilling services, well services, marine support and transportation services, and geophysical services.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the services they provide. Each of the Group's business segments represents a strategic business unit that provides services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

(a) the drilling services segment is engaged in the provision of oilfield drilling services;

(b) the well services segment is engaged in the provision of logging and downhole services, such as drilling fluids, directional drilling, cementing, well completion and well workovers;

(c) the marine support and transportation segment is engaged in the transportation of materials, supplies and personnel to offshore facilities, moving and positioning drilling structures and the transportation of crude oil and refined products; and

(d) the geophysical segment is engaged in the provision of offshore seismic data collection, marine surveying and data processing services.

No further analysis of geographical segment information is presented as almost all of the Group's assets, operations and customers are located in the PRC, which is considered as one geographic location in an economic environment with similar risks and returns.

NOTES TO FINANCIAL STATEMENTS

31 December 2002

5. Segment Information continued

The following table presents consolidated revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the period from 25 December 2001 (date of establishment of the Company) to 31 December 2002:

	Drilling RMB'000	Well services RMB'000	Marine support and transportation RMB'000	Geophysical RMB'000	Total RMB'000
Turnover					
Sales (including intersegment)	760,573	465,995	409,411	316,558	1,952,537
Less: Intersegment sales	17,358	—	—	—	17,358
Total sales to external customers	743,215	465,995	409,411	316,558	1,935,179
Profit from Operations					
Segment results	165,118	31,100	44,945	34,716	275,879
Exchange losses, net					(869)
Interest expenses					(3,545)
Interest income					7,847
Share of profits of jointly-controlled entities					33,524
Profit before tax					312,836
Tax					(103,371)
Net profit					209,465
Assets					
Segment assets	2,276,915	466,014	1,868,210	441,228	5,052,367
Interests in jointly-controlled entities	—	130,752	—	10,411	141,163
Unallocated assets					2,764,002
Total assets					7,957,532
Liabilities					
Segment liabilities	623,358	88,716	192,651	51,709	956,434
Unallocated liabilities					820,503
					1,776,937
Other Information					
Capital expenditure	124,464	98,316	383,095	15,410	621,285
Depreciation of property, plant and equipment	143,058	94,206	129,236	39,543	406,043
Write back of doubtful debts	(1,515)	(736)	(532)	(706)	(3,489)
Provision for/(write back) of inventories	405	(176)	(71)	(12)	146

5. Segment Information continued

The following table presents pro forma combined revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the year ended 31 December 2002:

	Drilling RMB'000	Well services RMB'000	Marine support and transportation RMB'000	Geophysical RMB'000	Total RMB'000
	(note 1)	(note 1)	(note 1)	(note 1)	(note 1)
Turnover					
Sales (including intersegment)	1,084,242	671,612	602,710	387,046	2,745,610
Less: Intersegment sales	19,828	—	—	—	19,828
Total sales to external customers	1,064,414	671,612	602,710	387,046	2,725,782
Profit from Operations					
Segment results	266,834	92,376	111,679	12,133	483,022
Exchange losses, net					(973)
Interest expenses					(5,289)
Interest income					11,216
Share of profits of jointly-controlled entities					42,600
Profit before tax					530,576
Tax					(176,190)
Net profit					354,386
Assets					
Segment assets	2,276,915	466,014	1,868,210	441,228	5,052,367
Interests in jointly-controlled entities	—	130,752	—	10,411	141,163
Unallocated assets					2,764,002
Total assets					7,957,532
Liabilities					
Segment liabilities	623,358	88,716	192,651	51,709	956,434
Unallocated liabilities					820,503
					1,776,937
Other Information					
Capital expenditure	134,609	120,563	465,064	43,256	763,492
Depreciation of property, plant and equipment	205,409	112,100	162,837	72,177	552,523
Write back of doubtful debts	(665)	(104)	(146)	(125)	(1,040)
Write back of inventories	(510)	(319)	(64)	(18)	(911)

NOTES TO FINANCIAL STATEMENTS

31 December 2002

5. Segment Information continued

The following table presents pro forma combined revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments for the year ended 31 December 2001:

	Drilling RMB'000	Well services RMB'000	Marine support and transportation RMB'000	Geophysical RMB'000	Total RMB'000
	(note 1)	(note 1)	(note 1)	(note 1)	(note 1)
Turnover					
Sales (including intersegment)	985,568	595,072	485,329	316,769	2,382,738
Less: Intersegment sales	84	—	8,405	8,683	17,172
Total sales to external customers	985,484	595,072	476,924	308,086	2,365,566
Profit from Operations					
Segment results	243,869	93,241	88,276	(75,796)	349,590
Exchange losses, net					(561)
Interest expenses					(9,373)
Interest income					28,125
Share of profits of jointly-controlled entities					47,837
Share of loss of an associate					(3,434)
Profit before tax					412,184
Tax					(139,106)
Net profit					273,078
Assets					
Segment assets	1,976,098	934,883	1,362,705	562,454	4,836,140
Interests in jointly-controlled entities	—	185,006	—	8,916	193,922
Total assets	1,976,098	1,119,889	1,362,705	571,370	5,030,062
Liabilities					
Segment liabilities	1,273,869	365,489	257,771	2,928	1,900,057
Unallocated liabilities					195,000
					2,095,057
Other Information					
Capital expenditure	284,554	120,684	267,457	252,094	924,789
Depreciation of property, plant and equipment	161,794	55,102	87,880	78,261	383,037
Write back of doubtful debts	(2,752)	(2,343)	(824)	(1,104)	(7,023)
Provision for/(write back) of inventories	1,811	(360)	(80)	(12)	1,359
Provision for impairment of property, plant and equipment	—	—	—	38,000	38,000

6. Turnover and Other Revenues

Turnover represents the net invoiced value of offshore oilfield services rendered, net of sales surtaxes. All significant intragroup transactions have been eliminated on consolidation/combination.

