

THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this Circular, or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **China Oilfield Services Limited**, you should at once hand this Circular, together with the enclosed form of proxy, to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser or the transferee.

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COSL

CHINA OILFIELD SERVICES LIMITED

中海油田服務股份有限公司

(Incorporated in the People's Republic of China as a joint stock limited liability company)

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS AND AMENDMENT OF THE ARTICLES OF ASSOCIATION

**Independent Financial Adviser to the Independent Board Committee
and the Independent Shareholders**



Quam Capital Limited

A letter from the Independent Board Committee is set out on pages 17 to 18 of this Circular.

A letter from Quam, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 19 to 29 of this Circular.

An extraordinary general meeting of China Oilfield Services Limited is to be held at Multi-function Conference Room, 3/F., CNOOC Plaza, No. 6 Dongzhimenwai Xiaojie, Beijing, China, on 5 November 2004 at 10:00 a.m. A copy of the notice convening such extraordinary general meeting, which was despatched on 24 August 2004 and has been amended by a further notice despatched on 21 October 2004, is set out on pages 34 to 37 of this Circular. Whether or not you are able to attend the meeting, you are requested to complete and return the attached form of proxy in accordance with the instructions printed thereon as soon as possible in the case of a holder of Domestic Share(s), to the registered office of the Company at 65/F, 1 Garden Road, Hong Kong and, in the case of a holder of H Share(s), to Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong in any event not less than 24 hours before the time appointed for holding of the meeting. Completion and return of the form of proxy will not preclude you from attending and voting at the meeting should you so desire.

21 October 2004

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DEFINITIONS

In this Circular, the following expressions have the following meanings unless the context requires otherwise:

“Agreement”	a master agreement entered into between the Company and the CNOOC Group on 18 October 2004, setting forth the basic terms of the Non-Exempt Continuing Connected Transactions, including the New Proposed Annual Cap
“associate”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Chairman”	the chairman of the Board
“Circular”	this circular issued by the Company dated 21 October 2004 in respect of (inter alia) the Non-Exempt Continuing Connected Transactions
“CNOOC”	中國海洋石油總公司 (China National Offshore Oil Corporation), a state-owned enterprise incorporated under the laws of the PRC on 12 February 1982, and the controlling shareholder of the Company
“CNOOC Group”	CNOOC and its subsidiaries and affiliates, excluding the Group
“CNOOC Finance Corporation Limited”	CNOOC Finance Corporation Limited, a company established in the PRC and a 62.9%-owned non-bank finance subsidiary of CNOOC
“CNOOC Limited”	中國海洋石油有限公司 (CNOOC Limited), a company incorporated on 20 August 1999 in Hong Kong under the Companies Ordinance with limited liability and a subsidiary of CNOOC
“Company”	China Oilfield Services Limited (中海油田服務股份有限公司), incorporated in the PRC on 25 December 2001, and restructured into a joint stock limited liability company on 26 September 2002
“Director(s)”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be held to approve, inter alia, the Agreement, the New Proposed Annual Cap and the amendment of Articles of Association of the Company

DEFINITIONS

“Existing Waiver”	the waiver granted by the Stock Exchange on 8 November 2002 to the Company in respect of the Non-Exempt Continuing Connected Transactions between the Group and CNOOC Group, subject to the conditions set out in such waiver
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Independent Shareholders”	Shareholders other than CNOOC and its associates
“Independent Board Committee” or “IBC”	an independent committee of the Board for the purpose of reviewing the Non-Exempt Continuing Connected Transactions, which comprises Mr. Gordon C.K. Kwong, Mr. Andrew Y. Yan and Mr. Simon X. Jiang, all of whom are independent non-executive directors
“IPO”	the Initial Public Offering of the Company’s shares in the year 2002
“Latest Practicable Date”	15 October 2004, being the latest practicable date before the printing of this Circular for ascertaining certain information for the purpose of inclusion in this Circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Magcobar”	China Nanhai-Magcobar Mud Corp. Ltd., a Sino-foreign equity joint venture in which the Company holds a 60% equity interest and M-I Drilling Fluids Company, a party who is independent of, and not connected with the directors, supervisors, chief executive and substantial shareholders of the Company, its subsidiaries and their respective associates, holds a 40% equity interest
“New Proposed Annual Cap”	the proposed annual cap in respect of the Non-Exempt Continuing Connected Transactions for the three years ending 31 December 2007 and submitted to the Independent Shareholders for approval at the EGM
“Non-Exempt Continuing Connected Transactions”	the non-exempt continuing connected transactions which are and will continue to be entered into between the Group and the CNOOC Group comprising the connected transactions which were the subject of the Existing Waiver
“PRC”	the People’s Republic of China

DEFINITIONS

“Prospectus”	the prospectus dated 11 November 2002 issued by the Company relating to its IPO and the listing of its shares on the Stock Exchange
“Quam”	Quam Capital Limited, a deemed licensed corporation under the SFO to conduct types 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities and the independent financial adviser to the Independent Board Committee and the Independent Shareholders
“Restructuring”	the restructuring of CNOOC Group and their respective businesses now forming part of the Group, with effect from 25 December 2001, the details of which are set out in the Prospectus
“Rmb”	Renminbi, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholder(s)”	the holder(s) of the shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

For the purpose of this Circular, unless otherwise indicated, the exchange rate at HK\$1.00 = Rmb 1.06 has been used, where applicable, for purpose of illustration only and not constituting a representation that any amount has been, could have been or may be so exchanged or at all.



COSL

CHINA OILFIELD SERVICES LIMITED

中海油田服務股份有限公司

(Incorporated in the People's Republic of China as a joint stock limited liability company)

Board of Directors:

Fu Chengyu* (*Chairman*)

Yuan Guangyu

Wu Mengfei

Wang Zhongan*

Gordon C.K. Kwong**

Andrew Y. Yan**

Simon X. Jiang**

Registered Office:

65/F, Bank of China Tower

1 Garden Road

Hong Kong

* *Non-executive Director*

** *Independent non-executive Director*

21 October 2004

To the Shareholders

Dear Sir or Madam,

**NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS
AND
AMENDMENT OF THE ARTICLES OF ASSOCIATION**

1. INTRODUCTION

The Company is a subsidiary of CNOOC with CNOOC directly owning 65% of the issued share capital of the Company. Accordingly, transactions between CNOOC Group and the Group constitute connected transactions for the Company for the purpose of the Listing Rules.

The Company made an application dated 8 November 2002 to the Stock Exchange for a waiver from strict compliance with the relevant requirement of the Listing Rules in respect of the Non-Exempt Continuing Connected Transactions. The Stock Exchange, on 8 November 2002, granted the Existing Waiver to the Company subject to, inter alia, the conditions set out in the Prospectus. The Existing Waiver will expire on 31 December 2004 and the Company is seeking your approval of the Agreement. Announcements were made by the Company on 24 August 2004 and 20 October 2004, in relation to the convening of the EGM, which has been postponed from 28 October 2004 to 5 November 2004, for the purpose of considering and, if thought fit, approving, inter alia, the Agreement.

