
International
Penetration

Management Discussion & Analysis

Industry Review

Benefiting from a strong worldwide economic growth and high oil prices, the global oilfield services industry saw a year of growth in 2004, having bounced from a low level in 2002.

The global economy experienced an exceptional year with strong and comprehensive growth. The World Bank forecasted a 4% total economic growth in its World Economic Outlook, published on November 16, 2004, making 2004 the fastest growing year in economic growth since 1978. The report also suggested that the United States and China were two of the major bodies that contributed most to the acceleration of 2004's global economy, with the United States growing at 4%, and China growing at 9.2%. 55 other key economic bodies also achieved economic growth.

Major oil price hikes brought on major concerns in 2004. International oil prices continued to reach new highs since January, having exceeded US$55 per barrel twice during the year on the West Texas Intermediate (WTI), once on October 22 and the second time on October 27. Even though oil price levels experienced a correction after hitting an all time high, average price still stood at a very high level. WTI crude oil prices averaged at US$41.31 in 2004, an increase of 32.7% compared to 2003. High oil prices encouraged oil production countries to boost their production. In the fourth quarter of 2004, global crude oil supply reached 84.3 million barrels per day. In October, OPEC accounted for an average of 30.61 million barrels/day since it responded to demand growth by maximizing production in May. This represented the highest daily production output of OPEC in the past 25 years.

Typically, high commodity prices boost cash inflow of oil and natural gas exploration and production (E&P) companies, which then translates into higher investments into E&P activities, which then benefits the oilfield services industry. According to surveys

Three Years global oilfield services industry at glance:

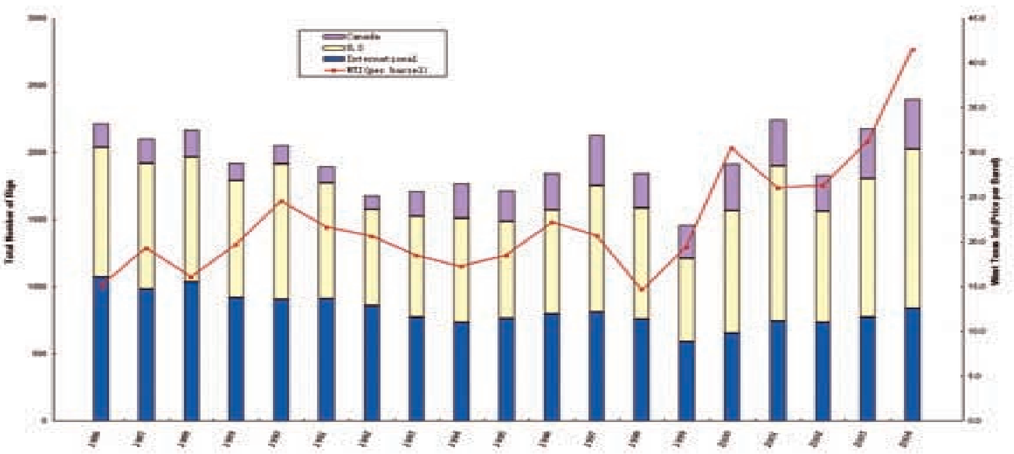
	2004	%increase	2003	%increase	2002
Number of drilling platforms: (1)					
North America (United States, Canada)	1,686	10.1	1,531	27.2	1,204
Outside of North America	869	8.2	803	6.6	753
Global total	2,395	10.2	2,174	18.9	1,829
Onshore drilling platforms	2,052	11.8	1,836	23.6	1,485
Offshore drilling platforms	343	1.5	338	1.7	344
Commodity prices: (2)					
Crude Oil (West Texas Intermediate)	$41.31	32.7	$31.14	20.1	$25.92
Natural Gas (Henry Hub)	$5.85	3.9	$5.63	69.1	$3.33

(1) Annual average number of drilling platforms — Source:Baker Hughes Incorporated rig count information.