Other revenues comprise the following:

	Consolidated for the period from 25 December 2001 (date of establishment) to 31 December 2002 RMB'000	**Pro forma combined for the year ended 31 December 2002 RMB'000 (note 1)**	Pro forma combined for the year ended 31 December 2001 RMB'000 (note 1)
Other revenues:			
Gain on disposal of property, plant and equipment	**—**	**—**	16,360
Gain on disposal of scrap materials	**2**	**2**	1,177
Others	**3,834**	**4,598**	3,459
	3,836	**4,600**	20,996

NOTES TO FINANCIAL STATEMENTS

31 December 2002

7. Profit from Operating Activities

The Group's profit from operating activities is arrived at after charging/(crediting):

	Consolidated for the period from 25 December 2001 (date of establishment) to 31 December 2002 RMB'000	Pro forma combined for the year ended 31 December 2002 RMB'000	Pro forma combined for the year ended 31 December 2001 RMB'000
		(note 1)	(note 1)
Auditors' remuneration	2,800	3,071	172
Employee compensation costs:			
Wages, salaries and bonuses	224,869	325,109	307,064
Social security costs	51,786	89,543	107,194
Retirement benefits contributions *(note 11)*	26,996	47,641	41,222
	303,651	462,293	455,480
Depreciation of property, plant and equipment	406,043	552,523	383,037
(Gain)/loss on disposal of property, plant and equipment, net	2,062	2,236	(16,360)
Minimum lease payment under operating leases in respect of land and buildings, berths and equipment	54,135	61,522	32,006
Write back of doubtful debts	(3,489)	(1,040)	(7,023)
Provision for/(write back) of inventories	146	(911)	1,359
Provision for impairment of property, plant and equipment	—	—	38,000
Repair and maintenance costs	138,749	152,693	235,003
Research and development costs included in:			
Depreciation of property, plant and equipment	8,052	8,671	9,487
Employee compensation costs	7,844	8,533	8,059
Repair and maintenance costs	607	608	252
Consumption of supplies, materials, fuel, services and others	7,691	7,900	6,706
Other operating expenses	3,363	5,491	5,460
	27,557	31,203	29,964

8. Interest Expenses

	Group		
	Consolidated for the period from 25 December 2001 (date of establishment) to 31 December 2002 RMB'000	**Pro forma combined for the year ended 31 December 2002 RMB'000**	Pro forma combined for the year ended 31 December 2001 RMB'000
		(note 1)	(note 1)
Interest on bank loans and other loans wholly repayable within five years	**3,595**	**5,444**	12,458
Less: Interest capitalised	**50**	**155**	3,085
	3,545	**5,289**	9,373

The interest capitalisation rate represents the cost of capital from raising the related borrowings and ranged from 5.3% to 5.4% per annum.

9. Directors' and Supervisors' Remuneration

Directors' and supervisors' remuneration, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Consolidated for the period from 25 December 2001 (date of establishment) to 31 December 2002 RMB'000	**Pro forma combined for the year ended 31 December 2002 RMB'000**	Pro forma combined for the year ended 31 December 2001 RMB'000
		(note 1)	(note 1)
Fees	**133**	**133**	—
Basic salaries, housing, benefits, other allowances and benefits in kind	**295**	**386**	278
Bonuses	**328**	**389**	204
Pension scheme contributions	**109**	**135**	84
	865	**1,043**	566

Fees are payable to the independent non-executive directors (2001: Nil). There were no other emoluments payable to the independent non-executive directors during the year (2001: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2002

9. Directors' and Supervisors' Remuneration continued

The remunerations of each of the directors and supervisors during the year and 2001 fell within the band of nil to RMB1,000,000.

There was no arrangement under which a director or a supervisor waived or agreed to waive any remuneration during the year.

There was no emolument paid by the Group to the directors or supervisors as an inducement to join or upon joining the Group or as compensation for loss of office during the year.

10. Five Highest Paid Employees

The five highest paid employees during the year included one director (2001: two), details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining four (2001: three) non-director, non-supervisor, highest paid employees are as follows:

	Group		
	Consolidated for the period from 25 December 2001 (date of establishment) to 31 December 2002 RMB'000	**Pro forma combined for the year ended 31 December 2002 RMB'000**	Pro forma combined for the year ended 31 December 2001 RMB'000
		(note 1)	(note 1)
Basic salaries, housing benefits, other allowances and benefits in kind	**429**	**637**	359
Bonuses	**554**	**685**	247
Pension scheme contributions	**173**	**233**	103
	1,156	**1,555**	709

The remunerations of each of the non-director, non-supervisor, highest paid employees during the year and 2001 fell within the band of nil to RMB1,000,000.

There was no emolument paid by the Group to the employees as an inducement to join or upon joining the Group or as compensation for loss of office during the year.

11. Retirement Benefits

All the Group's full-time employees in the PRC are covered by a government-regulated pension, and are entitled to an annual pension determined by their basic salaries upon their retirement. The PRC government is responsible for the pension liabilities to these retired employees. The Group is required to make annual contributions to the government-regulated pension at rates ranging from 19% to 22% of the employees' basic salaries. The related pension costs are expensed as incurred.

As part of the CNOOC group, the employees of the Group were entitled to supplementary pension benefits (the "Supplementary Pension Benefits") provided by CNOOC in addition to the benefits under the government-regulated pension fund described above. The Supplementary Pension Benefits were calculated based on factors including number of years of services and salary level on the date of retirement of the employees. Following the Reorganisation, CNOOC agreed with the Group that the Supplementary Pension Benefits of the Group's current employees attributed to the period prior to the Company's public listing in Hong Kong and the Supplementary Pension Benefits of the Group's retired employees will continue to be assumed by CNOOC. As the obligations under the Supplementary Pension Benefits have been fully assumed by CNOOC, the costs of such supplemental pension have not been recorded in the Group's financial statements for the period from 25 December 2001 (date of establishment of the Company) to 31 December 2002.