LETTER FROM THE BOARD

As more time is required to prepare this Circular and to compile the historical utilization of the annual limit in the Existing Waiver and the projected figures for the New Proposed Annual Cap, the EGM will be postponed from 28 October 2004 to 5 November 2004. Other arrangements, including place and specific time of meeting, agenda for the meeting and record date of 28 October 2004 for the EGM, will remain unchanged.

The Company is currently proposing to increase the annual limits of certain categories of the Non-Exempt Continuing Connected Transactions as compared with the annual limits in the Existing Waiver, further details of which are set out in the paragraphs headed “Reasons for and Benefits of the Non-Exempt Continuing Connected Transactions” of this letter. The Board has proposed that amendments be made to the Articles of Association of the Company in accordance with the amendments to the Listing Rules with effect from 31 March 2004, further details of which are set out in the paragraph headed “Amendments to the Articles of Association” of this letter.

The main purposes of this Circular are (i) to provide you with detailed information relating to the Agreement; (ii) to set out the letter of advice from Quam to the IBC and the Independent Shareholders and recommendation and opinion of the IBC as advised by Quam in relation to the Agreement; (iii) to seek your approval at the EGM of a ordinary resolution in relation to the Agreement; (iv) to provide you with information regarding the amendments to the Articles of Association of the Company; and (v) to seek your approval at the EGM of a special resolution in relation to the proposed amendments to the Articles of Association of the Company.

2. THE AGREEMENT

Date of agreement:	18 October 2004
Parties:	(1) CNOOC (2) the Company
Subject:	Pursuant to the Agreement, the Group and CNOOC or other members of the CNOOC Group will enter into various transactions, details of the transactions are set out in this Circular under the section headed “Non-Exempt Continuing Connected Transactions”.
Term:	The Agreement shall commence on 1 January 2005 and shall continue until 31 December 2007 (both dates inclusive).
Price:	The respective considerations for the transactions shall be based on the prevailing local market conditions and other factors, including, where appropriate, market demand, volume of sales, market rates for equipment, materials and accessories used, complexity of the technology required, associated labor costs as well as historical transactions and overall customer relationship.

LETTER FROM THE BOARD

3. NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

The following connected transaction arrangements were entered into between the Group and the CNOOC Group prior to or at the time of the IPO. The Directors expect that the Group will continuously enter into transactions with CNOOC Group, which will constitute Non-Exempt Continuing Connected Transactions, pursuant to the Agreement:

- Provision by the Group of offshore oilfield services to CNOOC Group;
- Provision by Magcoabar of offshore oilfield services to CNOOC Group;
- Provision by CNOOC Group of materials, utilities, labour and ancillary support services to the Group;
- Provision by CNOOC Group of materials, utilities, labour and ancillary support services to Magcoabar;
- Provision by CNOOC Group of office and production premises and related property management services to the Group (including Magcoabar); and
- Provision of depositary and transaction settlement services by CNOOC Finance Corporation Limited to the Group.

Provision by the Group of offshore oilfield services to CNOOC Group

Since the establishment of CNOOC in 1982, the Company, including its predecessors, has been providing offshore oilfield services, including labour services, to CNOOC and its associates, including CNOOC Limited, in connection with their offshore oil and gas exploration, development and production activities. The Company's predecessors provided these offshore oilfield services on the basis of agreements they entered into with CNOOC and its associates. By virtue of the Restructuring, the Group has assumed the rights and obligations of such predecessors under these agreements with CNOOC and its associates, including CNOOC Limited. After the IPO, the Group and Magcoabar have continued to offer their offshore oilfield services to CNOOC Group.

For the two years ended 31 December 2003 and the six-month period ended 30 June 2004, the Group earned gross revenue of approximately Rmb 1,762 million, Rmb 1,975 million and Rmb 1,333 million, respectively, for offshore oilfield services provided to CNOOC Group.

Provision by Magcoabar of offshore oilfield services to CNOOC Group

For the two years ended 31 December 2003 and the six-month period ended 30 June 2004, Magcoabar earned gross revenue of approximately Rmb 1 million, Rmb 13 million and Rmb 76 million, respectively, for well services provided to CNOOC Group.

LETTER FROM THE BOARD

Provision by CNOOC Group of materials, utilities, labour and ancillary support services to the Group and Magcobar

In the past, CNOOC Group provided the Group and Magcobar with various materials, utilities, labour and other ancillary services, including:

- warehousing and storage;
- supply and transportation of materials;
- communications services;
- wharf services (including loading, unloading, mooring, unmooring, cleaning and utility services);
- construction services (including road pavement and construction of wharf terminals, improvements, factories);
- medical care, child care and social welfare services;
- technical training (including vocational training, safety training, on-the-job training);
- accommodation and personnel transportation services;
- offshore facility monitoring, maintenance and repair services;
- catering services;
- use of property (including sites, equipment and facilities);
- insurance arrangements; and
- labour services.

After the IPO, CNOOC Group has continued to provide the Group and Magcobar with such materials, utilities, labour and other ancillary support services pursuant to a comprehensive service agreement with CNOOC and its associates.

For the two years ended 31 December 2003 and the six-month period ended 30 June 2004, the Group paid, in the aggregate, approximately Rmb 160 million, Rmb 95 million and Rmb 67 million, respectively, for materials, utilities, labour and other ancillary support services provided by CNOOC Group.

LETTER FROM THE BOARD

Provision by CNOOC Group of materials, utilities, labour and ancillary support services to Magcobar

For the two years ended 31 December 2003 and the six-month period ended 30 June 2004, Magcobar paid, in the aggregate, approximately Rmb 3 million, Rmb 3 million and Rmb 2 million, respectively, for materials, utilities, labour and other ancillary support services provided by CNOOC Group.

Provision by CNOOC Group of office and production premises and related property management services to the Group (including Magcobar)

The Group and Magcobar have leases with CNOOC Group relating to: (i) an aggregate gross floor area of approximately 92,000 square metres of premises and storage spaces and (ii) a piece of land of approximately 134,024 square metres, for office and production use and for living quarters.

For the two years ended 31 December 2003 and the six-month period ended 30 June 2004, the Group and Magcobar paid, in aggregate, approximately Rmb 8 million, Rmb 17 million and Rmb 16 million, respectively, for premises leased to the Group and Magcobar by CNOOC Group.

Provision of depositary and transaction settlement services by CNOOC Finance Corporation Limited to the Group

The Group has from time to time utilised the depositary and transaction settlement services available at CNOOC Finance Corporation Limited. These services comprised (i) depositing of funds by the Group with CNOOC Finance Corporation Limited; and (ii) settlement services provided by CNOOC Finance Corporation Limited for the transactions between the Group and the CNOOC Group.

For the two years ended 31 December 2003 and the six-month period ended 30 June 2004, the maximum daily balance plus interest for deposits placed with CNOOC Finance Corporation Limited in respect of the above depositary and transaction settlement services amounted to Rmb 73 million, Rmb 255 million and Rmb 209 million, respectively.

