CHINA OILFIELD SERVICES LIMITED
中海油田服務股份有限公司

COSL

2004年中報
INTERIM REPORT

FINANCIAL HIGHLIGHTS

- Turnover increased 25.1% to RMB1,796.7 million
- Profit from operations improved 12.5% to RMB423.7 million
- Profit attributable to shareholders surged 38.6% to 453.1 million

CONTENTS

CHAIRMAN'S STATEMENT

Dear Shareholders,

We achieved promising results in the first half of 2004. Our turnover, profit from operations and net profit grew by 25.1%, 12.5% and 38.6%, to RMB1,797 million, RMB424 million and RMB453 million, respectively, compared to the same period of 2003. All four of our business segments achieved substantial growth, with turnover from well services, drilling services and marine support and transportation services recording over 20% increases.

A robust growth in exploration and development activities offshore China, together with the enhancement of our capacity, enabled us to deliver a set of strong results. In order to keep up with the large increase in exploration and development (E&P) investments offshore China, in the second half of 2003 we moved Bohai 9 to return to China and leased a Jack-up rig for additional drilling support. These adjustments led to an increase of 543 rig operating days compared to the same period of 2003, to a record high of 2,300 total operating days. Average utilization rate reached 100%.

With respect to well services, we acquired two sets of LWD tools and leased two sets of formation testing tools with a view to increasing our competitiveness in the directional drilling and exploration drilling markets, and to boost our market share in these areas. Compared to the same period of 2003, turnover from well services increased by approximately RMB126 million, or 46.9%, from RMB268.4 million to RMB394.3 million.

Our vessel construction program for marine support and transportation contributed to our expansion in this segment. In the first half of 2004, four more newly built vessels commenced operation. We intend to add another five to seven vessels to our fleet, which we believe should set a solid foundation for this segment's future growth. In the meanwhile, we also leased two marine support vessels to meet market demand. Total operating days for our marine support vessels increased by 13% in the first half of 2004. Turnover from this segment increased by 20.6%, while average utilization rate stood high at 98.9%.

While operating capacity for geophysical services remained unchanged, we managed to achieve a 2.5% growth in this segment. Moreover, our operating profit margin for this segment achieved a very encouraging 22% increase, mainly due to a rise in 3D activity and increased operational efficiency of our fleet.

Our net profit grew by 38.6% in the first half of 2004 compared to the 12.5% increase in our operating profit. The main reason for the different growth rates was that we were again recognized as an advanced technology enterprise for tax purposes.

CHAIRMAN'S STATEMENT

As a result, our income tax rate was reduced from 33% to 15% , and , we received a RMB129 million tax refund, which we applied to our tax expenses, and accordingly, our net profit in the first half of 2004. In light of our good operating results, sufficient cash holdings and for long term capital investment plans , our Board of Directors has recommended a special interim dividend of RMB2.29 cent per share, subject to the approval of our shareholders in the extraordinary general meeting scheduled for October 28, 2004.

COSL's business strategies include the maintenance of high level capital investments, expansion of operating capacity and enhancement of our technical competitiveness to accommodate the continuous growth in oil & gas exploration and development activities offshore China. Over the past two years, the growth of our business owed much to our successful implementation of these strategies. As the global economy recovers , demand for natural resources in developing countries such as China and India is also high. Global oil and refinery products are no longer in a surplus. Furthermore, political unrest in Iraq and a series of terrorist attacks in major OPEC countries has resulted in high oil prices. In light of the high oil prices, we expect that oil and related industries will be stepping towards a new horizon. We will strive to take full advantage of this rising market condition to develop our business. In doing so, we will keep our capital investments at a reasonably high level in order to sustain our leading position in the offshore China market. Our key focus on market development will be to increase our market share in the Southeast Asian market, and to enter other markets with development potentials .

Our operating expenses increased by 31% in the first half of 2004. In a close-up analysis, the larger increase in expenses than that in turnover can be attributable to the substantial increase in raw material prices and the leasing of heavy-duty equipment. However, the macroeconomic control implemented by the Chinese government seems to have taken effect, cooling down certain overheated raw material prices. At the same time, we will strive to maintain effective cost control on raw material consumption. I believe we will be able to control expenses at a reasonable level. Although our operating lease surged by 86% in the first half of 2004, the actual amount was a modest RMB96 million. The leasing of heavy-duty and high tech equipment is of major significance to our development. Firstly, these equipment enable us to satisfy our customers' drilling needs and technical requirements, which helps us increase market share and revenues. Secondly, this move also helps us minimize uncertain risks related to direct investments in heavy-duty equipment. Thirdly, we can save our resources for higher yield investment. Lastly, leasing rather than purchasing heavy-duty equipment affords us flexibility for prompt equipment modifications, which in turn would put us in a better position in the market. From a cash flow perspective, operating leases would lead to an increase in expenses and cash outflow. However, if we are able to capture the best of what leasing activities have to offer, it would certainly bring in new energy and spirits to our expanding company.

Consistent with our business expansion strategy, we have been actively pursuing capital expenditure opportunities. During the first half of 2004, we had total capital expenditures of RMB668 million. RMB189 million went to drilling services for the construction of a 400-feet jackup rig, which is expected to commence operations in 2006. RMB266 million went to marine support and transportation services, including the construction of four new vessels. We expect to put between five to seven new marine support vessels into full operation later this year. In July 2004, we invested RMB273 million (USD33 million) to purchase a second hand jackup rig. The rig will begin operation in Northern South China Sea in October 2004.

While we strive to maintain strong business growth , we have also been placing much emphasis on enhancing production safety. We maintained a promising record in production safety during the first half of 2004. According to the Occupational Health and Safety Assessment Series, our occupational incident rate for the period was 0.25.

We have taken one more step forward in the international capital markets. On March 26, 2004, our shares commenced trading in the United States by means of American Depository Receipts. The ticker symbol is CHOLY.

At our shareholders meeting earlier this year, Mr. Wu Mengfei and Mr. Jiang Xiaoming were elected as our Executive Director and Independent Non-Executive Director, respectively. The resignation of Mr. Li Wenxiang, one of our directors, was also accepted at the meeting. I wish to take this opportunity to thank Mr. Li Wenxiang once again for his dedicated services.

As exploration and development activities in the offshore China continue their strong runs, we expect all of our business segments to gain momentum. I would like to express gratitude to our employees for their hard work, and also to our shareholders, who have been giving us support and encouragement during the past years.

Fu Chengyu
Chairman

Hong Kong, August 24, 2004

MANAGEMENT DISCUSSION & ANALYSIS

BUSINESS REVIEW

Drilling Services

We drilled a total of 126 wells in the first half of 2004, an increase of 29 wells over that of the same period of 2003. 94 of the wells were drilled in the Bohai Bay area, 21 were drilled in South China Sea and 11 were drilled offshore Indonesia. Of the wells drilled, 93 were development wells, an increase of 36 wells compared to 57 wells during the same period of 2003. 33 of the wells drilled were exploration wells, a decrease of seven wells compared to 40 wells during the same period of 2003.

