

Chairman's Statement



Fu Chengyu

Chairman

Dear Shareholders

In 2004, the continued efforts of China Oilfield Services Limited ("COSL") in enhancing effectiveness and efficiency has brought forth a significant growth in all business segments and resulted in a record high for overall operational performance. I am delighted to report the operational results of COSL in 2004 as follows.

Group turnover for 2004 amounted to RMB3,824 million, representing an increase of RMB761.7 million, or 24.9%, when compared to RMB3,062.3 million recorded in 2003. Net profit recorded RMB702 million, representing an improvement by 50.6% compared to last year.

In 2004, CNOOC Limited made total investments of US\$2,390 million in E&P activities, a significant increase of 51% compared to 2003, which has directly boosted the demand for well services. We identified and took advantage of this favorable setting by increasing the level of CAPEX. For the two years since our listing, we have invested a total of approximately RMB3,000 million in fixed assets. Resources were allocated to further enhance equipment, general operation, and technological standards, which in turn benefited COSL with higher returns.

The progress of our integrated project management (IPM) program was another key highlight in 2004. The integrated service model not only allows us lower the risks of our customers, but it also creates new income sources and enhances COSL's service portfolio by introducing new business segments into the model. In 2004, the amount of income realized from the IPM program recorded more than RMB700 million, representing a 71% increase compared to last year, and contributed 18% of the total turnover. In view of this, we will continue to enhance and develop our IPM program, so as to bring out the best of our supply chain and integrated capabilities.

COSL strives to enhance its corporate governance and best practices. We make sure to abide by all statutory compliances, and as a Hong Kong listed company, we strictly follow all regulations, as it is always our mission to ensure we operate under a transparent and well-governed environment. With this in mind,

we have recently in the 2004 Annual General Meeting approved the appointment of one more independent director. We have also established a new Audit & Supervision Department with an objective to strengthen our internal audit and control as well as to improve risk awareness and management, which, in a long run, leads to a sustainable healthy growth as a whole.

Looking into 2005, opportunities and challenges both lie ahead. The new growth cycle we are currently experiencing will create more opportunities for the entire global oil industry, including oilfield services. Global investment in E&P activities should also increase substantially, urging for good quality oilfield services. We expect E&P activities in offshore China will continue to grow. According to the business strategy and development plan of 2005 that CNOOC Limited announced in February of 2005, CAPEX on E&P activity is expected to reach US\$2,456 million, accelerating by 28.6% compared to 2004, with 16 oil fields under development, three more wells compared to 2004. Looking forward, we see good potentials for COSL to benefit from these opportunities.

In order to excel in the competitive environment we expect to experience in the coming year, COSL sets a business strategy based on four key principles: technologically-driven, cost efficiency, integrated services and overseas presence. We will further invest to improve our equipments and technological development with focusing on increasing productivity and enhancing precision on data collection. We will also leverage on our core competencies to further develop our IPM program as a core focus.

In 2004, we mainly operated in the domestic market, and thus had less market share in overseas markets. However, it is our clear direction to prudently increase international presence. In 2004, COSL achieved significant growth in the Indonesia market. We expect that there will be breakthrough in our overseas business in 2005.

I am satisfied with the performance of the past three years, as we have realized all our promises. Throughout all these years, while developing our business, we strive to achieve a "win-win" situation and create values for shareholders, customers and employees. With our proven success in the past years, the progressiveness of our staff and our corporate mission, "Achieve excellence!" and "We must do better!", I am convinced that COSL will have infinite potentials for the years to come.

I would like to thank the Board of Directors for their continued effort in enhancing corporate governance and strategic development of COSL as well as our management team, which, under the leadership of Mr. Yuan Guangyu, CEO of COSL, has made such significant progress for COSL this year. Finally, I would like to give my special appreciation to our shareholders and stakeholders, who have always been the drive for our betterment.



Fu Chengyu
Chairman