4. REASONS FOR AND BENEFITS OF THE NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Prior to the Restructuring and establishment of the Company, members of CNOOC Group and the Group operated as an integrated organisation which undertook numerous intra-group transactions each year. CNOOC is a substantial shareholder of, and currently holding approximately 65% interest in the Company. CNOOC is a connected person under the Listing Rules. Transactions between the Group and CNOOC Group constitute connected transactions for the Company under the Listing Rules and are subject to reporting, announcement and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

The Non-Exempt Continuing Connected Transactions as referred to in the Circular are and will be conducted in the ordinary and usual course of business of the Group. These transactions will continue to be agreed on an arm's length basis with terms that are fair and reasonable to the Group. Due to the long-term relationship between the Group and CNOOC Group, the Board considers it beneficial to the Group to continue to enter into the Non-Exempt Continuing Connected Transactions as these transactions have facilitated and will continue to facilitate the operation and growth of the Group's business.

In determining the New Proposed Annual Cap, the Directors have taken into account the Company's projection and business plan for the coming three financial years. Given the dominant position of the CNOOC Group, one of the Group's major customers, in the offshore crude oil industry, the Directors are of the view that the Group will have significant potential opportunities for further expansion and development of its business and operations. To adjust the New Proposed Annual Cap to a lower level based on the historical utilisation of the Existing Waiver would limit the ability of the Group to seize future business opportunities in its ordinary and usual course, and may have adverse impact on the Group's potential growth.

LETTER FROM THE BOARD

The Company will seek the approval of the Independent Shareholders of the New Proposed Annual Cap and the Agreement relating thereto on the following conditions:

- (a) The aggregate annual volume of transaction shall not exceed the proposed annual limits set out in the following table:

Non-Exempt Continuing Connected Transaction	Annual limit in the Existing Waiver	New Proposed Annual Cap	Basis of determination of the New Proposed Annual Cap
Provision by the Group of offshore oilfield services to CNOOC Group	In respect of each of the three years ending 31 December 2004, Rmb 2.10 billion, Rmb 2.94 billion and Rmb 4.12 billion, respectively.	In respect of each of the three years ending 31 December 2007, Rmb 4,120 million, Rmb 5,768 million and Rmb 8,075 million, respectively.	As CNOOC and its associates continue to grow, the Group expects more opportunities to provide not only offshore oilfield services but also related services to CNOOC Group. The annual limits proposed were based on a targeted 40% growth in this category on an annual basis.
Provision by Magcoabar of offshore oilfield services to CNOOC Group	In respect of each of the three years ending 31 December 2004, Rmb 120 million, Rmb 144 million and Rmb 173 million, respectively.	In respect of each of the three years ending 31 December 2007, Rmb 208 million, Rmb 249 million and Rmb 299 million, respectively	Similarly, Magcoabar is expected to grow at a steady rate. The annual limits proposed were based on a targeted 20% growth in this category on an annual basis.
Provision by CNOOC Group of materials, utilities, labour and ancillary support services to the Group	In respect of each of the three years ending 31 December 2004, Rmb 253 million, Rmb 317 million and Rmb 382 million, respectively.	In respect of the three years ending 31 December 2007, Rmb 382 million, Rmb 458 million and Rmb 550 million, respectively.	The Company expects the Group to grow at a steady rate. The annual limits proposed were based on a targeted 20% growth in this category on an annual basis.

LETTER FROM THE BOARD

Non-Exempt Continuing Connected Transaction	Annual limit in the Existing Waiver	New Proposed Annual Cap	Basis of determination of the New Proposed Annual Cap
Provision by CNOOC Group of materials, utilities, labour and ancillary support services to Magcobar	In respect of each of the three years ending 31 December 2004, Rmb 6 million, Rmb 8 million and Rmb 10 million, respectively.	In respect of the three years ending 31 December 2007, Rmb 10 million, Rmb 13 million and Rmb 16 million, respectively.	The Company expects Magcobar to grow at a steady rate. The annual limits proposed were based on a targeted 25% growth in this category on an annual basis.
Provision by CNOOC Group of office and production premises and related property management services to the Group (including Magcobar)	In respect of each of the three years ending 31 December 2004, Rmb 15 million, Rmb 20 million and Rmb 26 million, respectively.	In respect of the three years ending 31 December 2007, Rmb 36 million, Rmb 51 million and Rmb 71 million, respectively.	The Company expects the Group to grow at a steady rate. The annual limits proposed were based on a targeted 40% growth in this category on an annual basis.
Provision of depositary and transaction settlement services by CNOOC Finance Corporation Limited to the Group	10% of the Company's audited consolidated total turnover for the immediately preceding fiscal year in respect of its total daily outstanding deposits plus interest income.	In respect of the three years ending 31 December 2007, the lower of 40% of the audited consolidated total turnover of the Group for the immediately preceding fiscal year, or Rmb 1,048 million, Rmb 1,177 million and Rmb 1,323 million, respectively.	The new caps take into account the Group's business growth and are necessary for the Group to manage its funds more efficiently and to reduce its expense overlays.

- (b) (i) The Non-Exempt Continuing Connected Transactions will be entered into in the usual and ordinary course of businesses of the Group and either (A) on normal commercial terms or (B) if there is no available comparison, on terms no less favourable to the Group than terms available from independent third parties; and
- (ii) The Non-Exempt Continuing Connected Transactions will be entered into in accordance with the Agreement and on terms that are fair and reasonable and in the interests of the Shareholders as a whole;

LETTER FROM THE BOARD

- (c) Brief details of the Non-Exempt Continuing Connected Transactions will be disclosed in the Company's next and each successive annual report, each accompanied with a statement of opinion of the independent non-executive Directors in such manner as referred to in paragraph (d) below;
- (d) The independent non-executive Directors will review annually the Non-Exempt Continuing Connected Transactions, and will confirm in the Company's annual report for the financial year in question that the Non-Exempt Continuing Connected Transactions under their review were conducted in the manner as stated in paragraphs (a) and (b) above;
- (e) The auditors of the Company will review annually the Non-Exempt Continuing Connected Transactions, and confirm in a letter to the Board (a copy of which letter will be provided to the Stock Exchange at least 10 business days prior to the bulk printing of the annual report of the Company) in respect of each relevant period, during which the Non-Exempt Continuing Connected Transactions were conducted, stating that:
 - (i) the Non-Exempt Continuing Connected Transactions have been approved by the Board;
 - (ii) the Non-Exempt Continuing Connected Transactions have been entered into in accordance with the terms of the Agreement;
 - (iii) the value of the Non-Exempt Continuing Connected Transactions has not exceeded their respective annual limits set out in paragraph (a) above; and
 - (iv) the Non-Exempt Continuing Connected Transactions have been entered into in accordance with the pricing policy of the Group,and where for whatever reasons, if the auditors of the Company decline to accept the engagement or are unable to provide the auditors' letter, the Board will contact the Listing Division of the Stock Exchange immediately;
- (f) The Company will, and will procure CNOOC Group to, provide the auditors of the Company with full access to the relevant records of the Non-Exempt Continuing Connected Transactions for the purpose of the auditors' review as referred to in paragraph (e) above; and
- (g) The Company will comply with the applicable provisions of the Listing Rules governing connected transactions or will apply for waiver from strict compliance with the relevant requirements in the event that the total amount of the Non-Exempt Continuing Connected Transactions exceeds the caps set out in paragraph (a) above, or that there is any material amendment to the terms of the Agreement.

LETTER FROM THE BOARD

5. AMENDMENTS TO THE ARTICLES OF ASSOCIATION

The Board has proposed that amendments be made to the Articles of Association of the Company in accordance with the amendments to the Listing Rules with effect from 31 March 2004.