As of June 30, 2004, we operated 13 drilling rigs (including one newly leased drilling rig). Eight of the rigs operated in the Bohai Bay area, two operated in Western South China Sea, two performed assignments in Eastern South China Sea and one was deployed offshore Indonesia.

Market demand for our drilling rigs remained strong in the first half of 2004. During this period, our drilling rigs operated for a total of 2,300 days, representing an increase of 543 days compared to the corresponding period last year. Operating days for our jack-up rigs increased by 339 days, while operating days for our semi-submersible rigs increased by 204 days compared to the same period of 2003. Average utilization rate rose to 100% in the first six months of 2004 from 93.8% in the first six months of 2003. Average day rate for our drilling rigs amounted to US$35,284/day in the first half of 2004, down 2.4% compared to the same period of 2003, and up 1.6% compared to the whole year of 2003. Day rate for our jack-up rigs averaged US$31,871/day, representing an increase of 1.0% compared to the same period of 2003 and an increase of 1.2% compared to the whole year of 2003. Average day rate for our semi-submersibles was US$46,249/day, representing a 16.1% decrease compared to the corresponding period in 2003 and a 7.7% decrease compared to the whole year of 2003. The decrease in average day rate of semi-submessibles was primarily because Nanhai 2 provided platform support for 159 operating days in the first half of 2004. The day rate normally charged for platform support services is approximately 60% of our standard drilling day rate.

Apart from drilling operations, our well workover services also recorded noticeable growth. We completed well workover jobs of 3,400 days/team in the first half of 2004, compared to 3,036 days/team we completed during the same period of 2003. Well workover services brought in revenues of RMB113 million in the first half of 2004, an increase of 98% compared to RMB57 million in the same period of 2003. Our development work for ConocoPhillips China generated additional profits of RMB26 million, while the project for Santa Fe Energy Resources of China contributed RMB20 million to our turnover.

In regard to the construction of a drilling rig that is capable of drilling in water depths of up to 400 feet, the commissioned shipyard is currently reviewing its design plans and preparing materials for the construction. In addition, in July 2004, we signed a contract with Singapore KS Tech Limited to purchase a second-hand jack-up drilling rig.

We completed nine assignments under our Integrated Project Management (IPM) program in the first half of 2004, five assignments more than that of the same period in 2003. These assignments involved a total contract amount of RMB430 million, compared to RMB201 million in the same period in 2003.

Well Services

Our well services achieved strong growth, benefiting again from the dynamic exploration and development activities in the offshore China market, and from the introduction of new technologies and tools into our logging, directional drilling and cementing assignments. Turnover from well services in the first half of 2004 amounted to RMB394.3 million, an increase of RMB125.9 million, or 46.9%, compared to RMB268.4 million during the same period in 2003. However, the growth in turnover was slower than the increase in work volume, as we mainly provided well services in shallower parts of Bohai Bay during the first half of 2004.

Logging

We completed 294 logging trips in the first half of 2004, an increase of 126 trips, from 168 trips in the same period of 2003. Turnover from logging services increased by 21.8% to RMB95 million, from RMB78 million in the corresponding period in 2003.

Drilling Fluids

We provided drilling fluids services for a total of 170 wells in the first half of 2004, an increase of 91 wells, compared to 79 wells in the same period of 2003. Turnover generated from drilling fluids services climbed 15.5%, from RMB71 million in the first half of 2003, to RMB82 million in the first half of 2004.

Directional Drilling

In the first half of 2004, we performed directional drilling services on 109 wells, an increase of 67 wells compared to 42 wells in the same period of 2003. Turnover from directional drilling services in the first half of 2004 amounted to RMB81 million, compared to RMB48 million in the same period of 2003. Apart from an increase in work activity, this 68.8% increase was attributable to the higher rate we charged for the services of an extended-drill well, which was equipped with the logging-while drilling (LWD) technology.

Cementing

In the first half of 2004, we completed cementing services on 137 wells, representing an increase of 82 wells, compared to 55 wells in the first half of 2003. Turnover generated from cementing services was RMB89 million, a solid 71.2% growth over RMB52 million in the same period of 2003. This increase was primarily attributable to a rise in cementing work volume in development wells. The Santa Fe and McGee production wells, which adopted our improved cement slurries system, also contributed to the increase.

Other Well Services

Other well services generated a turnover of RMB47 million in the first half of 2004, representing an increase

MANAGEMENT DISCUSSION & ANALYSIS

of RMB28 million compared to RMB19 million in the first half of 2003. This increase was primarily attributable to a higher volume of downhole service activities, which accounted for RMB24 million in the turnover increase. Income generated from our Data Totalization Services (DTS) was also higher than the same period in 2003.

Marine Support and Transportation Services

We added a total of four new vessels to our fleet in the respective months of January, March and April, 2004 with a view of satisfying the customer demand for our marine support vessels. As of June 30, 2004, we owned 62 marine support vessels of various types. We also owned five oil tankers as of the same date.

With the expansion of our fleet and a decrease in vessel repair days, total operating days increased from 9,257 days in the first half of 2003 to 10,495 days in the first half of 2004. Utilization rate of our marine support vessels averaged 98.9%, compared to 96.0% over the same period of 2003.

During the first half of 2004, our oil tankers transported a total of 605,894 tons of oil, representing an increase of 22,494 tons, or 3.9%, compared to 583,400 tons in the same period of 2003.

During the first half of 2004, our Nanhai 220 standby vessel performed services in Saudi Arabia.

Geophysical Services

Seismic Services

In the first half of 2004, we collected 1,381 km^2 and 19,589 km of 3D and 2D seismic data, respectively. We achieved a 9.5% growth in 3D seismic data collection activity compared to 1,261 km^2 in the same period of 2003. 2D seismic data collection fell by 12.9%, from 22,481 km in the same period of 2003. This decline primarily resulted from our decrease in operating days in North America.

We processed 6,628km of 2D seismic data and 744 km^2 of 3D data during the first half of 2004. 2D seismic data processing activities decreased by 1,891 km from 8,519 km during the same period of 2003. 3D seismic data processing recorded a decline of 313 km^2 from 1,057 km^2 during the same period of 2003, mainly due to a decrease in seismic data processing activities in the Bohai Bay area.

Survey Services

We own and operate a fleet of three marine geotech survey vessels. The vessels mainly provided survey services in the Bohai Bay, East China Sea and Eastern South China Sea in the first half of 2004. Turnover from these services totaled RMB39 million, representing a decrease of RMB16 million, or 29.1%, compared to RMB55 million in the same period of 2003. The decrease was mainly due to a decline in offshore and onshore survey activities in the first half of 2004.