(2) Annual average crude oil and natural gas prices (WTI, Henry Hub)

Industry Review continued

Oilfield services industry trends
since 1986 (Drilling activity vs. Crude oil prices)



Sources: Total number of rigs — Baker Hughes, Inc. (www.bakerhughes.com)
West Texas Intermediate Crude Price — Department of Energy, Energy Information Administration(www.eia.doe.gov)

conducted by Bakerhughes, number of drilling platforms in North America and other international markets grew by 10.1% and 8.2%, respectively. There were a total of 2,395 active drilling platforms, 343 of which were offshore platforms. According to figures from ODS-Petrodata, average utilization rate for offshore drilling platforms in 2004 was approximately 85%, while in February 2005 the number went up to an average of 87.6%. The European and Mediterranean markets had average utilization of 92.8%, which was a notable high in recent years.

China had healthy economic growth in 2004 under the government imposed macroeconomic control. High demand in energy led to a new wave of expansion in offshore exploration and development activities. According to public information released by CNOOC Limited (0883.HK), capital expenditure in exploration and development activities grew by 76% to reach US$1,920 million in 2004. As the leading integrated oilfield services provider in the offshore China market, COSL benefited from this continued growth of exploration and development activities offshore China. In 2004 we continued to experience strong market demand for our drilling services, which is one of our four core business segments. We drilled a total of 241 wells, an increase of 23% compared to last year.

Apart from drilling services, COSL offers a full range of other oilfield services, including well services, marine support and transportation as well as geophysical services, spanning each phase of the exploration, development and production process. In line with our long term development strategies, we will continue to synergize and integrate our services so as to provide efficient and effective and professional and integrated services to our customers.

Drilling services

Business Review

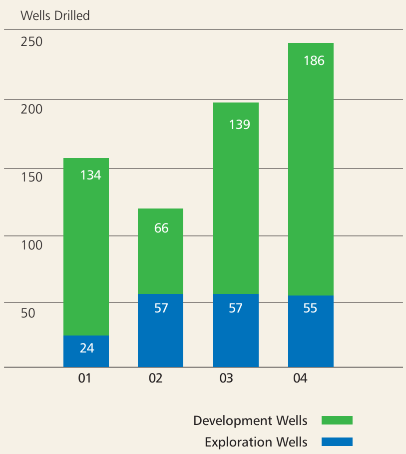
Drilling Services

We are the leading provider of drilling services in the offshore China market. We own thirteen drilling rigs, including ten jack-up rigs and three semi-submersible rig. We also operate one leased drilling rig. In 2004, we drilled a total of 241 wells, including 55 exploration wells and 186 development wells.

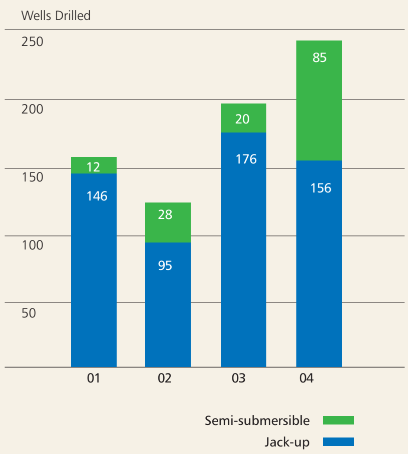
As the leading provider of offshore drilling services, we also provide platform maintenance and well workover services apart from the usual services we provide to our customers. We continued to put more drilling equipments into services so as to keep up with the high oil and gas E&P activities in 2004. In July, we purchased a second hand 350 feet jack-up rig. Construction of our 400 feet jack-up rig commenced on September 1, while our leased 300 feet jack-up rig underwent an upgrade of its adjustable legs in November upon completion of an assignment in the Bohai Bay area. Our efforts in improving our drilling capabilities were paid off as we saw greater increases in drilling activity. We drilled a total of 241 wells, an increase of 45 wells, or 23%, compared to last year. 55 of the wells drilled were exploration wells, while 186 were development wells. In 2004 we drilled a total of 176 wells in the Bohai Bay area, including 28 and 148 exploration wells and development wells, respectively. We drilled 37 wells in South China Sea, with 17 and 20 exploration wells and development wells, respectively. We drilled four exploration wells in East China Sea, while we drilled a total of 24 wells in Indonesia, including six and eighteen exploration wells and development wells, respectively.