In accordance with the amendments to the Listing Rules, the Company intends to make corresponding amendments to Articles 75, 97, 102 and 138. The Company is also proposing to amend Article 118 as described herein. The proposals are as follows:

Article 75

Under the Listing Rules, the articles of association of a listed company must provide that, where any shareholder is subject to voting restrictions under the Listing Rules, any votes cast by or on behalf of such shareholder in contravention of such restriction shall not be counted.

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 Listing Rules provide that any vote of shareholders taken at a general meeting to approve (i) connected transactions; (ii) transactions that are subject to independent shareholders’ approval pursuant to the Listing Rules; (iii) granting of options to a substantial shareholder or an independent non-executive director or any of their respective associates; and (iv) any other transaction in which a shareholder has a material interest is required to abstain from voting.

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.

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.”

LETTER FROM THE BOARD

Article 102

Article 102 will be amended to specify the minimum length of period of at least 7 days for the giving of notice of nomination of Directors by Shareholder and notice by the person proposed for election of his willingness to be nominated, which will commence no earlier than the day after the despatch of the notice of the meetings appointed for such election and end no later than 7 days prior to the date of such meeting.

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

“Directors shall be elected at shareholders’ general meeting 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 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 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.”

LETTER FROM THE BOARD

Article 118

In this Article, “ ... are eight vice presidents” be amended to “... are certain vice presidents”. Other content of this article shall remain unchanged.

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 and other senior management staff of the Company shall not direct any of its 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.”

6. EGM

As more time is required to prepare this Circular and to compile the historical utilization of the annual limit in the Existing Waiver and the projected figures for the New Proposed Annual Cap, the EGM will be postponed from 28 October 2004 to 5 November 2004. Other arrangements, including place and specific time of meeting, agenda for the meeting and record date of 28 October 2004 for the EGM, will remain unchanged.

The notice convening the EGM was published and despatched to Shareholders on 24 August 2004, which notice has been amended by a further notice published and despatched to Shareholders on 21 October 2004. The notice, as amended, is attached hereto. The EGM will be held at Multi-function Conference Room 3/F., CNOOC Plaza, No. 6, Dongzhimenwai Xiaojie, Beijing on 5 November 2004 at 10:00 a.m. for the purpose of considering and, if thought fit, approving the Agreement and the amendment of the Articles of Association of the Company. CNOOC, which owns 65% of the issued capital of the Company, will abstain from voting at the EGM in respect of the Agreement and the Non-Exempt Continuing Connected Transactions pursuant to the Listing Rules.

A form of proxy for use at the EGM is enclosed herewith. Whether or not you are able to attend the EGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon, in the case of a holder of Domestic Share(s), to the registered office of the Company at 65/F, 1 Garden Road, Hong Kong and, in the case of a holder of H Share(s), to Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event no later than 24 hours before the time appointed for the holding of the EGM. Completion and return of the form of proxy will not preclude you from attending and voting at the EGM should you wish.

LETTER FROM THE BOARD

7. PROCEDURES FOR DEMANDING A POLL

Pursuant to Article 76 of the Company's Articles of Association, a resolution put to the vote of a general meeting of the Shareholders shall be decided on a show of hands unless a poll is (before or after any vote by a show of hands) demanded:

- (i) by the chairman of the meeting;
- (ii) at least two Shareholders with voting rights or their proxies; or
- (iii) one or several Shareholders (including proxies) holding totally or separately 10 percent or more of the shares carrying the right to vote at the meeting.

In accordance with Rule 13.39(4) of Listing Rules, the chairman of the EGM will demand a poll in relation to the ordinary resolution for approving the Non-Exempt Continuing Connected Transactions and the Agreement at the EGM.

8. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee set out on pages 17 and 18 of this Circular which contains its recommendation to the Independent Shareholders as to the voting at the EGM regarding the Non-Exempt Continuing Connected Transactions and the Agreement.

Your attention is also drawn to the letter from Quam set out on pages 19 to 29 of this Circular, which contains, among others, its advice to the Independent Board Committee and the Independent Shareholders in relation to the Non-Exempt Continuing Connected Transactions and the Agreement as well as the principal factors and reasons considered by it in concluding its advice.

Your attention is also drawn to the additional information set out in the appendices to this Circular.

Yours faithfully,
By order of the Board
China Oilfield Services Limited
Fu Chengyu
Chairman



COSL

CHINA OILFIELD SERVICES LIMITED

中海油田服務股份有限公司

(Incorporated in the People's Republic of China as a joint stock limited liability company)

Independent Board Committee

Gordon C.K. Kwong

Andrew Y. Yan

Simon X. Jiang

21 October 2004

To the Independent Shareholders

Dear Sir or Madam,

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 21 October 2004 of the Company (the “Circular”) of which this letter forms a part. Terms defined in the Circular shall have the same meanings when used herein unless the context requires otherwise.

As CNOOC owns an aggregate of 65% of the issued share capital of the Company, transactions between the Group and CNOOC Group constitute connected transactions for the Company and the Group under the Listing Rules and are subject to approval from the Independent Shareholders.

In view of your interest, we have been formed to advise the Independent Shareholders as to the fairness and reasonableness in relation to the Agreement and the Non-Exempt Continuing Connected Transactions, details of which are set out in the Letter from the Board in the Circular. Quam has been appointed as the independent financial adviser to advise the IBC and the Independent Shareholders in this respect. We wish to draw your attention to the letter from Quam as set out on pages 19 to 29 of this Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the information set out in the letter from the Board and the principal factors, reasons and recommendations set out in the letter from Quam, we consider the terms of the Agreement and the Non-Exempt Continuing Connected Transactions to be fair and reasonable insofar as the Independent Shareholders are concerned and believe that the Agreement and the Non-Exempt Continuing Connected Transactions are in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend that the Independent Shareholders should vote in favour of the resolutions to be proposed at the EGM to approve the Agreement and the Non-Exempt Continuing Connected Transactions.

Yours faithfully,
Independent Board Committee

Gordon C.K. Kwong
Independent non-executive director

Andrew Y. Yan
Independent non-executive director

Simon X. Jiang
Independent non-executive director

LETTER FROM QUAM

The following is the full text of the letter from Quam, which has been prepared for the purpose of incorporation in this Circular, setting out its advice to the IBC and the Independent Shareholders in respect of the Agreement and the Non-Exempt Continuing Connected Transactions (including the New Proposed Annual Cap).



Quam Capital Limited 華富嘉洛企業融資有限公司

Financial Services Group A Member of The Quam Group

香港中環畢打街11號置地廣場告羅士打大廈3208室

Room 3208, Gloucester Tower, The Landmark, 11 Pedder Street, Central, Hong Kong

21 October 2004

The Independent Board Committee
China Oilfield Services Limited
65/F., Bank of China Tower
1 Garden Road
Hong Kong

Dear Sir or Madam,

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

We refer to our engagement as the independent financial adviser to advise the IBC and the Independent Shareholders with respect to the Agreement and the New Proposed Annual Cap relating to the Non-Exempt Continuing Connected Transactions. Details of the Non-Exempt Continuing Connected Transactions are contained in the letter from the Board (the “Letter from the Board”) in the circular dated 21 October 2004 (the “Circular”) issued to the Shareholders, of which this letter forms part. This letter has been prepared for inclusion in the Circular and the terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

The IBC, comprising of the three independent non-executive Directors, namely Messrs. Gordon C. K. Kwong, Andrew Y. Yan and Simon X. Jiang, have been established to advise the Independent Shareholders in respect of the Non-Exempt Continuing Connected Transactions. As independent financial adviser, our role is to give an independent opinion to the IBC and the Independent Shareholders as to whether the terms and conditions of the Agreement and the Non-Exempt Continuing Connected Transactions (including the New Proposed Annual Cap) are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Independent Shareholders as a whole.