Financial Review

Turnover

Turnover for the first half of 2004 was RMB1,796.7 million, an increase of RMB360.7 million, or 25.1%, over that of the corresponding period of 2003. The increase in turnover was attributable to a considerable increase in turnover from drilling services and well services, and a moderate increase in turnover from marine support and transportation services and geophysical services.

Turnover from drilling services increased by RMB166.3 million, or 26.3%, to RMB798.4 million in the first half of 2004, compared to RMB632.1 million in the same period of 2003. This increase was primarily due to a substantial increase in drilling activity we conducted, the addition of a jack-up rig to our fleet in the first half of 2004, as well as the high utilization rate of our semi-submersibles. There was also an increase in our well workover services during the first half of 2004.

Turnover from well services amounted to RMB394.3 million in the first half of 2004, an increase of RMB125.9 million, or 46.9%, over turnover of RMB268.4 million in the first half of 2003. Turnover from this segment of business was rather significant, owing largely to a substantial increase in well services activities we performed in the first half of 2004. We were also able to charge higher prices in certain logging, directional drilling and cementing assignments by using latest technologies and tools.

Turnover from marine support and transportation services increased by 20.6%, from RMB302.9 million in the first half of 2003 to RMB365.4 million in the first half of 2004. This RMB62.5 million increase which primarily resulted from an increase of 1,238 total operating days following the deployment of our newly build marine support vessels.

In the first half of 2004, turnover from geophysical services was RMB238.6 million, representing an increase of RMB5.9 million, or 2.5%, compared to RMB232.7 million in the same period of 2003. The increase was mainly due to an increase in 3D data collection activities compared to the same period of 2003.

Other Revenues

For the first half of 2004, other revenues increased by RMB14.1 million to RMB16.5 million compared to the corresponding period of 2003, the majority of which came from insurance payouts.

Operating Expenses

For the six months ended June 30, 2004, total operating expenses were RMB1,389.5 million, representing an increase of RMB327.8 million, or 30.9%, compared to RMB1,061.7 million in the same period of 2003. This increase was mainly due to an increase in depreciation costs, employee compensation costs, repair and maintenance costs, costs related to consumption of supplies, materials, fuel, services and others, and operating lease expenses. Depreciation of property,

MANAGEMENT DISCUSSION & ANALYSIS

plant and equipment increased by RMB37.2 million, mainly due to the expansion of our fleet and the acquisition of related drilling equipment. Employee compensation costs increased by RMB55.3 million, primarily due to the addition of personnel and work hours driven by our higher business volume in the first half of 2004. Costs related to the consumption of supplies, materials, fuel, services and others were RMB163.3 million higher compared to the same period of 2003, largely due to an increase in material consumption driven by higher business volume. Metal price increases in the second half of 2003 also contributed to this increase. In the first half of 2004, we leased a drilling rig, a set of Reservoir Characterization Instrument (RCI) to boost precision level of our logging data, and certain marine support vessels to complement increased marine support and transportation activity. All these led to a RMB44.2 million increase in operating lease expenses compared to the same period of 2003. Other selling, general and administrative expenses increased by RMB17.1 million over the same period last year, mainly due to increased expenses related to the research and development of new technologies and employee traveling expenses.

In the first six months of 2004, drilling services operating expenses increased by RMB163.2 million, or 42.5%, to RMB547.1 million, from RMB383.9 million in the same period of 2003. Depreciation costs rose by RMB17.3 million, mainly due to modifications and acquisition of equipment for drilling rigs including Nanhai 1, Nanhai 5 and Nanhai 6. The addition of personnel for drilling services, which was driven by the higher volume of drilling activities, resulted in an increase of RMB29.2 million in employee compensation costs. Repair and maintenance costs increased by RMB5.4 million, primarily attributable to the maintenance and modifications performed for our drilling rigs, including Bohai 10 and Bohai 12. Costs related to the consumption of supplies, materials, fuel, services and others increased by RMB69.3 million, mainly due to an increase in business activities and metal price increases in the second half of 2003. Operating lease expenses increased by RMB28.9 million, mainly due to the leasing of a drilling rig. Increased business travel-related expenses led to a RMB12.1 million increase in other selling, general and administrative expenses.

In the first half of 2004, well services operating expenses for the first half of 2004 increased by RMB92.5 million, or 37.8%, to RMB337.4 million, from RMB244.9 million in the first half of 2003. This increase was due to the addition of personnel driven by overall higher volume of oilfield services activities, which led to an increase of RMB5.7 million in employee compensation costs. Costs related to the consumption of supplies, materials, fuel services and others increased by RMB70.5 million comparedto the same period of 2003, largely due to an increase in business activities and project subcontracting expenses. Operating lease expenses rose by RMB13.2 million, primarily attributable to the lease of a set of RCI to enhance precision of our logging data. Operating expenses for marine support and transportation services in the first six months of 2004 were RMB317.2 million, representing an increase of RMB71.0 million, or 28.8%, compared to RMB246.2 million during the same period of 2003. This increase was attributable to depreciation costs of RMB14.8 million for the addition of newly-build marine support vessels. The addition of personnel driven by our fleet expansion led to an increase of RMB12.8 million in employee compensation costs. Costs related to the consumption of supplies, materials, fuel, services and others increased by RMB24.2 million, which reflected the higher volume of business activities and the installation of new parts to some of our vessels during the first half of 2004. Operating lease expenses increased by RMB12.2 million compared to the same period of 2003, mainly because we leased two marine support vessels to accommodate high business volume.

Geophysical services operating expenses increased slightly by RMB1.2 million, or 0.6%, from RMB186.7 million in the first half of 2003 to RMB187.9 million in the first half of 2004. This increase was largely due to a RMB2.7 million rise in depreciation costs attributable to the new assets we acquired. Other selling, general and administrative expenses increased by RMB1.8 million, mainly attributable to fees payable to foreign agencies. The addition of personnel led to an increase of RMB7.6 million in employee compensation costs. Offsetting these increases, operating lease expenses fell by RMB10.0 million compared to the same period of 2003, mainly due to the increase in business activities in South China Sea, where our customers were responsible for the leasing of convoy vessels. As such, we incurred fewer costs related to the leasing of convoy vessels.

Profit from Operations

For the first half of 2004, profit from operations increased by RMB47.1 million, or 12.5%, to RMB423.7 million, from RMB376.6 million in the first half of 2003. Well services contributed RMB64.9 million to this increase, with operating profit increasing RMB40.1 million, or 161.6%, compared to the same period of 2003. Operating profit from geophysical services was RMB56.8 million, representing an increase of RMB10.1 million, or 21.6%, compared to the same period last year. Drilling services brought in operating profit of RMB253.7 million in the first half of 2004, representing an increase of RMB5.5 million, or 2.2%, over that of the same period of 2003. Operating profit from marine support and transportation services fell by RMB8.6 million, or 15.1%, to RMB48.3 million.