Our drilling rigs operated for a total of 4,519 days, a 994 day increase compared to last year. Operating days for our jack-up rigs increased by 573 days, while operating days for our semi-submersible rigs increased by 421 days compared to last year. As operating days increased, average utilization rate rose from 87.4% to 98.8%. Average utilization rate for our jack-up rigs increased from 94.1% to 98.4%, while average utilization rate for our semi-submersibles increased from 65.0% to 100% this year. As of the end of 2004, average day rate for our drilling rigs was US$36,899/day, a 6.3% increase compared to 2003. Average day rate for our jack-ups was US$33,270/day, representing a 5.6% increase compared to 2003.

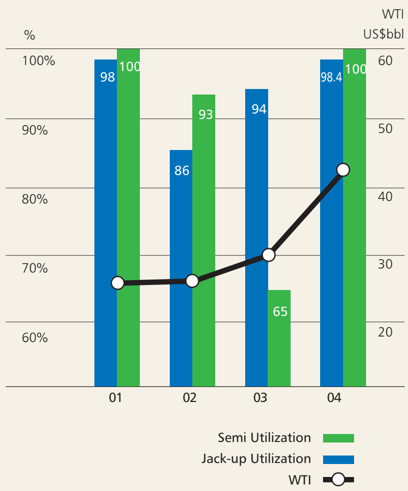
Wells Drilled by COSL



Wells Drilled by Jack-up & Semi-submersible



Utilization Rates



Wells Drilled by Area

	1999	2000	2001	2002	2003	2004
Bohai Bay	167	109	144	76	134	176
East China Sea	-	4	1	-	1	4
South China Sea	11	7	4	7	11	37
Overseas	-	-	-	-	25	24
Total Wells Drilled	186	144	158	123	196	241

Average day rate for our semi-submersibles fell by 1.9% to US$49,176/day, mainly because Nanhai 2 provided 159 days of platform support services. The rate we charge for platform support services is approximately 60% of our standard drilling day rate.

In 2004, by providing well workover services to ConocoPhillips, Devon Energy, CACT, JHN, CNPC and CNOOC, we were able to achieve promising growth in this area. We operated for a total of 7,315 days/team in 2004, up 11% compared to 6,600 days/team in 2003. We also actively offered workover rig building services , including a project worked on in the Nanbao 35-2.

At the end of March, we selected Dalian New Shipbuilding Heavy Industries Co., Ltd. to construct a 400-feet jack-up rig. Construction of the rig began on September 1. As of the end of March 2005, we reviewed design and construction details, inspected and received several parts and equipments, and completed construction of individual parts.

In July we purchased a second hand jack-up rig, COSL 931. The rig, with adjustable legs of 479 feet long, is capable of drilling in water depths of up to 350 feet, and can drill a maximum of 21,666 feet in depth. It was transported from United Arab Emirates to Haikou, Hainan to recover of its drilling functions in mid August. The repair had completed at the end of the year, and has been providing drilling services in Western South China Sea since January 2005.

As of December 31, 2004, we owned 13 drilling rigs, including ten jack-up rigs and three semi-submersible rigs. We also operated one leased rig. Of these rigs, six of them operated in the Bohai Bay area, three operated in South China Sea, one rig served in Indonesia, one was under maintenance in Tanggu, Tianjin, one was in Shekou, Shenzhen for periodic servicing, one was in Haikou, where repairs were performed to recover its basic drilling functions, while one was being upgraded in Dalian.