In formulating our opinion with regard to the Agreement and the Non-Exempt Continuing Connected Transactions (including the New Proposed Annual Cap), we have relied on the information and facts supplied, representations made and opinions expressed by the Company, its Directors, advisers and representatives for which they are solely responsible. We have assumed that all such information and representations and those contained or referred to in the Circular were true, accurate

LETTER FROM QUAM

and complete at the time they were made and continue to be so at the date of this letter. We have also assumed that all statements of belief, opinion and intention of the Directors and the Company's advisers were reasonably made after due and careful enquiry. We have been advised by the Directors that, having made all reasonable enquiries and to the best of their knowledge and belief, there were no material facts the omission of which would make any statement or opinion contained in the Circular, including this letter, misleading.

We consider that we have been provided with, and we have reviewed, sufficient information to enable us to reach an informed view and to justify our reliance on the accuracy of the information provided to us and those contained in the Circular so as to provide a reasonable basis for our advice. We have no reason to suspect that any material facts or information have been omitted or withheld from the information supplied or opinions expressed to us nor to doubt the truth, accuracy and completeness of the information and representations provided, or the reasonableness of the opinions expressed, to us by the Company, its Directors, advisers and representatives. We have not, however, carried out any independent verification of the information provided to us by the Company, its Directors, advisers and representatives, nor have we conducted any independent in-depth investigation into the business and affairs or future prospects of the Group and those of the CNOOC Group.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

Pursuant to the notice of EGM dated 24 August 2004 and revised notice dated 20 October 2004, the Directors announced that the Company would put to the vote by the Independent Shareholders at the EGM a resolution regarding the Agreement and the Non-Exempt Continuing Connected Transactions (including the New Proposed Annual Cap). CNOOC currently owns an aggregate of 65% of the issued share capital of the Company, and transactions between the CNOOC Group and the Group therefore constitute connected transactions for the Company under the Listing Rules and are subject to approval from the Independent Shareholders.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our advice in respect of the Agreement and the New Proposed Annual Cap relating to the Non-Exempt Continuing Connected Transactions, we have taken into consideration, *inter alia*, the following principal factors and reasons:

1. Background of and reasons for the Agreement and the New Proposed Annual Cap relating to the Non-Exempt Continuing Connected Transactions

Prior to the Restructuring of CNOOC and establishment of the Company, the members of the CNOOC Group and the Group operated as an integrated organisation which undertook numerous intra-group transactions each year. As a consequence of the Restructuring and following the listing of the Company's shares on the Stock Exchange, a number of transactions which had been entered into and which were to be entered into between the Group and the CNOOC Group constituted connected transactions for the Company under the Listing Rules.

LETTER FROM QUAM

The Group is principally engaged in the provision of oilfield services in the offshore PRC market. Its services cover each phase of the exploration, development and production of offshore oil and natural gas. The CNOOC Group is a dominant leader in the exploration and production activities with international oil and gas companies offshore PRC, and it is the largest producer of offshore crude oil in the PRC.

Given the above, a substantial portion of the Group's total annual turnover has been accounted by the provision of services to the CNOOC Group. For each of the two financial years ended 31 December 2003 and the six months ended 30 June 2004, the aggregate revenues derived from the Group's provision of services to the CNOOC Group accounted for around 64.68%, 64.92% and 78.42% of its consolidated total turnover respectively.

In view of the leading market position of the CNOOC Group and its historical relationship with the Group, the Group has been providing the CNOOC Group with materials, utilities, labour and ancillary services, some of which may not be available from independent third parties or on comparable terms offered by the CNOOC Group. The annual aggregate fees paid by the Group for the purchases from the CNOOC Group and the provision of utilities, labour and ancillary services by the CNOOC Group, accounted for around 7.61%, 4.56% and 6.12% of its total annual operating expenses for each of the two financial years ended 31 December 2003 and the six months ended 30 June 2004.

Given the Group's business nature and the dominant market position of the CNOOC Group, it is reasonable to expect that the Non-Exempt Continuing Connected Transactions will continue to take place on a regular basis in the Group's ordinary and usual course of business in future.

The Stock Exchange granted a 3-year conditional waiver to the Company from strict compliance with the relevant requirements of the Listing Rules in relation to the Non-Exempt Continuing Connected Transactions at the time of the IPO in 2002. The Existing Waiver will expire on 31 December 2004 and accordingly, the Company is seeking the Independent Shareholders' approval for the Agreement and the Non-Exempt Continuing Connected Transactions (including the New Proposed Annual Cap).

Based on the foregoing, we are of the view that it will be in the interests of the Company and the Shareholders as a whole to have the Agreement in place and to adopt the New Proposed Annual Cap for the Non-Exempt Continuing Connected Transactions as that would help to facilitate the smooth operations and future development of the Group's business in the next three financial years.

2. Nature of the Non-Exempt Continuing Connected Transactions and the principal terms of the Agreement

Set out below are the nature of the Non-Exempt Continuing Connected Transactions contemplated under the Agreement.

Provision by the Group of offshore oilfield services to CNOOC Group

The Group from time to time provides offshore oilfield services, including labour services, to CNOOC and its associates, including CNOOC Limited, in connection with their offshore oil and gas exploration, development and production activities.

The Directors have confirmed that since the IPO, the Group has offered its offshore oilfield services to CNOOC Limited at prices that were based on arm's length negotiations and reflected considerations such as volume of sales, length of contracts, package of services, overall customer relationship and other market factors. Any discounts offered to CNOOC Limited were also made available to other customers whose volume of business and contract terms were similar to those of CNOOC Limited.

Provision by CNOOC Group of materials, utilities, labour and ancillary services to the Group

Members of the CNOOC Group from time to time provide the Group with materials, utilities, labour and ancillary services, some of which may not be available from independent third parties or available on comparable terms offered by the CNOOC Group. Details of the types of materials and nature of services provided by the CNOOC Group are disclosed in section 3 of the Letter from the Board contained in the Circular.

Provision by CNOOC Group of office and production premises and related property management services to the Group

In the past, the Group has entered into a number of separate lease and property management agreements with the CNOOC Group. Details of each of these agreements are disclosed in section 3 of the Letter from the Board contained in the Circular. We were advised by the management of the Company that the Group will continue to enter into further leases from time to time on normal commercial terms with the CNOOC Group, subject to the New Proposed Annual Cap, as required by the future expansion of its operations.