In 1999, the CNOOC group implemented an early retirement plan for certain employees, and as part of the CNOOC group, the pension benefits payable to the early retired employees of the Group prior to their joining the government-regulated pension scheme described above were assumed by CNOOC. Upon reaching the normal retirement age, the employees that took early retirement are entitled to both the government-regulated pension scheme and the Supplementary Pension Benefits. Following the Reorganisation, the employees of the Group that took early retirement were all transferred to CNOOC and CNOOC has agreed to continue to assume the pension benefits obligations payable to such former employees until they reach their respective normal retirement ages when they can join the government-regulated pension scheme and are entitled to the Supplementary Pension Benefits. As the Group was not liable to any pension benefit obligations payable to the employees that took early retirement, the pension costs of these individuals have not been recorded in the Group's financial statements for the period from 25 December 2001 (date of establishment) to 31 December 2002.

The expenses attributed to the PRC government-regulated pension are as follows:

	Group		
	Consolidated for the period from 25 December 2001 (date of establishment) to 31 December 2002 RMB'000	**Pro forma combined for the year ended 31 December 2002 RMB'000**	Pro forma combined for the year ended 31 December 2001 RMB'000
		(note 1)	(note 1)
Contributions to PRC government-regulated pension scheme *(note 7)*	**26,996**	**47,641**	41,222

At 31 December 2002, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2001: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2002

12. Tax

The Group is subject to income tax on an entity basis on profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. The Group is not liable for income tax in Hong Kong as it does not have assessable income currently sourced from Hong Kong. In accordance with an approval document issued by relevant tax authorities, the filing of tax returns of the Company prior to the Reorganisation date on 30 April 2002 was handled by CNOOC on a group basis. The share of the Company's income tax liability was determined based on the applicable tax rate on the Company's profits determined in accordance with PRC accounting principles applicable to State-owned enterprises. Such tax is payable to CNOOC which in turn would settle the tax liability with the relevant tax bureau. Following the Reorganisation, the Company became subject to enterprise income tax at the rate of 33% and the Company will settle its tax liability by itself with the respective tax bureaus.

The determination of current and deferred income tax was based on enacted tax rates.

An analysis of the Group's provision for tax is as follows:

	Group		
	Consolidated for the period from 25 December 2001 (date of establishment) to 31 December 2002 RMB'000	**Pro forma combined for the year ended 31 December 2002 RMB'000**	Pro forma combined for the year ended 31 December 2001 RMB'000
		(note 1)	(note 1)
Hong Kong profits tax:	**—**	**—**	—
Overseas income taxes:			
Current income taxes	**226**	**271**	46
Deferred income taxes	**—**	**—**	—
PRC corporate income tax:			
Current income taxes	**183,950**	**295,704**	153,973
Deferred income taxes *(note 26)*	**(94,001)**	**(134,001)**	(23,000)
Share of tax attributable to:			
Jointly-controlled entities	**13,196**	**14,216**	8,087
	103,371	**176,190**	139,106

13. Net Profit From Ordinary Activities Attributable to Shareholders

The net profit from ordinary activities attributable to shareholders for the year ended 31 December 2002 dealt with in the financial statements of the Company is RMB207,558,000 (2001: Nil).

14. Proposed Final Dividend/profit Distributions

	Consolidated for the period from 25 December 2001 (date of establishment) to 31 December 2002 RMB'000	**Pro forma combined for the year ended 31 December 2002 RMB'000**	Pro forma combined for the year ended 31 December 2001 RMB'000
		(note 1)	(note 1)
Profit distributions	**—**	**344,921**	273,078
Proposed final — RMB1.31 cents (2001: Nil) per ordinary share	**52,339**	**52,339**	—
	52,339	**397,260**	273,078

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Cash dividends to shareholders in Hong Kong will be paid in Hong Kong dollars.

Following the establishment of the Company, under the PRC Company Law and the Company's articles of association, net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowance has been made for the following:

(i) making up prior years' cumulative losses, if any;

(ii) allocations to the statutory common reserve fund of at least 10% of after-tax profit, until the fund aggregates 50% of the Company's registered capital. For the purpose of calculating the transfer to reserves, the profit after tax shall be the amount determined under PRC accounting principles. The transfer to this reserve must be made before any distribution of dividends to shareholders.

The statutory common reserve can be used to offset previous years' losses, if any, and part of the statutory common reserve can be capitalised as the Company's share capital provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the registered capital of the Company;

(iii) allocations of 5% to 10% of after-tax profit, as determined under PRC accounting principles and regulations, to the Company's statutory public welfare fund, which will be established for the purpose of providing with the Company's employees collective welfare benefits such as the construction of dormitories, canteens and other staff welfare facilities. The fund forms part of the shareholders' equity as only individual employees can use these facilities, while the title of such facilities is held by the Company. The transfer to this fund must be made before any distribution of dividends to shareholders; and

(iv) allocations to the discretionary common reserve if approved by the shareholders. Discretionary common reserve can be used to offset prior years' losses, if any, and capitalised as the Company's share capital.

In accordance with the articles of association of the Company, the net profit after tax of the Company for the purpose of profit distribution will be deemed to be the lesser of (i) the net profit determined in accordance with the PRC accounting principles and financial regulations and (ii) the net profit determined in accordance with Hong Kong accounting standards.

NOTES TO FINANCIAL STATEMENTS

31 December 2002

15. Earnings Per Share

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year ended 31 December 2002 of approximately RMB209,465,000 and the weighted average of approximately 1,972,321,075 shares deemed to have been in issue during the year.

The weighted average number of shares used to calculate the current year's basic earnings per share includes 300 million shares (the Company had registered capital of RMB300 million upon establishment on 25 December 2001 and pursuant to the Reorganisation, the entire registered capital was converted to share capital) deemed to have been in issue from the date of establishment of the Company to the Reorganisation date on 30 April 2002 and the issued share capital of 2,600 million shares issued immediately after Reorganisation but prior to the new issue of shares by way of placing and public offering as further described in note 29 to the financial statements. The weighted average number of shares used in the current year's basic earnings per share calculation also includes the 1,395,320,000 new shares issued by way of placing and public offering in connection with the public listing of the Company's shares on 20 November 2002.