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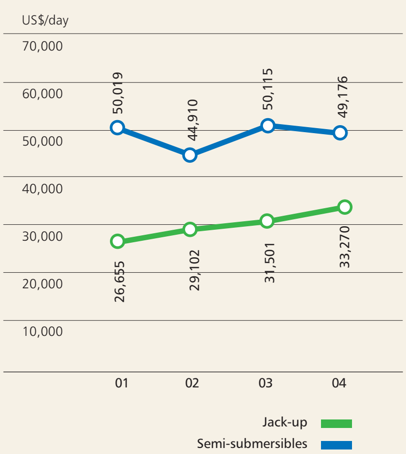
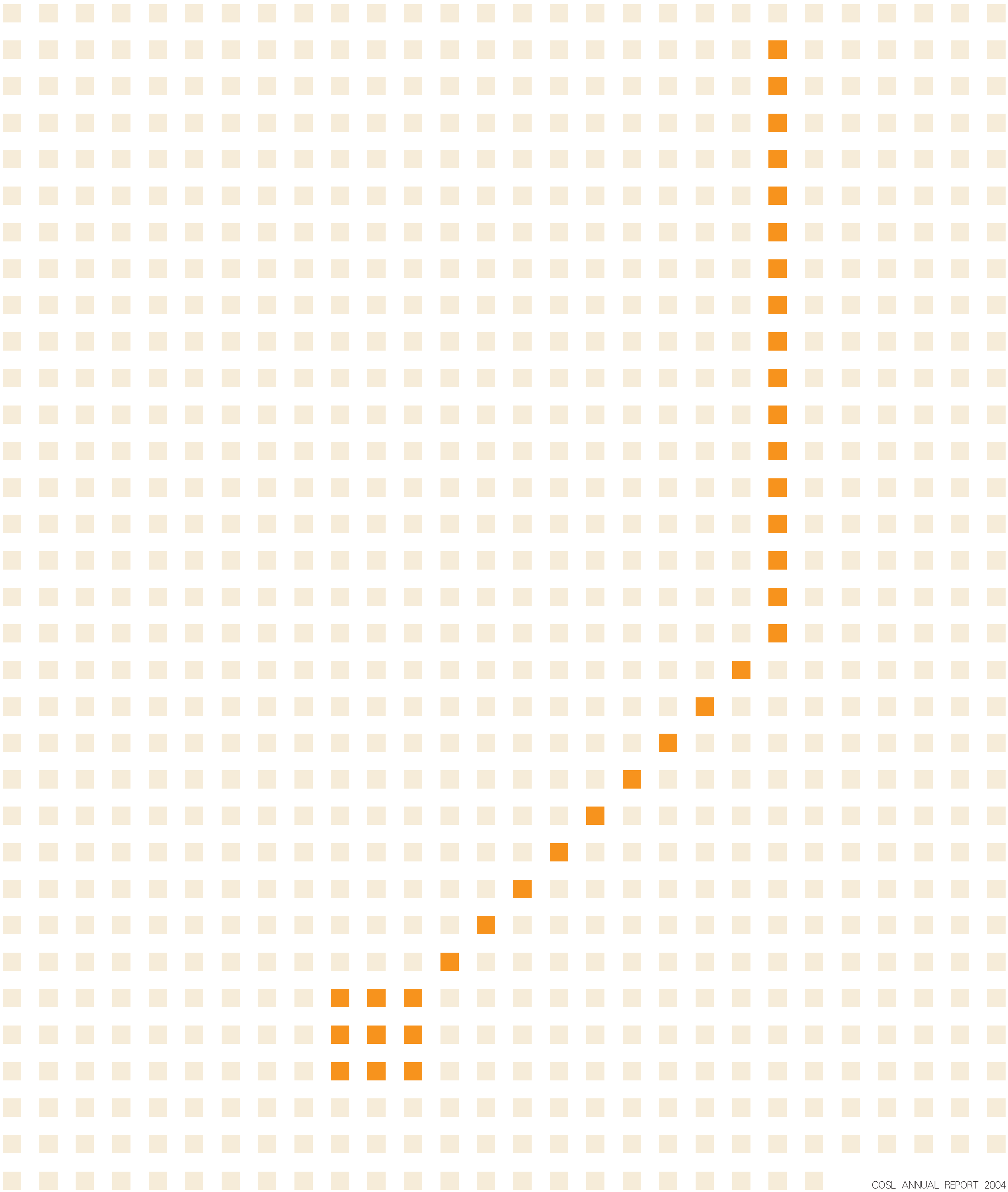
2004 Rig Assignments