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Provision of depositary and transaction settlement services by CNOOC Finance Corporation Limited to the Group

The Group from time to time utilises the depositary and transaction settlement services available from CNOOC Financial Corporation Limited, a subsidiary of CNOOC. CNOOC Financial Corporation Limited is a non-bank financial institute providing services to members of the CNOOC Group. Its financial services and products cover Rmb and foreign exchange savings, loans, internal account transfer and settlement, guarantee, capital management, securities investment and financial advisory services. The services provided to the Group include the Company's cash deposits and settlement services for transactions concluded between the Group and its customers.

We have reviewed the principal terms and conditions of the Agreement. It is noted that in relation to the respective considerations for the Non-Exempt Continuing Connected Transactions contemplated under the Agreement, it is stipulated in the Agreement that such considerations shall be based on the pricing policies of the Group, with reference to the prevailing local market conditions and other factors, including, where appropriate, market demand, volume of sales, market rates for equipment, materials and accessories used, complexity of the technology required, associated labour costs as well as historical transactions and overall customer relationship.

It should also be noted that the aforementioned pricing bases are further subject to the conditions stipulated in the Agreement that the Non-Exempt Continuing Connected Transactions will be entered into in the usual and ordinary course of the Group's business and either on (i) normal commercial terms or (ii) if there is no available comparison, on terms no less favourable to the Group than terms available to/from independent third parties, as the case may be.

In view of the foregoing, we are of the view that the Non-Exempt Continuing Connected Transactions contemplated under the Agreement are within the usual and ordinary course of the Group's business and the relevant members of the CNOOC Group, and that the principal terms and in particular the pricing are fair and reasonable so far as the Independent Shareholders are concerned and are in the interest of both the Company and the Independent Shareholders as a whole.

LETTER FROM QUAM

3. The New Proposed Annual Cap

The annual limit for the Non-Exempt Continuing Connected Transactions under the Existing Waiver

Set out below are details of the actual amount of each of the Non-Exempt Continuing Connected Transactions for the two financial years ended 31 December 2003 and the six months ended 30 June 2004 (the “Relevant Period”) as compared with the relevant annual limits under the Existing Waiver.

Category of the Non-Exempt Continuing Connected Transactions	For the 12 months ended 31 December		For the 6 months ended 30 June	Annual limits in the Existing Waiver Rmb million
	2002 Rmb million	2003 Rmb million	2004 Rmb million	
A. Provision by the Group of offshore oilfield services to the CNOOC Group	1,762	1,975	1,333	2002: 2,100 2003: 2,940 2004: 4,120
B. Provision by Magcobar of offshore oilfield services to the CNOOC Group	1	13	76	2002: 120 2003: 144 2004: 173
C. Provision by the CNOOC Group of materials, utilities, labour and ancillary support services to the Group	160	95	67	2002: 253 2003: 317 2004: 382
D. Provision by the CNOOC Group of materials, utilities, labour and ancillary support services to Magcobar	3	3	2	2002: 6 2003: 8 2004: 10
E. Provision by the CNOOC Group of office and production premises and related property management services to the Group (including Magcobar)	8	17	16	2002: 15 2003: 20 2004: 26
F. Provision of depositary and transaction settlement services by CNOOC Finance Corporation Limited to the Group	73*	255*	209*	10% of the audited consolidated total turnover of the Company in the immediately preceding fiscal year in respect of its total daily outstanding deposits plus interest income

* The amount stated represented the maximum daily balance plus interest for deposits placed with CNOOC Finance Corporation Limited in respect of the depositary and transaction settlement services for the each of the two years ended 31 December 2003 and the six months ended 30 June 2004.

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The New Proposed Annual Cap

Set out below is a summary of the New Proposed Annual Cap for each of the Non-Exempt Continuing Connected Transactions for each of the three financial years ending on 31 December 2007 as well as their respective basis of determination:—

Category of the Non-Exempt Continuing Connected Transactions	New Proposed Annual Cap Rmb million	Basis of determination
A. Provision by the Group of offshore oilfield services to the CNOOC Group	2005: 4,120 2006: 5,768 2007: 8,075	An estimated annual growth rate of 40% based on the expected continued growth of CNOOC and its associates which would in turn lead to more opportunities for the Group to provide them with offshore oilfield services and other related services.
B. Provision by Magcobar of offshore oilfield services to the CNOOC Group	2005: 208 2006: 249 2007: 299	An estimated annual growth rate of 20% based on the expected steady growth of the business of Magcobar.
C. Provision by the CNOOC Group of materials, utilities, labour and ancillary support services to the Group	2005: 382 2006: 458 2007: 550	An estimated annual growth rate of 20% based on the expected steady growth of the Group's business.
D. Provision by the CNOOC Group of materials, utilities, labour and ancillary support services to Magcobar	2005: 10 2006: 13 2007: 16	An estimated annual growth rate of 25% based on the expected steady growth of the business of Magcobar.
E. Provision by the CNOOC Group of office and production premises and related property management services to the Group (including Magcobar)	2005: 36 2006: 51 2007: 71	An estimated annual growth rate of 40% based on the expected steady growth of the Group's business.

LETTER FROM QUAM

Category of the Non-Exempt Continuing Connected Transactions	New Proposed Annual Cap Rmb million	Basis of determination
F. Provision of depositary and transaction settlement services by CNOOC Finance Corporation Limited to the Group	2005: the lower of 1,048 or 40% of the Group's audited consolidated turnover for the year ended 31 December 2004 2006: the lower of 1,117 or 40% of the Group's audited consolidated turnover for the year ended 31 December 2005 2007: the lower of 1,323 or 40% of the Group's audited consolidated turnover for the year ended 31 December 2006	The new caps take into account the Group's business growth and are necessary for the Group to manage its funds more efficiently and to reduce its expense overlays.

Analysis of the bases of determination for the New Proposed Annual Cap

In our assessment of the reasonableness of the New Proposed Annual Cap, we have taken into consideration the representation and projection of the Company's management regarding the Group's future development and needs for the three financial years ending 31 December 2007. We have analysed the historical volumes of the Non-Exempt Continuing Connected Transactions conducted by the Group against the relevant annual caps set under the Existing Waiver during the Relevant Period (the "Utilisation Rate"). We have reviewed the proposed new annual caps for the year ending 31 December 2005 (the "Proposed 2005 Annual Caps") as compared to the annual caps for the year ending 31 December 2004 under the Existing Waiver (the "2004 Annual Caps"). We have also reviewed all the assumptions made by the Board in respect of the New Proposed Annual Cap and are of the view that they have been prepared with due care and diligence by the Directors.

For the Non-Exempt Continuing Connected Transactions (A), (C) and (D) described above, the Utilisation Rate for the six months ended 30 June 2004 is relatively low ranging from 17.5% to 32.4%, even taken into account of the fact that the recorded volume for that period only represented a half-year figure. Nevertheless, given the dominant position of the CNOOC Group, the Group's major customer, in the offshore crude oil industry, the CNOOC Group and hence the Group both have significant potential opportunities for further expansion and development of its business and operations. To adjust the New Proposed Annual Cap to a lower level based on the historical utilisation of the Existing Caps alone would limit the ability of the Group to seize future business opportunities in its ordinary and usual course, and may have adverse impact on the Group's potential growth. As

LETTER FROM QUAM

such, we are of the view that it is prudent and reasonable for the Company to set the Proposed 2005 Annual Caps for these Non-Exempt Continuing Connected Transactions at the same level as the relevant 2004 Annual Caps. For the same reasons, we are of the view that it is in the interest of both the Company and the Independent Shareholders that the respective annual growth rate represented by the New Proposed Annual Cap for each of these Non-Exempt Continuing Connected Transactions is maintained at the same level or slightly lower as that represented by the relevant annual caps under the Existing Waiver.