The calculation of pro forma basic earnings per share is based on the pro forma net profit from ordinary activities attributable to shareholders for the year ended 31 December 2002 of RMB354,386,000 (2001: RMB273,078,000) and the pro forma weighted average number of shares in issue of approximately 2,760,557,370 (2001: 2,600,000,000 shares) deemed to have been in issue during the year.

Diluted earnings per share for the years ended 31 December 2002 and 2001 have not been calculated because no diluting events existed during these years.

16. Property, Plant and Equipment

Group (Consolidated)

	Tankers and vessels RMB'000	Drilling equipment RMB'000	Machine and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
Acquisition pursuant to the Reorganisation	3,938,474	5,182,279	924,652	42,518	134,444	10,222,367
Additions	—	—	53,513	4,514	563,258	621,285
Disposals/write offs	(39,693)	—	(30,886)	—	—	(70,579)
Transfers from construction in progress	53,715	28,843	58,858	—	(141,416)	—
At 31 December 2002	**3,952,496**	**5,211,122**	**1,006,137**	**47,032**	**556,286**	**10,773,073**
Accumulated depreciation:						
Acquisition pursuant to the Reorganisation	2,188,901	3,309,540	572,792	18,395	—	6,089,628
Depreciation provided during the year	156,160	138,313	106,678	4,892	—	406,043
Disposals/write offs	(22,269)	—	(17,036)	—	—	(39,305)
At 31 December 2002	**2,322,792**	**3,447,853**	**662,434**	**23,287**	**—**	**6,456,366**
Net book value:						
At 31 December 2002	**1,629,704**	**1,763,269**	**343,703**	**23,745**	**556,286**	**4,316,707**

16. Property, Plant and Equipment continued

Group (Pro forma combined)

	Building RMB'000	Tankers and vessels RMB'000	Drilling equipment RMB'000	Machine and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost or valuation:							
As at 1 January 2002	116,523	3,070,856	3,529,027	922,682	42,518	121,052	7,802,658
Additions	—	408	33,646	72,795	4,514	652,129	763,492
Disposals/write offs	(116,523)	(40,062)	—	(62,614)	—	—	(219,199)
Transfers from construction in progress	—	127,326	28,843	60,726	—	(216,895)	—
Revaluation surplus	—	793,968	1,619,606	12,548	—	—	2,426,122
At 31 December 2002	**—**	**3,952,496**	**5,211,122**	**1,006,137**	**47,032**	**556,286**	**10,773,073**
Accumulated depreciation:							
As at 1 January 2002	30,871	1,770,933	2,287,962	632,545	31,402	—	4,753,713
Depreciation provided during the year	1,200	226,687	196,363	114,062	14,211	—	552,523
Disposals/write offs	(32,071)	(22,601)	—	(17,704)	—	—	(72,376)
Revaluation surplus	—	347,773	963,528	(66,469)	(22,326)	—	1,222,506
At 31 December 2002	**—**	**2,322,792**	**3,447,853**	**662,434**	**23,287**	**—**	**6,456,366**
Net book value:							
At 31 December 2002	**—**	**1,629,704**	**1,763,269**	**343,703**	**23,745**	**556,286**	**4,316,707**
At 31 December 2001	85,652	1,299,923	1,241,065	290,137	11,116	121,052	3,048,945

As part of the Reorganisation and pursuant to relevant PRC regulations, the property, plant and equipment acquired by the Company upon Reorganisation as at 30 April 2002 was revalued by China Consultant of Accounting and Financial Management Company Limited using the depreciated replacement cost approach and the revaluation increase in cost of RMB2,426 million and accumulated depreciation and impairment of RMB1,223 million was considered as part of the acquisition cost of property, plant and equipment upon Reorganisation and recorded in the Company's balance sheet as at 30 April 2002.

The additional depreciation arising from the revaluation surplus at 30 April 2002 upon Reorganisation is not tax deductible under the latest applicable tax regulations in the PRC, and the deferred tax liability of RMB357.3 million arising from the difference between the tax base and accounting base of the property, plant and equipment under revaluation has been recorded in the balance sheet of the Company as at the Reorganisation date. Thereafter, part of deferred tax liability of RMB23.8 million has been credited to the profit and loss account and the balance of deferred tax on revaluation surplus carried to 31 December 2002 was reduced to RMB333.5 million.

As of the date of these financial statements, drilling rigs, tankers and vessels with an aggregate cost amount and net book value of RMB5,034 million and RMB1,761 million, respectively, have yet to be completed the title re-registration procedures after Reorganisation. The Company is in the process of re-registration with relevant government authorities of the title of these rigs, tankers and vessels under its name.

NOTES TO FINANCIAL STATEMENTS
31 December 2002

16. Property, Plant and Equipment continued

Company

	Tankers and vessels RMB'000	Drilling equipment RMB'000	Machine and equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
Acquisition pursuant to the Reorganisation	3,938,474	5,182,279	923,809	42,518	134,444	10,221,524
Additions	—	—	52,419	4,514	563,258	620,191
Disposals/write offs	(39,693)	—	(30,886)	—	—	(70,579)
Transfers from construction in progress	53,715	28,843	58,858	—	(141,416)	—
At 31 December 2002	**3,952,496**	**5,211,122**	**1,004,200**	**47,032**	**556,286**	**10,771,136**
Accumulated depreciation:						
Acquisition pursuant to the Reorganisation	2,188,901	3,309,540	571,892	18,395	—	6,088,728
Depreciation provided during the year	156,160	138,313	106,526	4,892	—	405,891
Disposals/write offs	(22,269)	—	(17,036)	—	—	(39,305)
At 31 December 2002	**2,322,792**	**3,447,853**	**661,382**	**23,287**	**—**	**6,455,314**
Net book value:						
At 31 December 2002	**1,629,704**	**1,763,269**	**342,818**	**23,745**	**556,286**	**4,315,822**

17. Investment in a Subsidiary

	2002 RMB'000	2001 RMB'000
Unlisted shares, at cost	**2,712**	—

The Company has one subsidiary, the particulars of which are as follows:

Name	**Place of incorporation and operations**	**Nominal value of issued ordinary share capital**	**Percentage of equity directly attributable to the Company**	**Principal activities**
Lico International Inc	United States of America	US$100,000	100	Sales of logging equipment

18. Interests in Jointly-controlled Entities

	Group			**Company**	
	Consolidated 2002 RMB'000	Consolidated 2001 RMB'000	Pro forma combined 2001 RMB'000 (note 1)	**2002 RMB'000**	2001 RMB'000
Unlisted investment, at cost	**—**	—	—	**130,323**	—
Share of net assets	**131,438**	—	132,305	**—**	—
Due from jointly-controlled entities	**11,304**	—	61,617	**11,304**	—
Due to jointly-controlled entities	**(1,579)**	—	—	**(1,579)**	—
	141,163	—	193,922	**140,048**	—

Pursuant to the Reorganisation effective on 30 April 2002, the Company acquired the interest of jointly-controlled entities from CNOOC as described in the note 1 to the financial statements.

