

CEO's Report

Dear Shareholders,

COSL achieved solid operating results in 2003. As the CEO of COSL, I am pleased to report our achievements in the past year and introduce to you our future development plans.

Continued growth and increased profitability

Benefiting from the robust economic development in China and the strong growth in exploration and production offshore China, COSL's turnover in 2003 reached RMB3,062.3 million, an increase of 12.3% over 2002. Operating profit was RMB549.8 million and net profit was RMB465.9 million, representing increases of 13.8% and 31.5%, respectively, compared to 2002. The operating profit margin and the net profit margin reached historical highs of 18.0% and 15.2%, respectively. In particular, drilling services and geophysical services recorded encouraging results in 2003. Drilling services experienced a 20.5% growth, primarily attributable to increased drilling activities and higher day rates we charged. Geophysical services grew by 22.8%, on top of the 25.6% growth in 2002. We managed to achieve this growth in geophysical services largely because we continued to capture opportunities in the domestic 2D seismic market and to further develop our domestic 3D seismic business. With newly-built vessels in service, our marine support and transportation

business realized a 4.9% growth. For well services, during the first half of 2003, we faced increased competition and pricing pressure, but during the second half, we responded to market requirements quickly and were able to utilize our Integrated Project Management (IPM) program to meet the needs of our customers. By the end of the year, well services contributed RMB672.5 million to our turnover in 2003, very much matching RMB671.6 million in 2002.

As of the end of 2003, COSL's total assets grew by 3.4% to RMB8,231.0 million. Shareholders' equity grew by 5.9% to RMB6,545.1 million. The debt-to-assets ratio was a modest 20.5%, which fell by 2% compared to 2002.

COSL achieved its operational goals during its first full year of operation since its restructuring and listing in November 2002. With double-digit growth in both turnover and profit, we have fulfilled our promise to our shareholders.

Exploiting our strengths in new markets, a strategy in our business development

In 2003, we worked hard to maintain our dominant position in the offshore China market and continue to enhance our competitive strengths. The following are selected highlights of our business development in 2003:

- We were able to further market our IPM capabilities. Our IPM program not only provides our customers with a one-stop shop opportunity, but also works to require further service integration across our business segments. It forces us to integrate our core professional strengths and to deploy our internal and external resources efficiently and to make them available for sharing across segments. As a result, we increased our turnover by serving our customers better. For example, we were awarded a bundling service contract in 2003 to service development wells in the Kerr-McGee CFD11-1/2 block and also to perform well completion for the BZ25-1 development well. In 2003, turnover generated from our IPM program amounted to RMB437.0 million, contributing 14% to our total turnover, 5% higher than its 9% turnover contribution in 2002.
- We actively seized market opportunities to grow our business. At present, oilfield services to production projects are experiencing rapid growth. Convinced by continuous growth in a number of offshore oilfields, COSL's management believes well workover will be one of our fastest growing businesses. We also expect our well

workover business to bring other well services required by production fields. As such, we worked hard to enhance our well workover capability and technical support. For example, we earned a good mention and gained market recognition through our well workover pump service turnkey contracts. Through our agreement with ConocoPhillips to provide well workover services to its Penglai 19-3A block, we were also able to secure opportunities to provide further well workover services, including equipment manufacturing, installation, maintenance and operation.

- We increased our presence in the overseas markets. Turnover generated from our overseas activities contributed approximately 10% to our total turnover. We are determined to become an international player in the oilfield services market. After Bohai IV provided services in Indonesia for over a year, it again was awarded another contract in an open bid in Indonesia. It is now evident that we have reinforced our presence in the Indonesian market. We are hoping to use this presence in Indonesia to offer other services there and to increase our market share and profitability.

Meanwhile, we have hired a number of experienced overseas professionals to join our management team. One of them is Mr. Alan Good, who was appointed Vice President for our overseas market development and management.

Enhancing our equipment and technical capability as the key to sustainable growth

Equipment and technical capabilities are

indispensable to an oilfield services company. In 2003, we used part of the proceeds from our global offering to improve our hardware. In addition to commissioning five newly-built AHTS and standby vessels into our marine support fleet, we launched our construction project to build a new jack-up rig with the ability to drill in water depths of up to 400 feet. In an effort to alleviate the current shortage of jack-up rigs in the domestic market, we dry-leased a foreign drilling rig in 2003 to



Yuan Guangyu
CEO

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perform drilling services in the Bohai Bay area. We also procured logging-while-drilling (LWD) and Ontrack measuring-while-drilling (MWD) logging tools to increase our capability in high-end well services business. These capital expenditure projects played and will continue to play an important role in COSL's technical competitiveness and its overall business growth.

We have strengthened our research and development capabilities by developing in-house an enhanced logging and interpretive system (ELIS) and a low-temperature cementing system. We intend to further improve our equipment and technology that are important to our overall competitiveness, such as those used for high-temperature mud salt level control, shallow water cementing and data transformation services.

Always put people first when it comes to health, safety and environment

At COSL, we value employees' health, safety and overall environment, which is also the essence of our Quality, Hygiene, Safety and Environment (QHSE) program. As such, we have put much emphasis on ISM certification as part of our QHSE program in 2003. As a result of our hard work, we have successfully obtained an

ISM certification as well as the certification from China Maritime Administration. The outbreak of SARS in the first half of 2003 challenged our contingency system and adaptability. In the end, however, we did not record a single case of infection and our business operated smoothly.

In 2003, our OSHA occupation incident rate was 0.22, exhibiting a reasonably safe working environment.

Thoughts on 2004

Under the leadership of Mr. Fu Chengyu, our Chairman and former CEO, we achieved encouraging results in 2003. In November 2003, Mr. Fu took up a new post and resigned from his position as CEO while retaining his post as the Chairman of our Board of Directors. It is my honor to be appointed CEO by the Board of Directors. With over 20 years of experience in the oil industry, I am confident of my experience and competence as well as COSL's prominent management team and immense development potential. Looking ahead into 2004, COSL management and I will continue to embrace the corporate mission of "Strive for the Best" and create the best value for our shareholders. With the rapid development of the Chinese economy and the increasing demand for resources in the PRC markets, we believe the exploration and development activities offshore China will remain vigorous. The

international market for oilfield services should also cater to COSL's future development. Our strategy is to focus on technology, cost effectiveness, integration and overseas expansion. We are well-prepared in capturing the opportunities ahead and further develop our business.

Lastly, I would like to thank all our employees for their hard work and team spirit. I would also like to thank our shareholders for your trust in COSL. We will work harder to deliver better operating results to our shareholders.

Yuan Guangyu
Chief Executive Officer

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