Rig	Operator	Wells	Location
BH4	CNOOC SES	24	Indonesia
BH5	CNOOC Ltd.	23	Bohai Bay
BH7	CNOOC Ltd.	26	Bohai Bay
BH8	KERR-McGEE	18	Bohai Bay
BH9	CNOOC Ltd.	10	Bohai Bay
BH9	CONOCOPHILLIPS	1	Bohai Bay
BH9	SHELL Ltd.	2	Bohai Bay
BH10	KERR-McGEE	13	Bohai Bay
BH10	CNOOC Ltd.	1	Bohai Bay
BH12	CNOOC Ltd.	28	Bohai Bay
NH1	CNOOC Ltd.	44	Bohai Bay
NH2	CNOOC Ltd.	7	South China Sea
NH2	DEVON	2	South China Sea
NH4	CNOOC Ltd.	15	South China Sea
NH4	ROCK OIL	2	South China Sea
NH5	CNOOC Ltd.	4	East China Sea
NH5	CNOOC Ltd.	4	South China Sea
NH5	STAT OIL	1	South China Sea
NH6	CNOOC Ltd.	6	South China Sea
COSL935	CNOOC Ltd.	8	Bohai Bay
COSL935	KERR-McGEE	2	Bohai Bay
Total		241	

Comparative Day Rates



Well services



Business Review continued

Well Services

We have over 30 years of experience in offshore well services. As the strongest and largest well services provider in the offshore China market, the services we provide including logging, drilling fluids, directional drilling, cementing, well completion and data totalization services. We utilize advanced technology and equipments controlled by a team of professionals, with a view to provide the best and most comprehensive onshore and offshore well services to our customers.

With crude oil prices standing high throughout the whole year of 2004, there was a high demand in exploration and development activities. The number of drilling platforms around the world increased because of this. Together with our purchases of an Ontrack logging tool and a formation evaluation logging-while-drilling (LWD) tool, we found ourselves making pleasant progress in well services compared to last year.

Logging

We completed 585 logging trips in 2004, an increase of 152 trips, from 433 trips in 2003. Turnover from logging services amounted to RMB231 million, compared to RMB213 million in 2003. This 8% increase was primarily a result of an increase in logging activity for exploration and development wells.

Drilling Fluids

We offered drilling fluids services on drilling, well completion and well workover tasks for 292 wells in 2004, an increase of 75 wells compared to 217 wells in 2003. The increase in volume led to a 12% growth in income generated from drilling fluids services, from RMB172 million in 2003 to RMB192 million in 2004.

Cementing

We experienced a good year for cementing services in 2004, having completed cementing services on 236 wells, 74 wells more wells compared to 162 wells in 2003. Turnover generated from cementing services was RMB174 million, a 44% growth compared to RMB121 million in 2003. With our improved cementing slurry system, we were able to maintain our competitiveness in the cementing area, which helped to improve our turnover.

Directional Drilling

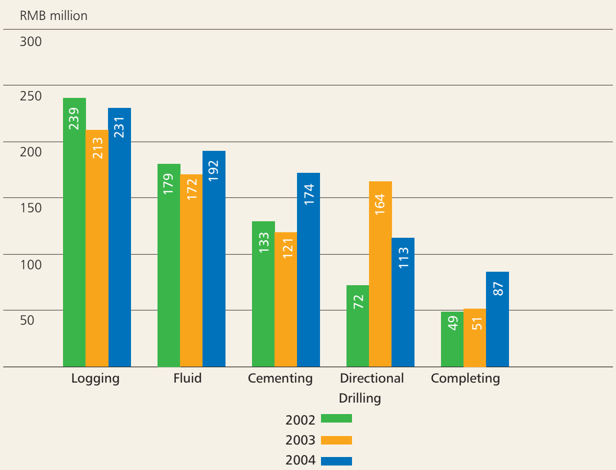
We performed directional drilling services on 191 wells in 2004, an increase of 52 wells compared to 139 wells in 2003. Turnover from directional drilling services amounted to RMB164 million, compared to RMB113 million in 2003. This 45% increase was attributable to an increase in work volume, as well as our work efficiency through the use of the LWD and the directional rotating and steering technology.