Financing Gain /Loss

We recorded a financing gain of RMB12.1 million in the first half of 2004, representing an increase of RMB6.8 million compared to RMB5.3 million in the same period of 2003. This increase was mainly because our interest income from cash deposits increased by RMB5.4 million and our exchange gain increased by RMB1.4 million.

MANAGEMENT DISCUSSION & ANALYSIS

Share of Profit from Jointly-Controlled Entities

Our share of profit from jointly-controlled entities increased by 47.8%, from RMB29.1 million in the first half of 2003 to RMB43.0 million in the first half of 2004. This RMB13.9 million increase consists of an increase of RMB4.2 million in profit from our interest in China Offshore Thales GeoSolutions (Tianjin) Company Limited, and a RMB9.7 million increase in profit from our interest in China Nanhai-Magcobar Mud Corporation Limited.

Profit before Tax

Our profit before tax increased by RMB67.8 million, or 16.5%, from RMB411.0 million in the first half of 2003 to RMB478.8 million in the first half of 2004, mainly due to the growth in our well services segment.

Taxes

In the first half of 2004, we paid taxes of RMB25.7 million, compared to RMB84.1 million in the same period in 2003. We enjoyed tax incentives granted to advanced technology enterprises in 2003. As a result, we received a tax refund of RMB128.9 million, which we applied towards our tax expenses for the first half of 2004. We applied a similar tax refund of RMB45.5 million to our tax expenses in the first half of 2003.

Profit after Tax

In the first half of 2004, our profit after tax increased by RMB126.3 million, or 38.6%, to RMB453.1 million, compared to RMB326.8 million over the same period in 2003. This increase was mainly attributable to a RMB83.4 million increase in profit after tax following the tax incentive we enjoyed for 2003, as well as from our operations in the first half of 2004.

Cash and Cash Equivalents

As at June 30, 2004, our cash and cash equivalent balances were RMB2,138.4 million, representing a decrease of RMB60.2 million over cash and cash equivalents of RMB2,198.6 million at December 31, 2003. During the first half of 2004, we invested RMB595.6 million in capital expenditures, purchased RMB130.0 million of government debt securities and distributed RMB90.7 million as a final dividend payment for 2003. A large part of the above cash outflows was offset by a cash inflow of RMB712.0 million from operating activities.

Distribution

For the first half of 2004, we propose to declare a special interim dividend of RMB91.5 million. We paid a special interim dividend of RMB49.0 million for the first half of 2003.

Outlook

We believe exploration and development activities will remain strong in the second half of 2004. We have full confidence in the outlook of offshore China and overseas markets, and we expect the utilization rates for our fleet to remain at a high level. We will continue to work hard to increase our operational efficiency and overall competitiveness through the use of advanced technologies and tools while controlling our operating expenses. We also aim to put more emphasis on creating a smooth and pleasant operating environment for our company through internal reform, development and stabilization.

SUPPLEMENTARY INFORMATION

Corporate Governance

The interim results have been reviewed by our Board's audit committee, which consists of our three independent non-executive Directors. The committee has reviewed the accounting principles and practices adopted by us and has discussed auditing, internal control and financial reporting matters.

Substantial Shareholders

As at June 30,2004, to the best knowledge of our Directors, the following persons were directly or indirectly interested in 5% or more of our issued share capital carrying rights to vote at our general meetings.

Name	Number of shares held
CNOOC	2,460,468,000
J.P. Morgan Chase & Co.	229,584,200
The Capital Group Companies, Inc.	169,808,925
Morgan Stanley	123,383,000
Wellington Management Company, LLP	87,261,000
Schroder Investment Management North America Limited	79,706,000

Apart from the foregoing, our Directors are not aware of any person or corporation that has an interest in 5% or more of our issued share capital as recorded in the register we keep pursuant to the Securities and Futures Ordinance.

Purchase, Disposal and Redemption of Our Listed Securities

Neither we nor any of our subsidiaries purchased, disposed of or redeemed any of our listed securities during the first six months of 2004.

Directors' and Supervisors' Interests in Contracts

None of our Directors and supervisors had a material interest, whether direct or indirect, in any contract that is significant to our business and to which we or any of our subsidiaries was a party during the six months ended June 30, 2004.

Directors' and Supervisors' Interests in Shares

As at June 30, 2004, none of our Directors, supervisors, or their associates had any personal, family, corporate or other interests in any of our equity or debt securities or any equity or debt securities of our associated corporations (as defined in the Securities and Futures Ordinance).

Directors' and Supervisors' Rights to Acquire Shares or Debentures

At no time during the first six months of 2004 were rights granted to any of our Directors, supervisors or their respective spouse or children under 18 years of age, whereby enable any such person to derive benefit by

SUPPLEMENTARY INFORMATION

acquiring our shares or debentures , or were any such rights exercised by any such person; or were we or any of our subsidiaries a party to any arrangement which would enable any of our Directors to acquire such rights in any other body corporate.

Special Interim Dividend

Our Board of Directors has proposed to declare and pay a special interim dividend of RMB2.29 cents per share for the six months ended June 30, 2004. The proposed special interim dividend for the period is subject to the approval of our shareholders at the extraordinary general meeting scheduled to be held on October 28, 2004.

Closure of Register of Members

Our Register of Members will be closed from September 28, 2004 (Tuesday) to October 28, 2004 (Thursday) (both dates inclusive). In order to qualify for the proposed special interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with our share registrar, Computer Share Hong Kong Investor Services Limited, Rooms1712-1716,17th Floor, Hope well Center, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on September 27, 2004 (Monday),

Code of Best Practice

In the opinion of our Board, we complied with the Code of Best Practice as set out in Appendix 14 of The Stock Exchange of Hong Kong Limited ("HKSE")'s Listing Rules throughout the accounting period covered by this interim report.

Code for Dealing In the Company's Securities by Directors

Having made spacific enquiry of all directors, the directors confirm that they complied, during the six months ended June 30 2004, with the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules.

Miscellaneous

The directors are of the opinion that there have been no material changes to the information published in the annual report for the year ended December 31, 2003, other than as disclosed in this Interim Report.

As at the date of this interim report , our Board comprises seven members: Messrs. Yuan Guangyu and Wu Mengfei as executive directors; Messrs. Fu Chengyu and Wang Zhongan as executive directors; and Messrs. Andrew Y.Yan, Gordon C.K. Kwong and Simon X. Jiang as independent non-executive directors.