As of the date of these financial statements, equity interests in jointly-controlled entities with an aggregate cost amount of approximately RMB33,831,000 has yet to be completed the title re-registration procedures after Reorganisation. The Company is in the process of re-registration with relevant government authorities of the title of these equity interests under its name.

The amounts due from and the amounts due to jointly-controlled entities are unsecured, interest-free and have no fixed terms of repayment.

NOTES TO FINANCIAL STATEMENTS

31 December 2002

18. Interests in Jointly-controlled Entities continued

Particulars of the jointly-controlled entities at 31 December 2002 are as follows:

Name	Business structure	Place of incorporation and operations	Percentage of Ownership interest	Percentage of Voting power	Percentage of Profit sharing	Principal activities
China-France Bohai Geoservices Co., Ltd. ("China-France")	Corporate	Tianjin, PRC	50	50	50	Provision of logging services
China Nanhai-Magcobar Mud Corporation Ltd. ("Magcobar")	Corporate	Shenzhen, PRC	60*	60	60	Provision of drilling fluids services
CNOOC-OTIS Well Completion Services Ltd. ("CNOOC - OTIS")	Corporate	Tianjin, PRC	50	50	50	Provision of well completion services
China Petroleum Logging-Atlas Cooperation Service Company ("Logging - Atlas")	Corporate	Guangdong, PRC	50	50	50	Provision of logging services
China offshore Thales Geo Solutions (Tianjin) Company Ltd. ("China Offshore Thales")	Corporate	Tianjin, PRC	50	50	50	Provision of geophysical services
Tianjin Jinlong Petro-Chemical Company Ltd. ("Jinlong")	Corporate	Tianjin, PRC	50	50	50	Provision of drilling fluids services

* In the opinion of the directors, the Company does not have control over Magcobar's financial and operating decisions, and accordingly, the financial statements of Magcobar have not been incorporated into the Group's consolidated financial statements. The financial statements of Magcobar have been dealt with in the Group's consolidated financial statements under the equity accounting method.

19. Inventories

Inventories consist of materials and supplies.

20. Accounts Receivable

An aged analysis of accounts receivable as at the balance sheet date is as follows:

	Group			Company	
	Consolidated	Consolidated	Pro forma combined		
	2002	2001	2001	**2002**	2001
	RMB'000	RMB'000	RMB'000	**RMB'000**	RMB'000
			(note 1)		
Outstanding balances aged:					
Within one year	**523,674**	—	351,988	**524,230**	—
Within one to two years	**1,689**	—	392	**1,689**	—
Within two to three years	**40**	—	502	**40**	—
	525,403	—	352,882	**525,959**	—
Less: Provision for doubtful debts	**(530)**	—	(1,915)	**(530)**	—
	524,873	—	350,967	**525,429**	—

The general credit terms of the Group range from 30 to 90 days.

Included in the accounts receivable are the following amounts due from CNOOC Limited, its subsidiaries and associates (collectively known as "CNOOC Limited Group") and CNOOC, its subsidiaries and associates other than CNOOC Limited Group (collectively known as "CNOOC Group"), which are repayable on similar credit terms to those offered to independent third party customers:

	Group			Company	
	Consolidated	Consolidated	Pro forma combined		
	2002	2001	2001	**2002**	2001
	RMB'000	RMB'000	RMB'000	**RMB'000**	RMB'000
			(note 1)		
Due from CNOOC Group and CNOOC Limited Group	**156,818**	—	196,084	**156,818**	—

NOTES TO FINANCIAL STATEMENTS

31 December 2002

21. Due to the Ultimate Holding Company

The amount due to CNOOC mainly comprised distribution payable and income tax paid on behalf of the Group.

Pursuant to the Reorganisation effective on 30 April 2002, certain payable to CNOOC of RMB688 million was excluded from the assets and liabilities to be transferred to the Company. Accordingly, an equal amount due to CNOOC was excluded from the balance due to CNOOC after 30 April 2002. Further, certain payables to CNOOC as at 30 April 2002 of RMB600 million were restructured to be a long term payable to CNOOC as of 30 April 2002, and was reclassified from a short term payable to a long term payable (note 27) on that date.

The amount due to CNOOC at 31 December 2002 under current liabilities of the Group was unsecured, interest-free, and did not have fixed repayment terms.

22. Balances with Other CNOOC Group Companies

The balances with other CNOOC group companies at 31 December 2002 were unsecured, interest-free and did not have any fixed terms of repayment.