Other Well Services

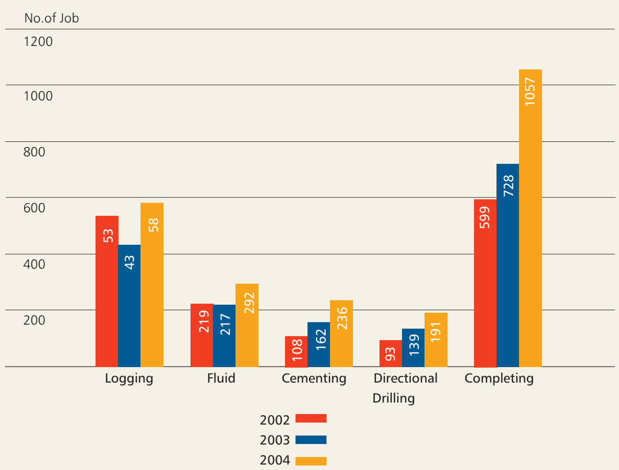
Apart from providing the well services mentioned above, we also offer other well services to our customers, including well completion services and data totalization services (DTS). In 2004, we completed 1,057 trips compared to 728 trips in 2003. We recorded RMB93 million in turnover from other well services in 2004, an increase of 72% compared to RMB54 million in 2003. This increase is primarily due to higher activity in well completion services.

In 2004 our well services made great strides in our overseas expansion. Following a successful bid of Bohai 4 for a cementing project in Indonesia in 2003, we further earned an electrical submersible pump servicing contract and a new cementing contract in Indonesia in 2004.

Well Services Revenue Breakdown



Well Services Job Breakdown



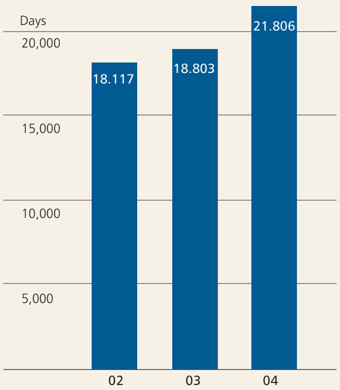
Marine Support and Transportation Services

Business Review continued

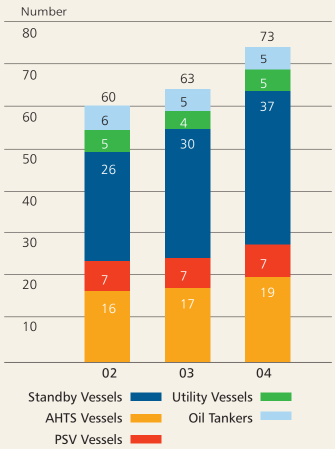
Marine Support and Transportation Services

We own and operate the largest and most comprehensive marine support fleet in the offshore China market. As of December 31, 2004, we operated a total of 68 marine support vessels and five oil tankers. Our vessels mainly operate in the offshore China region, while working occasionally in other regions. Our marine support vessels provide support to offshore oil and gas exploration, development and production in a number of ways, including supply and crew transportation, tow, position and anchor drilling rigs. Our oil tankers are used to transport crude oil.

Total Number of Operating Days



Total Number of Fleet



Key specifications for each of our newly added support vessels in 2004

Vesse	Type	Length (feet)	BHP	kW	Gross Tonnage
NH222	AHTS	227	14,150	10,400	2,411
COSL688	AHTS	231	8,320	6,120	1,953
BH287	AHTS	230	8,160	6,000	1,944
COSL623	Standby	227	8,160	6,264	1,960
BH221	Standby	227	6,908	5,080	1,890
COSL653	Standby	226	6,404	4,708	1,980
COSL654	Standby	226	6,404	4,708	1,980
COSL655	Standby	226	6,404	4,708	1,980
COSL656	Standby	226	6,404	4,708	1,980
XSJ1	Utility	131	6,090	4,480	738

Having put a few newly build marine support vessels into service in 2004, we had higher work volume in marine support services. Operating days increased by 16.0% compared to 2003. Average utilization rate and day rate of our support vessels also increased. Given the above factors, we achieved fairly good results in this business segment in 2004.

In 2004,. total operating days of our marine support fleet increased from 18,803 days in 2003 to 21,806 days in 2004. Average utilization rate grew from 96.6% in 2003 to 98.8%, while average day rate grew by approximately 0.3%. Our oil tankers had a 3.0% increase in transportation volume, from 1,162,327 tons in 2003 to 1,196,900 tons in 2004.