On behalf of the Board

Fu Chengyu

Chairman

Hong Kong, August 24, 2004

INDEPENDENT AUDITOR'S REVIEW REPORT

To the Board of Directors
China Oilfield Services Limited

(Incorporated in the People's Republic of China with limited liability)

We have been instructed by the Company to review the interim financial report of the Company and its subsidiaries ("the Group") for the six months ended June 30, 2004 set out on pages 14 to 30.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice 25 "Interim financial reporting " issued by the Hong Kong Society of Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors. It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the Hong Kong Society of Accountants. A review consists principally of making enquiries of the Group's management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended June 30, 2004.

Ernst & Young
Certified Public Accountants

Hong Kong
August 24, 2004

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended June 30, 2004

	Notes	Six months ended June 30, 2004 (unaudited) RMB'000	2003 (unaudited) RMB'000
Turnover		1,796,699	1,435,998
Other revenues		16,490	2,360
Operating expenses			
Depreciation of property, plant and equipment		(331,983)	(294,809)
Employee compensation costs		(292,239)	(236,914)
Repair and maintenance costs		(48,378)	(39,771)
Consumption of supplies, materials, fuel, services and others		(517,195)	(353,867)
Operating lease expenses		(95,519)	(51,274)
Other selling, general and administrative expenses		(30,424)	(28,469)
Other operating expenses		(73,727)	(56,611)
Total operating expenses		(1,389,465)	(1,061,715)
Profit from operations		423,724	376,643
Finance costs			
Exchange gain/(losses), net		283	(1,139)
Interest expenses		-	(1)
Interest income		11,776	6,412
		12,059	5,272
Share of profits of jointly-controlled entities		43,006	29,061
Profit before tax		478,789	410,976
Tax	4	(25,656)	(84,136)
Net profit from ordinary activities attributable to shareholders		453,133	326,840
Proposed special interim dividend	5	91,493	49,142
Earnings per share- Basic	6	11.34 cents	8.18 cents

CONSOLIDATED BALANCE SHEET

June 30, 2004

	Notes	June 30, 2004 (unaudited) RMB'000	December 31, 2003 (audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment, net	7	5,087,627	4,826,823
Interests in jointly-controlled entities		148,064	148,907
		5,235,691	4,975,730
CURRENT ASSETS			
Inventories		220,260	200,759
Prepayments, deposits and other receivables		128,893	76,623
Accounts receivable, net	8	610,997	567,550
Due from the ultimate holding company	9	38,252	23,477
Due from other CNOOC group companies	10	2,037	4,884
Short term investments	11	313,477	180,427
Pledged time deposits		3,026	3,024
Cash and cash equivalents		2,138,409	2,198,581
		3,455,351	3,255,325
CURRENT LIABILITIES			
Trade payables and other payables	12	352,170	285,396
Salary and bonus payables		139,230	71,365
Tax payable		173,310	171,081
Due to other CNOOC group companies	10	22,016	17,110
Payable to the ultimate holding company	9	200,000	-
		886,726	544,952
NET CURRENT ASSETS		2,568,625	2,710,373
TOTAL ASSETS LESS CURRENT LIABILITIES		7,804,316	7,686,103
NON-CURRENT LIABILITIES			
Deferred tax liability		496,741	540,967
Long term payable to the ultimate holding company	9	400,000	600,000
		6,907,575	6,545,136
CAPITAL AND RESERVES			
Issued capital	14	3,995,320	3,995,320
Reserves		2,820,762	2,459,122
Proposed dividends		91,493	90,694
		6,907,575	6,545,136

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended June 30, 2004

Unaudited	Share capital RMB'000	Capital reserve RMB'000	Statutory reserve funds RMB'000	Retained profits RMB'000	Proposed dividend RMB'000	Total RMB'000
Balance at January 1, 2004	3,995,320	1,975,810	101,306	382,006	90,694	6,545,136
Profit for the period	-	-	-	453,133	-	453,133
Final dividend declared	-	-	-	-	(90,694)	(90,694)
Proposed special interim dividend		-		(91,493)	91,493	-
As at June 30, 2004	3,995,320	1,975,810	101,306	743,646	91,493	6,907,575

Unaudited	Share capital RMB'000	Capital reserve RMB'000	Statutory reserve funds RMB'000	Retained profits RMB'000	Proposed dividend RMB'000	Total RMB'000
Balance at January 1, 2003	3,995,320	1,975,810	31,420	125,706	52,339	6,180,595
Profit for the period	-	-	-	326,840	-	326,840
Final dividend declared	-	-	-	-	(52,339)	(52,339)
Proposed special interim dividend	-	-	-	(49,142)	49,142	-
As at June 30, 2003	3,995,320	1,975,810	31,420	403,404	49,142	6,455,096

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended June 30, 2004

	Six months ended June 30, 2004 (unaudited) RMB'000	2003 (unaudited) RMB'000
Net cash inflow from operating activities	712,024	452,176
Net cash outflow from investing activities	(159,905)	(2,113,234)
Net cash inflow/(outflow) before financing	552,119	(1,661,058)
Net cash outflow from financing activities	(90,694)	(52,339)
Net increase/(decrease) in cash and cash equivalents	461,425	(1,713,397)
Cash and cash equivalents at beginning of the period	792,614	2,607,926
Cash and cash equivalents at the end of the period	1,254,039	894,529
Analysis of balances of cash and cash equivalents		
Cash and bank balances with banks and financial institutions	2,141,435	2,543,171
Less: pledged time deposits for letter of credit facilities	(3,026)	(70,093)
Cash and cash equivalents for balance sheet	2,138,409	2,473,078
Less: non-pledged time deposits with original maturity of more than three months when acquired:		
- bank deposits	(988,952)	(1,578,565)
- CNOOC Finance Company	(208,895)	(150,000)
Add: short term investments with original maturity of less than three months when acquired	313,477	150,016
Cash and cash equivalents for cash flow statement	1,254,039	894,529

NOTES TO INTERIM FINANCIAL STATEMENTS

June 30, 2004

1. CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

The Group is principally engaged in the provision of oilfield services including drilling services, well services, marine support and transportation services, and geophysical services offshore China.

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.