For the Non-Exempt Continuing Connected Transactions (B) and (E) described above, the Utilisation Rate for the six months ended 30 June 2004 was 43.9% to 61.5% respectively, which was relatively high especially in the light of the fact that the recorded volume for that period only represented a half-year figure. Hence, we consider it reasonable that the Proposed 2005 Annual Caps for these Non-Exempt Continuing Connected Transactions are set at a higher level when compared to the relevant 2004 Annual Caps. It is also noted that the respective annual growth rate represented by the New Proposed Annual Cap for each of these two Non-Exempt Continuing Connected Transactions is equal to or slightly higher than that represented by the relevant annual caps under the Existing Waiver. Given the historical increase in the volume of these two Non-Exempt Continuing Connected Transactions described above, we are of the opinion that the aforementioned bases are reasonable.

For the Non-Exempt Continuing Connected Transactions (F), it is noted that that the Proposed 2005 Annual Caps are substantially higher than that of the recorded figures for the Relevant Period discussed above. Nevertheless, as the Proposed 2005 Annual Caps will allow the Group more flexibility to manage its funds in an efficient manner in order to reduce its transactional expense overlays, and that it is subject to the actual performance of the Group by limiting to 40% of the Group's audited consolidated total turnover in the immediately preceding financial year, we are of the view that the proposed basis is reasonable.

Based on the foregoing, we are of the opinion that the New Proposed Annual Cap is fair and reasonable so far as the Independent Shareholders are concerned and in the interest of both the Company and the Independent Shareholders as a whole.

4. Conditions of the Agreement

It is noted that the Agreement contains the following conditions in relation to the Non-Exempt Continuing Connected Transactions:—

- (a) The Non-Exempt Continuing Connected Transactions shall be:—
- entered into by the Group in the ordinary and usual course of its business;
 - conducted either on normal commercial terms or, if there are no sufficient comparable transactions to judge whether they are on normal commercial, on terms that are no less favourable to the Group than terms available to/from independent third parties; and
 - entered into in accordance with the Agreement and on terms that are fair and reasonable and in the interests of the Shareholders as a whole;

LETTER FROM QUAM

- (b) Brief details of the Non-Exempt Continuing Connected Transactions will be disclosed in the Company's next and each successive annual report, each accompanied with a statement of opinion of the independent non-executive Directors in such manner as referred to in paragraph (c) below;
- (c) The independent non-executive Directors will review annually the Non-Exempt Continuing Connected Transactions, and will confirm in the Company's annual report for the financial year in question that the Non-Exempt Continuing Connected Transactions under their review were conducted in the manner as stated above;
- (d) The auditors of the Company will review annually the Non-Exempt Continuing Connected Transactions, and confirm in a letter to the Board (a copy of which letter will be provided to the Stock Exchange at least 10 business days prior to the bulk printing of the annual report of the Company) in respect of each relevant period, during which the Non-Exempt Continuing Connected Transactions were conducted, stating that:
 - (i) the Non-Exempt Continuing Connected Transactions have been approved by the Board;
 - (ii) the Non-Exempt Continuing Connected Transactions have been entered into in accordance with the terms of the Agreement;
 - (iii) the value of the Non-Exempt Continuing Connected Transactions has not exceeded the respective New Proposed Annual Cap; and
 - (iv) the Non-Exempt Continuing Connected Transactions have been entered into in accordance with the pricing policy of the Group,

and where for whatever reasons, if the auditors of the Company decline to accept the engagement or are unable to provide the auditors' letter, the Board will contact the Listing Division of the Stock Exchange immediately;

- (e) The Company will, and will procure the CNOOC Group to, provide the auditors of the Company with full access to the relevant records of the Non-Exempt Continuing Connected Transactions for the purpose of the auditors' review as referred to in paragraph (d) above; and
- (f) The Company will comply with the applicable provisions of the Listing Rules governing connected transactions or will apply for waiver from strict compliance with the relevant requirements in the event that the total amount of the Non-Exempt Continuing Connected Transactions exceeds the relevant New Proposed Annual Cap, or that there is any material amendment to the terms of the Agreement.

Given the above, we are of the opinion that there will be sufficient procedures and arrangements in place to ensure that the Non-Exempt Continuing Connected Transactions will be conducted on terms that are fair and reasonable so far as the Independent Shareholders are concerned.

LETTER FROM QUAM

RECOMMENDATION

Having taken into account the principal factors and reasons as discussed above, and in particular the following:—

- the background and nature of the Non-Exempt Continuing Connected Transactions and reasons for the entering into the Agreement;
- the basis of determination of the New Proposed Annual Cap;
- the basis of the considerations for the Non-Exempt Continuing Connected Transactions; and
- the conditions stipulated under the Agreement,

we consider that the terms and conditions of the Agreement and the Non-Exempt Continuing Connected Transactions (including the New Proposed Annual Cap) are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole.

Accordingly, we advise the IBC to recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the Agreement and the New Proposed Annual Cap relating to the Non-Exempt Continuing Connected Transactions.

Yours faithfully,

For and on behalf of

Quam Capital Limited

Richard D. Winter

Karen C. Wong

Managing Director

Director

1. RESPONSIBILITY STATEMENT

This Circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement herein misleading.

2. DIRECTORS' INTERESTS AND SHORT POSITION

As at the Latest Practicable Date, none of the Directors, chief executive or supervisors of the Company held any interest or short position in the shares, underlying shares and debentures (including options) of the Company or any of its associated corporation (within the meaning of the SFO) notifiable to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies of the Listing Rules, to be notified to the Company and the Stock Exchange.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, according to the register of interest kept by the Company under Section 336 of the SFO and so far as was known to the Directors or chief executive of the Company, the following are details of the persons (other than a director, supervisors or chief executive of the Company) who had an interest or short position in the shares (including options) or underlying shares in the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital (including any options in respect of such capital) carrying rights to vote in all circumstances at general meeting of any other member of the Group:

Name	Capacity and nature of interest	Number and Class of shares (Long position)	Approximate percentage in the respective class of share capital of the Company	Approximate percentage of the issued share capital of the Company
China National Offshore Oil Corporation	Directly beneficially owned	2,460,468,000 domestic shares	100.00%	61.58%

Name	Capacity and nature of interest	Number and Class of shares (Long position)	Approximate percentage in the respective class of share capital of the Company	Approximate percentage of the issued share capital of the Company
J.P. Morgan Chase & Co.	Directly beneficially owned	242,276,000 H shares	15.78%	6.07%
	Through a controlled corporation (<i>note a</i>)	143,027,000 H shares	9.32%	3.58%
The Capital Group Companies, Inc.	Directly beneficially owned	212,048,800 H shares	13.82%	5.31%
J.P. Morgan Chase Bank	Directly beneficially owned (<i>note a</i>)	143,027,000 H shares	9.32%	3.58%
Morgan Stanley	Directly beneficially owned	121,389,000 H shares	7.91%	3.04%
Government of Singapore Investment Corporation Pte. Ltd.	Directly beneficially owned	77,139,000 H shares	5.03%	1.93%

Note:

(a) The ordinary shares are held by J.P. Morgan Chase Bank, which is wholly owned by J.P. Morgan Chase & Co.