A total of ten new vessels were put into service in 2004, further enlarging our fleet to a new level. As of December 31, 2004, we owned 68 marine support vessels and five oil tankers. 38 vessels operated in the Bohai Bay area. 21 vessels provided services in South China Sea, three vessels operated in Eastern China Sea, while one was deployed to Saudi Arabia. Five vessels were under maintenance. All five oil tankers were engaged in operations in the Bohai Bay area.

In 2004, we reacted to an overwhelming market demand for marine support services by temporary leasing four marine support vessels to provide extra support. Leased vessels operated a total of 350 days, an increase of 216 days compared to 2003.

Geophysical Services

Business Review continued

Geophysical Services

We are the dominant provider of geophysical services in the offshore China market. We also operate in other regions including the Americas, the Middle East, offshore Africa and offshore Europe. Our geophysical services are divided into two main categories — seismic and surveying. We own a fleet of six seismic vessels and three geotech survey vessels.

Seismic Services

In 2004, we collected 3,076 km² of 3D seismic data and 43,226 km of 2D seismic data. 3D seismic data collection increased by 2,339 km², or 31.5%, compared to last year, mainly due to a work activity increase in the South China Sea as well as the enhanced efficiency of Binhai 501, following its quarter deck equipment and streamer upgrades. 2D data collection fell by 7.5% compared to 46,737 km last year, primarily because of a decrease in 2D capacity in 2D markets, and because Binhai 518 was fully transformed into a vessel that offers purely 3D data services.

We processed 19,696 km and 2,273 km² of 2D and 3D seismic data, respectively, in 2004. 2D data processing increased by 8,752 km, compared to 10,944 km last year, mainly due to an increase in activity in Eastern China Sea and South China Sea. As a result of higher activity in the Bohai Bay area, 3D seismic data processing increased by 445 km², compared to 1,828 km² in 2003.

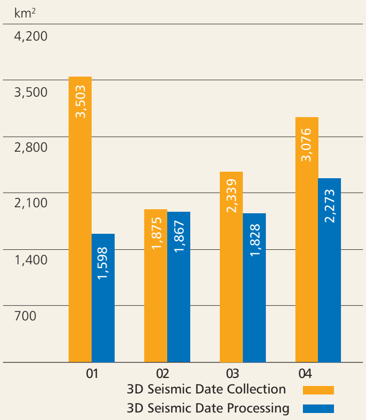
As of December 31, 2004, COSL owned six seismic vessels. Of the fleet, four vessels performed services in the Bohai Bay area. One vessel operated in South China Sea, while one was being serviced in Columbia.

Surveying Services

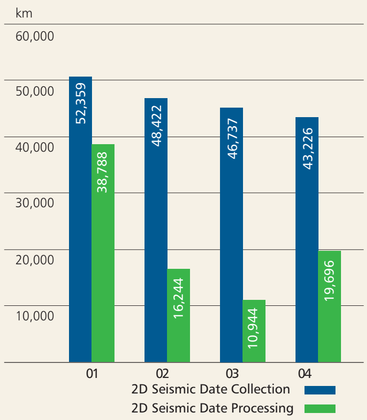
In 2004, we owned and operated three marine geotech survey vessels. They mainly operated in the Bohai Bay, East China Sea and South China Sea. Turnover from these services totaled RMB102 million, representing a decrease of RMB21 million, or 17%, compared to RMB123 million last year. This decrease was mainly due to a decline in offshore and onshore surveying activity compared to last year.

Our new geotech survey vessel was completely built as of the end of February 2005.