23. Cash and Cash Equivalents and Pledged Deposits

	Group			Company	
	Consolidated 2002 RMB'000	Consolidated 2001 RMB'000	Pro forma combined 2001 RMB'000 (note 1)	**2002 RMB'000**	2001 RMB'000
Cash and bank balances	**2,558,045**	300,000	688,118	**2,553,371**	300,000
Deposits with CNOOC Trust and Investment Company Limited ("CNOOC Trust Company")	**—**	—	4,150	**—**	—
Deposits with CNOOC Finance Company Limited ("CNOOC Finance Company")	**73,321**	—	—	**73,321**	—
Time deposits					
— Bank	**—**	—	257,466	**—**	—
— CNOOC Trust Company	**24,230**	—	70,260	**24,230**	—
Cash and balances with banks and financial institutions	**2,655,596**	300,000	1,019,994	**2,650,922**	300,000
Less: Pledged time deposits for letter of credit facilities	**(23,440)**	—	(148,870)	**(23,440)**	—
Cash and cash equivalents	**2,632,156**	300,000	871,124	**2,627,482**	300,000

24. Trade Payables and Other Payables

An aged analysis of trade and other payables as at the balance sheet date is as follows:

	Group			Company	
	Consolidated 2002 RMB'000	Consolidated 2001 RMB'000	Pro forma combined 2001 RMB'000	**2002 RMB'000**	2001 RMB'000
			(note 1)		
Outstanding balances aged:					
Within one year	**254,662**	—	364,173	**253,328**	—
Within one to two years	**20,034**	—	2,569	**20,034**	—
Within two to three years	**45**	—	381	**45**	—
Over three years	**—**	—	1,874	**—**	—
	274,741	—	368,997	**273,407**	—
Included in the trade and other payables are the following amounts due to CNOOC Group:					
Due to CNOOC Group	**—**	—	12,218	**—**	—

NOTES TO FINANCIAL STATEMENTS

31 December 2002

25. Interest-Bearing Bank and Other Loans

	Group		
	Consolidated 2002 RMB'000	Consolidated 2001 RMB'000	Pro forma combined 2001 RMB'000
			(note 1)
Bank loans, unsecured	—	—	95,000
Other loans, unsecured	—	—	100,000
	—	—	195,000
Bank loans repayable:			
Within one year	—	—	65,000
In the second year	—	—	30,000
	—	—	95,000
Other loans repayable within one year	—	—	100,000
Bank and other loans repayable within one year	—	—	165,000
Bank loans repayable in the second year	—	—	30,000

The annual interest rates of bank loans for the year ended 31 December 2001 ranged from 5.27% to 5.85%. Bank loans outstanding at 31 December 2001 were fully settled prior to 31 December 2002.

Other loans were granted by CNOOC and CNOOC Trust Company. The annual interest rates of other loans ranged from 5.27% to 5.85% for the year ended 31 December 2001. At 31 December 2001, part of the Group's other loans in the amount of RMB50 million was guaranteed by CNOOC. Other loans outstanding at 31 December 2001 were fully settled prior to 31 December 2002.

26. Deferred Tax Liability

The principal components of the provision for deferred tax are as follows:

	Group		
	Consolidated for the period from 25 December 2001 (date of establishment) to 31 December 2002 RMB'000	**Pro forma combined for the year ended 31 December 2002 RMB'000**	Pro forma combined for the year ended 31 December 2001 RMB'000
		(note 1)	(note 1)
Deferred tax movement:			
Balance at beginning of the year	**—**	**344,000**	367,000
Acquisition pursuant to the Reorganisation	**304,000**	**—**	—
Deferred tax on revaluation upon Reorganisation	**357,300**	**357,300**	—
Credit for the year (note 12)	**(94,001)**	**(134,001)**	(23,000)
	567,299	**567,299**	344,000

	Group			Company	
	Consolidated 2002 RMB'000	Consolidated 2001 RMB'000	Pro forma combined 2001 RMB'000	**2002 RMB'000**	2001 RMB'000
			(note 1)		
Deferred tax asset:					
Provision for staff bonus	**(37,781)**	—	—	**(37,781)**	—
Deferred tax liability:					
Accelerated depreciation	**271,600**	—	302,000	**271,600**	—
Deferral of revenue recognition	**—**	—	42,000	**—**	—
Revaluation surplus on Reorganisation	**333,480**	—	—	**333,480**	—
Net deferred tax liability	**567,299**	—	344,000	**567,299**	—

NOTES TO FINANCIAL STATEMENTS

31 December 2002

27. Long Term Payable to the Ultimate Holding Company

The long term payable to CNOOC is unsecured, interest-free and repayable over three years on an annual equal instalment basis with repayments commencing from 1 May 2005.

28. Distributable Reserves

As at 31 December 2002, in accordance with the PRC Company Law, an amount of approximately RMB1,976 million standing to the credit of the Company's capital reserve account and an amount of approximately RMB31 million standing to the credit of the Company's statutory reserve funds (details of which are set forth in note 30 to the financial statements), as determined under the PRC accounting standards and regulations, were available for distribution by way of future capitalisation issue. In addition, the Company had retained profits of approximately RMB124 million available for distribution as dividends. Save as aforesaid, the Company did not have any reserves available for distribution to its shareholders at 31 December 2002.

29. Issued/share Capital

	2002 **RMB'000**	2001 RMB'000
Registered, issued and fully paid:		
Registered capital	—	300,000
2,460,468,000 State legal person shares of RMB1.00 each (2001: Nil)	**2,460,468**	—
1,534,852,000 H shares of RMB1.00 each (2001: Nil)	**1,534,852**	—
	3,995,320	300,000

The Company was established on 25 December 2001 with registered capital of RMB300,000,000, which was contributed in cash by CNOOC.

The Company does not have any share option scheme.

During the year, the following movements in share capital were recorded:

(a) As part of the Reorganisation of CNOOC in preparation for the listing of the Company's shares on the HKSE, the Company obtained an approval document dated 26 September 2002 and was restructured into a joint stock limited liability company. Pursuant to the Reorganisation which was effective on 30 April 2002, the Company acquired the Relevant Businesses and the Relevant Companies (note 1). In consideration of the above acquisition, the Company issued 2,600 million State legal person shares at par value of RMB1.00 each to CNOOC, and the Company's registered and paid-up capital became RMB2,600 million accordingly.

29. Issued/share Capital continued

(b) The Company's shares were listed on the HKSE on 20 November 2002 and 1,534,852,000 H shares, consisting of 1,395,320,000 new shares and 139,532,000 State legal person shares, respectively, with a par value of RMB1.00 each were issued to the public by way of placement and offer at HK$1.68 (equivalent to approximately RMB1.78) each.

