

CEO's Report

Yuan Guangyu

Chief Executive Officer



Dear Shareholders

China Oilfield Services Limited marched strong into its third year of operation in 2004 as a listed company. Turnover grew by 25% compared to last year, representing the largest increase since its became a listed company in 2002, with a three-year compound annual growth rate of 17.4%. We controlled our costs effectively while ensuring the provision of the best services. As a result, we were able to achieve operating and net profit margins that were among the highest within the global league. We also prepared ourselves for growth with capital expenditures of approximately RMB3,000 million. Furthermore, in the past three years, we solidified our leading position in the domestic market while making good progress in overseas market penetration. Operating capacity was greatly improved following our hard work and success in developing new oilfield services technologies. We are delightful with these achievements, for they are promises we made and delivered to our shareholders. The fulfillment of our promises shows that we are enhancing our overall value and are very well capable of bringing good returns to shareholders.

We enhanced our capabilities in all aspects of our services by putting more equipment into services in 2004. Subsequent to the lease of a drilling rig in 2003, we purchased a second hand jack-up rig in 2004 which has commenced operation in early 2005, following a scheduled service to restore its drilling functions. We also made a good progress in our construction of our 400-foot jack-up rig. We made these efforts with a view to ease the shortage of supply in drilling rigs offshore China. In addition, we added a total of ten marine support vessels to our fleet, as part of our effort to strengthen our fleet's capacity as well as to capture more market share. We purchased a number of well service related equipment during the year so as to enhance technological capabilities and our competitiveness in the international arena. In geophysical services, our four and six-streamer seismic vessels underwent an upgrade in order to boost our seismic collection skills.

The Company positioned itself pretty well in 2004 in terms of maintaining good customer relationships and developing company-wide awareness on the importance of offering only the best. Keeping this in mind, we managed to sustain our position as the dominant oilfield services provider in the offshore China market. There is great demand for oilfield services in the domestic market. With good corporate governance and best practices, and riding on a supply shortage in oilfield services in the international market, there was a breakthrough in Indonesia market. Bohai 4 won drilling service contracts in Indonesia for two straight years, and we continued to make progress in the well services segment. We have been involved in well workover, and cementing in Indonesia and we also won a bid for a electric submersible pump servicing contracts.

Technology development is the driving force of COSL's business. In 2004, several technological intellectual properties were gradually integrated into production and commercial use. Our in-house development of the ELIS logging system, for example, has passed the production test required for daily operation. The successful implementation of this domestic-developed system enabled us to narrow our gap in logging technology advancements amongst our global peers. We are especially delighted to be able to take part in this breakthrough of the domestic surface logging development. Our drilling fluids and cementing business also picked up after our continuous efforts in developing these technologies. With a view to find better synergies between our research and development and integrated program management projects, in 2004, we merged our R&D center and IPM departments, and had also set up an oilfield technology lab as better support for our data collection and oilfield technology related research.

By identifying a strategy to gain business through differentiation, not only do we broaden our service scope, but also fully demonstrate our professionalism in the field. This strategy enabled us to provide better services to our customers by utilizing more advanced technologies while opening up more revenue sources. In 2004, our IPM program achieved good results. After winning a contract in a Kerr-McGee development well through our IPM program, we again managed to win turnkey contracts in well workover rig servicing arrangement for the Nanbao platform, contracts in Shanghai Pinghu and Shell's BZ35, etc. We entered into eleven contracts for IPM projects in 2004 with total contracts amount of RMB712 million, which made up 18% of our total revenue, representing an increase of 5% compared to 2003.

Safety is always an important part in our corporate culture. Humanity and health have always been the fundamental values in COSL's operating philosophy. In 2004, while we actively implementing our ISM program, we also strived to find ways to set up additional safety precautions wherever needed, with a view to abide by international standards. During the year, we appointed Dupont as our consultant in safety management, who promoted a safety culture within our company, and also helped to design training programs for safety awareness among our management and staff. Our OSHA incident rate in 2004 was at a relatively low level of 0.27.

We anticipate global oil price to remain at a high level in 2005, which should stimulate an even higher level of E&P activity of oil companies. It indicated that COSL would take part in this new growth cycle. With a robust Chinese economy that we expect to continue, high demand in oil products, increasing E&P investments in the offshore China market, we are confident that COSL will experience a good year ahead of us. We will not let go of these opportunities and will strive to expand our source of revenue in the following ways:

- 1) To increase our capacity and put more equipment into use so as to maintain and increase our market share;
- 2) To tackle business in oil production platforms and to consider possibilities of offering chemical product transportation, which we hope to become one of our new business;
- 3) To enhance precision of our integrated turnkey projects and to put more emphasis in this area;
- 4) To increase market share in overseas markets.

We will take advantage of our success over the past years to build an even stronger base in the coming year. Our management is confident to lead our company towards new horizons with the help of good growth in domestic and international E&P activities and to deliver fruitful returns to our shareholders. Lastly, I must once again thank our staff for their hard work and all our shareholders for their support and trust over the years.



Yuan Guangyu
Chief Executive Officer