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

As at June 30, 2004, the Company had direct or indirect interests in the following subsidiaries and jointly-controlled entities:

Name of entity	Place and date of incorporation/ establishment	Percentage of equity directly attributable to the Group	Nominal value of issued and paid up capital	Principal activities
Directly held subsidiaries:				
Lico International Inc	United States of America November 2, 1994	100%	US$100,000	Sales of logging equipment
China Oilfield Services (BVI) Limited	British Virgin Island March 19, 2003	100%	US$1	Investment holding
Indirectly held subsidiaries:				
COSL (Labuan) Company Limited	Malaysia April 11, 2003	100%	US$1	Provision of drilling services in Indonesia
COSL Services Southeast Asia (BVI) Limited	British Virgin Island May 29, 2003	100%	US$1	Investment holding

Name of entity	Place and date of incorporation/ establishment	Percentage of equity directly attributable to the Group	Nominal value of issued and paid up capital	Principal activities
Jointly-controlled entities:				
China-France Bohai Geoservices Co., Ltd. ("China-France")	Tianjin, PRC November 30, 1983	50%	US$11,650,000	Provision of logging services
China Nanhai-Magcobar Mud Corporation Ltd. ("Magcobar")	Shenzhen, PRC October 25, 1984	60%*	US$1,250,000	Provision of drilling fluids services
CNOOC-OTIS Well Completion Services Ltd.("CNOOC – OTIS")	Tianjin, PRC April 14, 1993	50%	US$2,000,000	Provision of well completion services
China Petroleum Logging-Atlas Cooperation Service Company ("Logging – Atlas")	Guangdong, PRC May 10, 1984	50%	US$2,000,000	Provision of logging services
China offshore Thales Geo Solutions (Tianjin) Company Ltd. ("China Offshore Thales")	Tianjin, PRC August 24, 1983	50%	US$1,720,000	Provision of geophysical services
Tianjin Jinlong Petro-Chemical Company Ltd. ("Jinlong")	Tianjin, PRC September 7, 1993	50%	RMB1,036,000	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.*

NOTES TO INTERIM FINANCIAL STATEMENTS

June 30, 2004

2. PRINCIPAL ACCOUNTING POLICIES

The accompanying interim financial statements are prepared under the historical cost convention, and in accordance with Statement of Standard Accounting Practice ("SSAP") No.25 "Interim Financial Reporting".

The principal accounting policies and basis of presentation used in the preparation of the interim financial statements are the same as those used in the annual audited financial statements for the year ended December 31, 2003.

3. 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 and well workovers;

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

(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.

3. SEGMENT INFORMATION (continued)

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.

An analysis of the Group's turnover and operating results by principal activity for the six months ended June 30, 2004 is as follows:

	Drilling 2004 (unaudited) RMB'000	Well services 2004 (unaudited) RMB'000	Marine support and transportation 2004 (unaudited) RMB'000	Geophysical 2004 (unaudited) RMB'000	Total 2004 (unaudited) RMB'000
TURNOVER					
Sales (including intersegment)	843,828	403,664	367,374	238,591	1,853,457
Less: Intersegment sales	45,471	9,336	1,951	-	56,758
Total sales to external customers	798,357	394,328	365,423	238,591	1,796,699
PROFIT FROM OPERATIONS					
Segment results	253,669	64,931	48,334	56,790	423,724

An analysis of the Group's turnover and operating results by principal activity for the six months ended June 30, 2003 is as follows:

	Drilling 2003 (unaudited) RMB'000	Well services 2003 (unaudited) RMB'000	Marine support and transportation 2003 (unaudited) RMB'000	Geophysical 2003 (unaudited) RMB'000	Total 2003 (unaudited) RMB'000
TURNOVER					
Sales (including intersegment)	649,082	280,013	303,441	232,678	1,465,214
Less: Intersegment sales	17,029	11,635	552	-	29,216
Total sales to external customers	632,053	268,378	302,889	232,678	1,435,998
PROFIT FROM OPERATIONS					
Segment results	248,196	24,819	56,977	46,651	376,643

NOTES TO INTERIM FINANCIAL STATEMENTS

June 30, 2004

4. 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 the relevant tax laws in the PRC, the Company is subject to enterprise income tax at the rate of 33%.

In 2003, the application by the Company as an advanced technology enterprise for tax purposes was approved and the Company's enterprise income tax rate for the period from October 1, to December 31, 2002 (being the period after the restructuring of the Company into a joint stock limited liability company on September 26, 2002) was reduced from 33% to 15%. As a result, a tax refund of RMB45.5 million relating to the period from October 1, to December 31, 2002 was recorded by the Company for the period ended June 30, 2003. In accordance with the prevailing tax rules in the PRC, the eligibility for such tax rate reduction in the future is conditional upon the fulfillment of certain conditions on an annual basis as stipulated in the relevant tax rules, which include a minimum proportion of sales of advanced technology services to total sales and a minimum proportion of research and development expenses to each of total expenses and total revenues under PRC accounting principles.

During the period, the Company's application to reduce its enterprise income tax rate from 33% to 15% for the fiscal year 2003 (being the period from January 1, 2003 to December 31, 2003) as an advanced technology enterprise was approved by the tax authority. As such, a tax refund of RMB129 million relating to the fiscal year 2003 was recorded by the Company in the current period.

As a reduction in the enterprise income tax rate from 33% to 15% for the period under review cannot be ascertained at the date of this report, management considers it appropriate to use 33% to accrue for the income tax liability of the Company for the six months ended June 30, 2004.

The Company's newly incorporated subsidiary in Malaysia, COSL (Labuan) Company Limited, is subject to income tax and branch profit tax at an aggregate rate of 6.6% for its gross services income generated from drilling activities in Indonesia.

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

4. TAX (continued)

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

	Six months ended June 30, 2004 (unaudited) RMB'000	2003 (unaudited) RMB'000
Hong Kong profits tax:	-	-
Overseas income taxes:		
Current income taxes	49	120
Deferred income taxes	-	-
PRC corporate income tax:		
Current income taxes	190,077	128,422
Tax refund	(128,907)	(45,532)
Deferred income taxes	(44,226)	(4,199)
Share of tax attributable to:		
Jointly-controlled entities	8,663	5,325
	25,656	84,136

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the Mainland China in which the Company and its jointly-controlled entities are domiciled to the tax expense at the effective tax rate and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate is as follows:

	Six months ended June 30, 2004 (unaudited)		2003 (unaudited)	
	RMB'000	%	RMB'000	%
Profit before tax	478,789		410,976	
Tax at the statutory tax rate of 33% (2003: 33%)	158,000	33.0	135,622	33.0
Lower tax rates for special provinces or local authority	(8,290)	(1.7)	(7,502)	(1.8)
Tax refund	(128,907)	(26.9)	(45,532)	(11.0)
Expenses not deductible for tax	4,853	1.0	1,548	0.3
Total tax charge at the Group's effective rate	25,656	5.4	84,136	20.5

NOTES TO INTERIM FINANCIAL STATEMENTS

June 30, 2004

5. DIVIDENDS

In accordance with the articles of association of the Company, net profit after tax 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.

The Board has proposed to pay a special interim dividend of RMB2.29 cents (2003: RMB1.23 cents) per share for the six months ended June 30, 2004. The proposed special interim dividend for the period is subject to the approval of the Company's shareholders at the upcoming shareholders' extraordinary general meeting.

6. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the six months ended June 30, 2004 of approximately RMB453,133,000 (2003: RMB326,840,000) and the weighted average of approximately 3,995,320,000 (2003: 3,995,320,000) shares in issue during the period.

Diluted earnings per share for the six months ended June 30, 2004 and 2003 have not been calculated because no diluting events existed during these periods.

7. PROPERTY, PLANT AND EQUIPMENT, NET

During the period, the Group acquired tankers and vessels, drilling equipment, machine and equipment, motor vehicles and construction in progress with an aggregate cost amounting to approximately RMB595,577,000. Tankers and vessels amounting to RMB44,391,000 were disposed in 2004, and the loss on disposal of RMB992,000 incurred by the Company was dealt with in the Group's consolidated financial statements for the six months ended June 30, 2004 as other operating expenses.

As at the date of these financial statements, drilling rigs, tankers and vessels with an aggregate cost amount and net book value of RMB438 million and RMB114 million, respectively, have yet to be completed the title re-registration procedures after the group reorganization done in 2002. The Company is in the process of re-registration with relevant government authorities for the title of these rigs, tankers and vessels under its name.

8. ACCOUNTS RECEIVABLE, NET

An aging analysis of accounts receivable, net, as at the balance sheet date is as follows:

	June 30,2004 (unaudited) RMB'000	December 31,2003 (audited) RMB'000
Outstanding balances aged:		
Within one year	585,396	533,586
Within one to two years	64,483	58,973
Within two to three years	1,315	1,919
	651,194	594,478
Less: Provision for doubtful debts	(40,197)	(26,928)
	610,997	567,550

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

9. BALANCES WITH THE UITIMATE HOLDING COMPANY

The amount due from the ultimate holding company are unsecured, interest-free and have no fixed terms of repayment.

The total balance of RMB600 million payable to the ultimate holding company is unsecured, interest-free and repayable over three years on an annual instalment basis with repayment commencing from May 1, 2005. As a result, RMB200 million has been included in current liabilities.

10. BALANCES WITH OTHER CNOOC GROUP COMPANIES

The balances with other CNOOC group companies are unsecured, interest-free and have no fixed terms of repayment.

11. SHORT TERM INVESTMENTS

	June 30, 2004 (unaudited) RMB'000	December 31,2003 (audited) RMB'000
Government debt securities purchased with an obligation to re-sell	313,477	180,427

The market value of the Group's short term investments at the date of approval of the financial statements approximated the book value at June 30, 2004.

NOTES TO INTERIM FINANCIAL STATEMENTS

June 30, 2004

12. TRADE PAYABLES AND OTHER PAYABLES

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

	June 30, 2004 (unaudited) RMB'000	December 31,2003 (audited) RMB'000
Outstanding balances aged:		
Within one year	332,829	277,244
Within one to two years	11,189	5,851
Within two to three years	6,743	2,301
Over three years	1,409	-
	352,170	285,396

13. DISTRIBUTABLE RESERVES

As at June 30, 2004, 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 RMB101 million standing to the credit of the Company's statutory reserve funds, 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 RMB790 million available for distribution as dividend. Save as aforesaid, the Company did not have any reserves available for distribution to its shareholders at June 30, 2004.

14. ISSUED CAPITAL

	June 30, 2004 (unaudited) RMB'000	December 31, 2003 (audited) RMB'000
Registered, issued and fully paid:		
2,460,468,000 State legal person shares of RMB1.00 each	2,460,468	2,460,468
1,534,852,000 H shares of RMB1.00 each	1,534,852	1,534,852
As at June 30, 2004 and December 31, 2003	3,995,320	3,995,320

The Company does not have any share option scheme.

15. RELATED PARTY TRANSACTIONS

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.

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, 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:

	Six months ended June 30,	
	2004	2003
	(unaudited)	(unaudtied)
	RMB'000	RMB'000
A. Included in revenue		
Gross revenue earned from provision of services to the following related parties:		
a. CNOOC Limited Group		
Provision of drilling services	508,307	253,093
Provision of well services	243,458	201,029
Provision of marine support and transportation services	203,678	161,480
Provision of geophysical services	171,632	96,453
	1,127,075	712,055
b. CNOOC Limited Group as operator under production		
sharing contracts	44,252	9,379
Provision of drilling services	34,346	2,418
Provision of well services	30,382	20,442
Provision of marine support and transportation services		
	108,980	32,239

NOTES TO INTERIM FINANCIAL STATEMENTS

June 30, 2004

15. RELATED PARTY TRANSACTIONS (continued)

	Six months ended June 30, 2004 (unaudited) RMB'000	2003 (unaudited) RMB'000
A. Included in revenue (continued)		
Gross revenue earned from provision of services to the following related parties (continued):		
c. CNOOC Group		
Provision of drilling services	3,845	13,952
Provision of well services	29,558	19,292
Provision of marine support and transportation service	44,971	33,928
Provision of geophysical services	3,023	14,798
	81,397	81,970
d. Jointly-controlled entities		
Provision of drilling services	1,553	346
Provision of well services	8,437	7,474
Provision of geophysical services	5,500	-
	15,490	7,820
B. Included in operating expenses		
Services provided by the CNOOC Group:		
Labour services	8,928	27,902
Materials, utilities and other ancillary	32,820	32,137
Transportation services	1,719	2,174
Lease of office, warehouse, berths	16,798	5,001
Lease of equipment	12,283	1,059
Repair and maintenance services	6,839	4,597
Management services	4,170	4,338
	83,557	77,208
C. Included in interest income:		
Interest income earned from CNOOC Finance Company	2,057	767

15. RELATED PARTY TRANSACTIONS *(continued)*

	June 30,2004 (unaudited) RMB'000	December 31,2003 (audtied) RMB'000
D. Deposits and loans:		
Deposits placed with CNOOC Finance Company	208,895	252,552

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

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.

The Company signed various property lease agreements in September 2002 with CNOOC Group to lease certain properties owned by CNOOC. Pursuant to the lease agreements, the Company is required to pay an aggregate annual rental of RMB7.6 million 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.

16. OPERATING LEASE ARRANGEMENTS

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

At balance sheet date, the Group had following minimum lease payments under non-cancellable operating leases:

	June 30, 2004 (unaudited) RMB'000	December 31, 2003 (audited) RMB'000
Within one year	94,900	48,701
In the second to fifth years, inclusive	228,795	239,484
After five years	213,787	245,073
	537,482	533,258

NOTES TO INTERIM FINANCIAL STATEMENTS

June 30, 2004

17. CAPITAL COMMITMENTS

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

	June 30, 2004 (unaudited) RMB'000	December 31, 2003 (audited) RMB'000
Contracted, but not provided for	575,369	50,889
Authorised, but not contracted for	4,678,317	3,330,953
	5,253,686	3,381,842

18. CONTINGENT LIABILITIES

As at June 30, 2004, the Group had no significant contingent liabilities.