A summary of the transactions from 25 December 2001 to 31 December 2002 with reference to the above movements of the Company's ordinary share capital is as follows:

	Number of shares in issue		Share capital			
	State legal person shares	H shares	State legal person shares RMB'000	H shares RMB'000	Total RMB'000	Registered capital RMB'000
25 December 2001 (date of establishment) and at 31 December 2001	—	—	—	—	—	300,000
Reorganisation (a)	2,600,000,000	—	2,600,000	—	2,600,000	(300,000)
Sales of State legal person shares by CNOOC and conversion into H shares (b)	(139,532,000)	139,532,000	(139,532)	139,532	—	—
Issue of H shares upon listing (b)	—	1,395,320,000	—	1,395,320	1,395,320	—
At 31 December 2002	**2,460,468,000**	**1,534,852,000**	**2,460,468**	**1,534,852**	**3,995,320**	**—**

30. Reserves

Company

	Capital reserve RMB'000	Statutory reserve funds RMB'000	Retained profits RMB'000	Total RMB'000
	(iii)			
Issue of shares upon Reorganisation	999,354	—	—	999,354
Profit for the period from 25 December 2001 (date of establishment of the Company) to 31 December 2002 *(note (i))*	—	—	207,558	207,558
Transfer to statutory reserve funds *(note (ii))*	—	31,420	(31,420)	—
Issue of H shares upon listing	1,092,165	—	—	1,092,165
Share issuing expenses	(115,709)	—	—	(115,709)
Proposed final 2002 dividend	—	—	(52,339)	(52,339)
As at 31 December 2002	**1,975,810**	**31,420**	**123,799**	**2,131,029**

Notes:

(i) The Company did not acquire the Relevant Businesses and the Relevant Companies as set out in note 1 to the financial statements until 30 April 2002. As such, there were no results of operations prior to 30 April 2002.

(ii) As detailed in note 14 to the financial statements, the Company is required to transfer a minimum percentage of after-tax profit, if any, to statutory common reserve fund and statutory public welfare fund. The Company transferred 10% and 5% of after-tax profit to the statutory common reserve fund and statutory public welfare fund, respectively, in 2002.

(iii) Capital reserve account can only be used to increase share capital.

NOTES TO FINANCIAL STATEMENTS

31 December 2002

31. Notes to Consolidated Cash Flow Statement

(a) Net Assets Acquired Upon Reorganisation

	Consolidated for the period from 25 December 2001 (date of establishment) to 31 December 2002 RMB'000	Pro forma combined for the year ended 31 December 2002 RMB'000 (note 1)	Pro forma combined for the year ended 31 December 2001 RMB'000 (note 1)
Net assets acquired:			
Property, plant and equipment, net	4,132,739	—	—
Interests in jointly-controlled entities	148,869	—	—
Inventories	159,403	—	—
Prepayments, deposits and other receivables	161,893	—	—
Accounts receivable	604,541	—	—
Due from other CNOOC group companies	9,284	—	—
Cash and bank balances	6,880	—	—
Due to the ultimate holding company	(22,547)	—	—
Trade payables and other payables	(384,662)	—	—
Salary and bonus payables	(115,227)	—	—
Due to other CNOOC group companies	(10,519)	—	—
Bank loans	(130,000)	—	—
Deferred tax liability	(661,300)	—	—
Long term payable to the ultimate holding company	(600,000)	—	—
	3,299,354	—	—
Satisfied by:			
Issue of State legal person shares	2,300,000	—	—
Capital reserve	999,354	—	—
	3,299,354	—	—

31. Notes to Consolidated Cash Flow Statement continued

(a) Net Assets Acquired Upon Reorganisation continued

An analysis of the net inflow of cash and cash equivalents in respect of the net assets acquired upon Reorganisation is as follows:

	Consolidated for the period from 25 December 2001 (date of establishment) to 31 December 2002 RMB'000	Pro forma combined for the year ended 31 December 2002 RMB'000	Pro forma combined for the year ended 31 December 2001 RMB'000
		(note 1)	(note 1)
Cash and bank balances acquired	6,880	—	—
Net cash inflow in respect of he net assets acquired upon Reorganisation	6,880	—	—

(b) Major non-cash Transaction

During 2001 and on the basis of presentation in note 1, the Company disposed of its oil reservoir business to China-France, one of its jointly-controlled entities, for a consideration of RMB91,057,000. Part of the consideration amounting to RMB34,519,000 was settled by increasing the Company's capital contributions to China-France of the same amount.

32. Entrusted Loans Receivable

On 2 November 2000, the Relevant Businesses (see note 1 for further details) entered into an entrusted loan agreement with CNOOC Engineering Company Ltd. ("CNOOC Engineering Company") and CNOOC Trust Company, both of which are related parties. According to the entrusted loan agreement, the Relevant Businesses placed deposits with CNOOC Trust Company of RMB70 million and entrusted CNOOC Trust Company to advance the same amount to CNOOC Engineering Company with a maturity date in November 2001. In November 2001, the Relevant Businesses extended the maturity date to May 2002.

Pursuant to the entrusted loan agreements, the Relevant Businesses were required to pay a commission to CNOOC Trust Company based on an annual rate of 0.1% of the amounts of the entrusted loans. The annual interest rate of the entrusted loans was 5.02%, which was charged to CNOOC Engineering Company. The interest expenses together with the loan principals were to be settled by CNOOC Engineering Company with CNOOC Trust Company upon maturity date. The above-mentioned entrusted loans were unsecured.

CNOOC Engineering Company made an early settlement of the above-mentioned entrusted loans and the related interest to the Relevant Businesses through CNOOC Trust Company in January 2002.