Save as disclosed above, according to the register of interests kept by the Company under Section 336 of the SFO and so far as was known to the Directors or chief executive of the Company, there was no other person who, as at the Latest Practicable Date, had an interest or short position in the shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, beneficially interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any member of the Company or in any options in respect of such capital.

4. PROFESSIONAL QUALIFICATION AND CONSENT

The following is the qualification of the expert who has given its opinion or advice which is contained in this Circular:

Name	Qualification
Quam Capital Limited	a deemed licensed corporation under the SFO and engaged in types 4 (advising on securities), 6 (advising on corporate finance) and 9 (asset management) regulated activities

- (a) Quam is not beneficially interested in the share capital of any member of the Group and has no right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group.
- (b) Quam has given and has not withdrawn its written consent to the issue of this Circular with inclusion of its opinion and the reference to its name included herein in the form and context in which it appears.

5. OTHER INTERESTS OF THE DIRECTORS

As at the Latest Practicable Date:

- (i) none of the Directors had any direct or indirect interest in any assets which have been, since the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by, or leased to any member of the Group, or are proposed to be acquired or disposed of by, or leased to, any member of the Group; and
- (ii) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which contract or arrangement is subsisting as at the date of this circular and which is significant in relation to the business of the Group.
- (iii) none of the Directors had any competing interests that would be required to be disclosed under Rule 8.10 of the Listing Rules if he was a controlling shareholder.

6. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading positions of the Company since 31 December 2003, the date to which the latest published audited financial statement of the Company were made up.

7. SERVICE CONTRACT

As at the Latest Practicable Date, each of the independent non-executive Directors has entered into a service contract with the Company for a term of three years, renewable upon re-election. Each of the independent non-executive Directors receives a basic remuneration of RMB200,000 per year.

Apart from the foregoing, no Director or supervisor has a service contract with the Company which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

8. GENERAL

- (a) The secretary of the Company is Chen Weidong.
- (b) The Company has not appointed a qualified accountant as required by Rule 3.24 of the Listing Rules and details of the delay in appointment of the qualified accountant are set out in the Company's announcement dated 30 September 2004.
- (c) The principal share register and transfer office is Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (d) In the event of inconsistency, the English language text of this Circular shall prevail over the Chinese language text.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the offices of Sidley Austin Brown & Wood at 39th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong from the date of this Circular up to and including 7 November 2004:

- (a) the articles of association of the Company;
- (b) the Agreement;
- (c) the letter of recommendation from the IBC, the text of which is set out on pages 17 to 18 of this Circular;
- (d) the letter issued by Quam, the text of which is set out on pages 19 to 29 of this Circular;
- (e) the written consent of Quam referred to in paragraph 4 of this appendix;
- (f) the annual report of the Company for the two years ended 31 December 2002 and 2003; and
- (g) the interim report of the Company for the six months ended 30 June 2004.

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

(Incorporated in the People's Republic of China as a joint stock limited liability company)

The Extraordinary General Meeting (“EGM”) of China Oilfield Services Limited (the “Company”) will be held on 5 November 2004 (Friday) 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 1 January 2005 until 31 December 2007.

By way of Special Resolutions:

3. To approve the resolution regarding the amendment of the articles of association of the Company 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, the Company intends to make corresponding amendments to Articles 75, 97, 102 and 138. An additional amendment to Article 118 is also proposed. 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.

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 meeting 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 of this article shall remain unchanged.

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, 24 August 2004 (Amended 20 October 2004)

Notes:

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

- (3) The Company's Register of Member will be closed from 28 September 2004 (Tuesday) to 28 October 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 27 September 2004 (Monday) for completion of the registration of the relevant transfer in accordance with the Articles of Association of the Company.

Computershare Hong Kong Investor Services Limited's address is as follows:

46th Floor, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

- (4) 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.
- (5) 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.



COSL

CHINA OILFIELD SERVICES LIMITED

中海油田服務股份有限公司

(Incorporated in the People's Republic of China as a joint stock limited liability company)

Proxy Form for Extraordinary General Meeting

Number of Shares related to this proxy form ^(note 1)	H Shares/ Domestic Shares*
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I(We) ^(note 2) _____

of (address) _____

being the holder(s) of ^(note 1) _____

H Share(s)/ Domestic Share(s)* of China Oilfield Services Limited ("COSL" or the "Company") now appoint ^(note 3) _____

(I.D. No.: _____ of (address) _____

_____) / or failing him, the Chairman of the meeting as my (our) proxy to attend and vote for me (us) on the ordinary and special resolutions in accordance with the instruction(s) below and on my (our) behalf at the Extraordinary General Meeting ("EGM") to be held at 10:00 a.m. on 5 November 2004 (Friday) at the Multi-function Conference Room, 3/F., CNOOC Plaza, No. 6, Dongzhimenwai Xiaojie, Beijing, China for the purpose of considering and, if thought fit, passing those resolutions as set out in the notice convening the said meeting. In the absence of any indication, the proxy may vote for or against the resolutions or abstain at his own discretion ^(note 4).

By way of Ordinary Resolutions:	For	Against
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 1 January 2005 until 31 December 2007.		
By way of Special Resolutions:		
3. To approve the resolution regarding the amendment of the articles of association of COSL and to authorize the Board to file these amendments with the relevant departments of the People's Republic of China upon approval.		

Date: _____

Signature: _____ ^(note 5)

Notes:

- Please insert the number of share(s) registered in your name(s) relating to this form of proxy. If no number is inserted, this form of proxy will be deemed to relate to all of the shares in the capital of the Company registered in your name(s).
- Please insert full name(s) and address(es) in BLOCK LETTERS.
- Please insert the name and address of your proxy. If this is left blank, the chairman of the EGM will act as your proxy. One or more proxies, who do not have to be member(s) of the Company, may be appointed to attend and vote in the meeting provided that such proxies must attend the meeting in person on your behalf. Any alteration made to this proxy form must be signed by the signatory.
- Attention: If you wish to vote FOR any resolution, please indicate with a "✓" in the appropriate space under "For". If you wish to vote AGAINST any resolution, please indicate with a "✓" in the appropriate space under "Against". In the absence of any such indication, the proxy will vote or abstain at his discretion.
- This form of proxy must be signed under hand by you or your attorney duly authorized in writing. If the appointer is a corporation, this form must be signed under its common seal or under hand by any director or agent duly authorized by such corporation. If a person has been authorized to sign this form of proxy on behalf of an individual or corporate shareholder, the power of attorney or other document authorizing such person to sign this form of proxy must be notarized and together with this form delivered, in the case of a holder of Domestic Share(s), to the Company at 65/F., Bank of China Tower, 1 Garden Road, Hong Kong, and in the case of a holder of H Share(s), to Computershare Hong Kong Investor Services Limited, 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, at least 24 hours before the time designated for the holding of the EGM.

* Please delete as appropriate.