19. APPROVAL OF INTERIM FINANCIAL STATEMENTS

The interim financial statements for the six months ended June 30, 2004 were approved by the Board of Directors on August 24, 2004.

NOTICE OF EXTRAORDINARY GENERAL MEETING

The Extraordinary General Meeting ("EGM") of China Oilfield Services Limited will be held on October 28, 2004 (Thursday) at 10:00 a.m. at Multi-function Conference Room, 3/F., CNOOC Plaza, No. 6, Dongzhimenwai Xiaojie, Beijing for the following purposes:

By way of Ordinary Resolutions:

1. To consider and approve the distribution of 2004 special interim dividend.

2. To consider and approve the resolution regarding the cap amount of connected transactions from January 1, 2005 until December 31, 2007.

By way of Special Resolutions:

3. To approve the resolution regarding the amendment of the articles of association of COSL and to authorise the Board to file these amendments with the relevant departments of the People's Republic of China upon approval.

PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION OF COSL

In accordance with the amendments to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, China Oilfield Services Limited intends to make corresponding amendments to Articles 75, 97, 102, 118 and 138. The proposals are as follows:

Article 75

The existing Article 75 be deleted in its entirety and replaced with the following:

"When shareholders (including proxies) vote at the shareholders' general meeting, they shall exercise their voting rights according to the number of voting shares that they represent. Each share shall have one (1) vote.

Where any shareholder is, under the Listing Rules, required to abstain from voting on a particular resolution or restricted to voting only in favour of or against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted."

Article 97

The existing Article 97 be deleted in its entirety and replaced with the following:

"Resolutions of a meeting of shareholders of different classes may be passed only by more than two-thirds of the voting rights of that class represented at the meeting in accordance with Article 96 hereof.

NOTICE OF EXTRAORDINARY GENERAL MEETING

Article 97 continued

Where any shareholder is, under the Listing Rules, required to abstain from voting on a particular resolution in a class meeting or restricted to voting only in favour of or against any particular resolution in a class meeting, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted."

Article 102

The existing Article 102 be deleted in its entirety and replaced with the following:

"Directors shall be elected at shareholders' general meting and serve a term of 3 years. A director may serve consecutive terms if re-elected upon the expiration of his term.

The period for lodgement of written notice of an intention to nominate a candidate of director and that of a willingness to accept the nomination by the candidate shall commence no earlier than the day after the despatch of the notice of the meeting for election of the relevant director and end no later than 7 days prior to the date of such meeting.

The chairman of the board and vice chairman (or vice chairmen) of the board shall be elected and removed by the approval of more than half of all the directors of the board. The chairman of the board and vice chairman (or vice chairmen) of the board shall serve a term of 3 years and may serve consecutive terms if re-elected upon the expiration of their terms.

Subject to compliance with relevant laws and regulations, any director may be removed by ordinary resolution before the expiry of his term of office (but without prejudice to any claim for damages under any contract).

Any person who has been appointed by the board of directors to fill up the temporary vacancy in the board of directors or to be an additional director shall serve a term lasting until the date of next annual shareholders' general meeting and may serve consecutive terms if re-elected upon the expiration of his term.

Not more than 2 persons of the chairman of the board, vice chairman (or vice chairmen) of the board and executive directors of the Company may be senior management staff (chairman of the board, vice chairman and executive director) of the controlling organizations.

Directors need not be the shareholders of the Company."

Article 118

In this Article, " ... are eight vice presidents" be amended to "... are certain vice presidents". Other content shall remain unchanged.

NOTICE OF EXTRAORDINARY GENERAL MEETING

Article 138

The existing Article 138 be deleted in its entirety and replaced with the following:

"A director, a supervisor, the general manager, a deputy general manager or other senior management staff of the Company shall not direct any of his associates (which shall have the same meaning as in the Listing Rules) to do such things or take such actions that such director, supervisor, general manager, deputy general manager or other senior management staff is not allowed to do under any applicable law or regulation, the Articles of Association of the Company or otherwise."

By order of the Board
Chen Weidong
Company Secretary

Hong Kong, August 24, 2004

Notes:

(1) Holders of COSL's overseas listed foreign invested shares (in the form of H Shares) whose names appear on COSL's Register of Members maintained by Computershare Hong Kong Investor Services Limited on October 28, 2004 (Thursday) and representative of China National Offshore Oil Corporation, as holder of COSL domestic shares, are entitled to attend and vote at the EGM.

(2) Shareholders who intend to attend the meeting must complete and return the written replies for attending the meeting to the Office of COSL in Hong Kong by facsimile or by post no later than 8 October 2004 (Friday):

Address: 65/F., Bank of China Tower
1 Garden Road, Hong Kong
Tel: (852) 2213 2502
Fax: (852) 2525 9322

(3) Shareholder of COSL who has the right to attend and vote at the meeting are entitled to appoint in writing one or more proxies, whether a shareholder or not, to attend and vote on his behalf at the EGM. Where a shareholder has appointed more than one proxy to attend the EGM, such proxies may only vote on a poll or a ballot. The instrument appointing a proxy must be in writing under the hand of the appointor or his attorney duly authorized in writing. In case that an appointer is a legal person, the power of attorney must be either under the common seal of the legal person or under the hand of its director or other person, duly authorized. If the instrument appointing a proxy is signed by an attorney of the appointor, the power of attorney authorizing that attorney to sign, or other documents of authorization, must be notarially certified. For holders of H Shares, the power of attorney or other documents of authorization and proxy forms must be delivered to COSL's registered office at 65/F. Bank of China Tower, 1 Garden Road, Hong Kong, no less than 24 hours before the time appointed for the holding of the EGM in order for such documents to be valid.

(4) COSL's Register of Member will be closed from September 28, 2004 (Tuesday) to October 28, 2004 (Thursday) (both days inclusive), during which time no transfer of shares will be registered. Transferees of H Shares who wish to attend the EGM and qualify for entitlement to the 2004 interim dividend referred to above must deliver their duly stamped instruments of transfer, accompanied by the relevant share certificates, to Computershare Hong Kong Investor Services Limited by no later than 4:00 p.m. on September 27, 2004 (Monday) for completion of the registration of the relevant transfer in accordance with the Articles of Association of COSL.

Computershare Hong Kong Investor Services Limited's address is as follows:
Rooms 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

(5) Shareholders or their proxies must present proofs of their identities upon attending the EGM. Should a proxy be appointed, the proxy must also present copies of his/her Proxy Form, copies of appointing instrument and power of attorney, if applicable.

(6) The EGM is expected to last not more than one day. Shareholders or proxies attending the EGM are responsible for their own transportation and accommodation expenses.

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