NOTES TO FINANCIAL STATEMENTS

31 December 2002

33. Operating Lease Arrangements

The Group and the Company leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

At 31 December 2002, the Group had following minimum lease payments under non-cancellable operating leases:

	Group			Company	
			Pro forma		
	Consolidated	Consolidated	combined		
	2002	2001	2001	**2002**	2001
	RMB'000	RMB'000	RMB'000	**RMB'000**	RMB'000
			(note 1)		
Within one year	**12,773**	—	5,159	**12,773**	—
In the second to fifth years, inclusive	**4,493**	—	27	**4,493**	—
	17,266	—	5,186	**17,266**	—

34. Capital Commitments

The Group and the Company had the following capital commitments, principally for fixed assets construction and purchases:

	Group			Company	
			Pro forma		
	Consolidated	Consolidated	combined		
	2002	2001	2001	**2002**	2001
	RMB'000	RMB'000	RMB'000	**RMB'000**	RMB'000
			(note 1)		
Contracted, but not provided for	**679,159**	—	136,756	**679,159**	—
Authorised, but not contracted for	**395,402**	—	—	**395,402**	—
	1,074,561	—	136,756	**1,074,561**	—

35. Contingent Liabilities

At the balance sheet date, neither the Group, nor the Company had any significant contingent liabilities.

36. Related Party Transactions

The Group is part of a larger group of companies under CNOOC and has extensive transactions and relationships with members of CNOOC. As such, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties. Related parties refer to corporations in which CNOOC is a shareholder and is able to exercise control and joint control or significant influence. The transactions were made on terms agreed between the parties.

In addition to the transactions and balances detailed elsewhere in these financial statements, the following is a summary of significant transactions carried out between the Group and (i) CNOOC Limited Group; (ii) CNOOC Group; and (iii) its jointly-controlled entities and associate:

	Consolidated for the period from 25 December 2001 (date of establishment) to 31 December 2002 RMB'000	**Pro forma combined for the year ended 31 December 2002 RMB'000**	Pro forma combined for the year ended 31 December 2001 RMB'000
		(note 1)	(note 1)
A. Included in revenue:			
Gross revenue earned from provision of services to the following related parties:			
a. CNOOC Limited Group			
Provision of drilling services	**311,263**	**480,744**	317,471
Provision of well services	**254,526**	**332,658**	325,160
Provision of marine support and transportation services	**233,295**	**299,736**	168,424
Provision of geophysical services	**131,775**	**153,136**	78,880
	930,859	**1,266,274**	889,935
b. CNOOC Limited Group as operator under production sharing contracts			
Provision of drilling services	**49,498**	**62,136**	180,383
Provision of well services	**107,476**	**194,649**	175,620
Provision of marine support and transportation services	**13,244**	**57,983**	46,147
Provision of geophysical services	**16,980**	**16,980**	1,485
	187,198	**331,748**	403,635

NOTES TO FINANCIAL STATEMENTS

31 December 2002

36. Related Party Transactions continued

	Consolidated for the period from 25 December 2001 (date of establishment) to 31 December 2002 RMB'000	Pro forma combined for the year ended 31 December 2002 RMB'000	Pro forma combined for the year ended 31 December 2001 RMB'000
		(note 1)	(note 1)
c. CNOOC Group			
Provision of drilling services	5,828	5,828	25,006
Provision of well services	30,991	30,991	58,990
Provision of marine support and transportation service	57,885	91,711	65,648
Provision of geophysical services	10,092	10,092	5,884
	104,796	138,622	155,528
d. Jointly-controlled entities and associate			
Provision of drilling services	2,449	2,449	2,685
Provision of well services	22,845	22,845	—
	25,294	25,294	2,685
B. Included in operating expenses:			
Services provided by the CNOOC Group:			
Labour services	33,459	50,278	52,681
Materials, utilities and other ancillary	50,876	66,670	67,717
Transportation services	6,315	9,500	9,268
Lease of office, warehouse, berths	6,658	7,796	5,501
Lease of equipment	1,061	1,420	2,862
Repair and maintenance services	22,871	27,724	60,998
Management services	4,262	4,375	2,788
	125,502	167,763	201,815
C. Included in interest income/expenses:			
Interest income earned from the CNOOC Group	836	1,861	4,446
Interest expenses paid to the CNOOC Group	2,776	4,520	6,381

36. Related Party Transactions *continued*

	Consolidated for the period from 25 December 2001 (date of establishment) to 31 December 2002 RMB'000	Pro forma combined for the year ended 31 December 2002 RMB'000 (note 1)	Pro forma combined for the year ended 31 December 2001 RMB'000 (note 1)
D. Transfer of property, plant and equipment and business:			
Purchases of property, plant and equipment from the CNOOC Group	**2,392**	**2,392**	200
Sale of property, plant and equipment to CNOOC Group	**14,000**	**98,553**	—
Sale of oil reservoir business to the Company's jointly-controlled entities	**—**	**—**	91,057
E. Deposits and loans:			
Deposits placed with CNOOC Trust Company at 31 December 2002 and 31 December 2001	**24,230**	**24,230**	74,410
Deposits placed with CNOOC Finance Company at 31 December 2002 and 31 December 2001	**73,321**	**73,321**	—
Advance made by CNOOC during the year and repaid prior to 31 December 2002	**238,000**	**238,000**	—
Entrusted loans advanced to CNOOC Engineering Company at 31 December 2001	**—**	**—**	70,000
Short term loans advanced from CNOOC and CNOOC Trust Company at 31 December 2001	**—**	**—**	100,000

The Company and the above related parties are within the group of CNOOC and are under common control by the same ultimate holding company.

In connection with the Reorganisation, the Company entered into several agreements with the CNOOC Group which govern employee benefits arrangements, the provision of materials, utilities and ancillary services, the provision of technical services, the lease of properties and various other commercial arrangements.

During the year, all pension payments relating to the supplementary pension benefits of approximately RMB49 million (RMB64 million on a pro forma combined basis for the year ended 31 December 2001) were borne by CNOOC (note 11).

NOTES TO FINANCIAL STATEMENTS

31 December 2002

36. Related Party Transactions continued

During the year, the Group occupied certain properties owned by CNOOC at no consideration. The Company signed various property lease agreements in September 2002 with CNOOC Group to lease the aforesaid properties together with other properties for a term of one year. Pursuant to these lease agreements, the Company is required to pay an aggregate annual rental of RMB7.6 million effective from 1 August 2002 to CNOOC Group.

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the usual course of business.

37. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the board of directors on 2 April 2003.