

Chairman's Statement

To our shareholders,

2003 represented the first full fiscal year since our listing on the Main Board of the Hong Kong Stock Exchange. It is my pleasure to announce that COSL has increased shareholders' value by delivering a promising business performance. By embracing consistent high standards in operations and management, and transparent corporate governance, we have gained the additional confidence of the capital markets. Our Quality, Hygiene, Safety and Environment (QHSE) program has also provided a quality living and work environment to our employees as well as to the community within which we operate. We have been able to operate reasonably efficiently during 2003.



Fu Chengyu
Chairman

Total turnover for the year amounted to RMB3,062.3 million, representing an increase of 12.3% over 2002. Net profit surged 31.5% from RMB354.4 million in 2002 to reach RMB465.9 million in 2003. The Board of Directors has recommended a final dividend of RMB2.27 cents per share for the year ended December 31, 2003. Plus our special interim dividend, our 2003 dividend reached approximately 30% of our net profit.

With our business track record, COSL (HK Stock Code: 2883) is gradually gaining recognition from the capital markets. Our share price grew by 45% in 2003. In February 2003, COSL was included in the 200 constituent stocks in the Hang Seng Composite Index. In addition, COSL was elected as one of 2003's "10 Best Small Companies" in Asia and 2003's "10 Most Accessible Management" in Asia by *Euro Money*, as well as 2003's "10 Best Managed Companies" by *Finance Asia*.

Throughout the years, the robust economic growth in the PRC has stimulated the demand for oil and gas. As a result, oilfields offshore China have played an increasingly important role in providing oil and natural gas to the PRC market. Offshore China represents a huge potential and I have put

much emphasis on our services to offshore oil and gas exploration and development in China. I am also aware of the enormous responsibilities the management has to bear on their shoulders. CNOOC Limited has already announced that its capital expenditure for exploration in 2004 will double that of 2003 to reach between US\$270 million to US\$290 million, while its capital expenditure for development in 2004 will increase between 52% to 62% to reach between US\$1.6 billion to US\$1.7 billion. This is a clear indication that the senior management of CNOOC Limited are highly confident of the potentials of offshore oil and gas exploration and development in China.

According to International Energy Agency's statistics, China's daily oil consumption in 2003 reached 5.76 million barrels and exceeded Japan to become the world's second largest country for oil consumption. Total import by China of crude oil in 2003 increased by 31.3% over 2002 to reach 91.12 million tons, accounting for approximately 35% of nationwide oil consumption. Strong market demand drives oil companies in the PRC to seek oil and gas resources overseas. As the international price level for crude oil remains relatively high and E&P companies increase their

capital expenditure in exploration, development and production, oilfield service industry gradually recovered from the relatively low level of activities in 2002. COSL will maintain its leading position in the PRC market while further extending its reach to overseas markets. In its overseas drive, COSL will focus on developing key markets such as Southeast Asia and Caspian Sea. With Mr. Alan Good's team joining us, COSL is confident of its further development in the international market.

At present, COSL is the only listed integrated oilfield services provider in China. COSL enjoys a competitive edge in terms of market penetration, scope of services and customer relationships in the offshore China market. Aware of the increasing market competition, COSL will endeavor to maintain its leading position by developing new competitive strengths. To meet the robust demand in the PRC, COSL is increasing its capital expenditures and upgrading its equipment. To fulfill the growing demand for drilling services offshore China, COSL has decided to bring back the Bohai IX rig from Nigeria as well as to lease a 300-feet foreign drilling rig. As at the end of 2003, COSL operated a total of 13 drilling rigs, among which 12 drilling rigs operate offshore China. In

addition, COSL added five new AHTS and standby vessels and acquired two logging-while-drilling (LWD) and Ontrack measuring-while-drilling (MWD) logging tools. To ensure our market leadership, we will continue our capital expenditures in 2004, with part of the proceeds from our 2002 share offering to further grow our company. We have signed construction contract for a new 400 feet jack up rig in the first quarter in 2004. In addition, COSL is building 11 AHTS vessels and standby vessels and one integrated investigation vessel. We are also upgrading our equipment for seismic data collection and processing. All of these new technical capabilities will contribute to COSL's continuous growth.

Needless to say, simple enhancement in equipment and capabilities alone cannot ensure our sustainable growth. Therefore, we continue to strive for improvement in our management and innovation in our operations. Professional management and technical innovation have always been the two main engines of our development. The restructuring and listing of COSL are the results and first step of our never-ending pursuit of better corporate management and better operational efficiency. I am keenly aware that managerial innovation

is a perennial topic for both CNOOC Group and COSL. Last October, I was appointed President of CNOOC Group and Chairman and CEO of CNOOC Limited. In November, I resigned from the position of CEO of COSL, and the COSL Board of Directors appointed Mr. Yuan Guangyu, then Chief Operating Officer of COSL, to take over my CEO role. Mr. Yuan is highly competent, with solid management experience and remarkable leadership capabilities. We have had in-depth discussions in regard to COSL's development, as well as how to continuously create value for our shareholders. We share the same visions on many issues, including how to strengthen our corporate governance and business culture, to increase our corporate transparency and to realise the best value for our shareholders. I believe, Mr. Yuan is the ideal candidate for bringing valuable managerial innovations and technical capabilities to COSL. I am confident that Mr. Yuan will lead COSL to further success.

I would like to take this opportunity to thank our shareholders for your continued confidence and support, as well as Mr. Yang Yexin, our former Executive Director, for his tremendous contribution to the successful listing and operations of COSL. In October 2003, he resigned as an Executive Director to take on a new appointment. Last but not least, I have to thank our competent and dedicated employees for their magnificent work in the past year. They are indeed the most valuable assets of COSL.

Fu Chengyu
Chairman

March 23, 2004