3D Seismic Date Collection and Processing



2D Seismic Date Collection and Processing




IPM
Integrated
Project
Managment

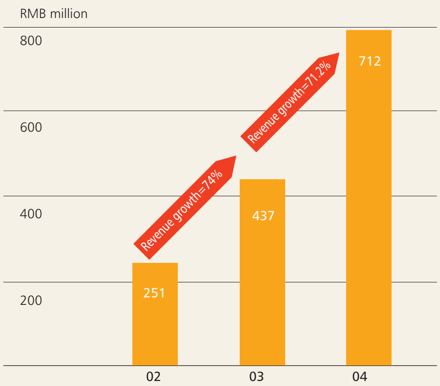
Business Review continued

Integrated Project Management "IPM"

In 2004 we further enhanced the Integrated Project Management, or IPM program, we offered our customers. We focus on satisfying our customers' need by providing a comprehensive chain of service that come in options of turnkey or bundled contracts. We were able to get more business that required higher technological skills. We also satisfied our customers' needs by utilizing advanced equipments in our projects. This helped to increase our profit margin as well as the overall competitiveness of our company. With hard work and active promotion of this program, the IPM program has generally been accepted by our customers. 2004 was a successful year for our IPM program, having further extended our market base, having provided services in Pinghu, well workover in Bohai Bay and Shell's BZ35 etc. We entered into 11 contracts under our IPM program, an increase of 3 contracts compared to 2003. Under our IPM program, we offer services ranging from drilling, cementing, drilling fluids, directional drilling, sand control, tubing conveyed perforation (TCP), LWD, DTS and remotely operated vehicles (ROV) etc.

Turnover generated from our IPM program involved a total contract amount of RMB712 million in 2004, an increase of 71.2% compared to RMB416 million in 2003. These contracts made up 18% of our total turnover in 2003, compared to 13% in 2003.

IPM Revenue Contribution




500 mL
± 5%
Technology
Driver

Business Review continued

Research & Development

Enhancing technical capabilities has always been one of the main focuses in our long term development strategies. Therefore we seek to upgrade our existing equipments and services whenever possible, as well as to develop new technologies in order to satisfy our market demands and customer needs. Owning patented technologies is important in maintaining one's competitiveness. COSL owns 71 registered patents since 1999. In 2004 we applied for 34 additional patents. 20 of these applications were awarded patents, three of which were utility patents.

In order to better implement our research & development and integrated project management, we merged our existing R&D and IPM centers to form one integrated technology department.

In 2004 we successfully researched and developed a surface imaging instrument, a formation evaluation tool, a dielectric phase induction logger, rotary sidewall coring system, time-lapse marine seismic technology and deepwater drilling fluids system. We consider this to be a breakthrough in our IPM program. On the other hand, we had launched our oilfield research laboratory, which is a good foundation to enhance our data collection and chemical related oilfield technologies, so as to raise our capability in these areas.

Financial Review

Turnover

Turnover increased by RMB761.7 million, or 24.9%, from RMB3,062 million in 2003 to RMB3,824 million in 2004. This increase can be attributable to a significant increase in turnover from drilling services, marine support and transportation services and well services.

We recorded a turnover of RMB1,715.9 million from drilling services in 2004, representing an increase of RMB433.4 million, or 33.8%, compared to turnover from drilling services of RMB1,282.5 million last year. This increase was mainly because of an increase in drilling day rate, the operation of our leased COSL 935, and rise in total rig operating days driven by higher average utilization rate, as well as an increase in well workover services provided to production platforms owned by our customers.

Turnover from well services grew by RMB181.8 million, or 27.0%, from RMB672.5 million in 2003 to RMB854.3 million in 2004. The increase in turnover was mainly because there was a general increase in well services activity, and also the exceptional performances in the directional drilling and cementing projects we performed, in which we made use of advanced technology and new tools.

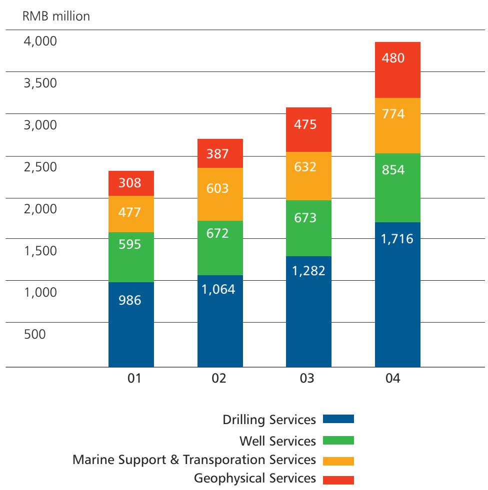
Turnover from marine support and transportation services rose by RMB141.5 million, or 22.4%, from RMB632.0 million last year to RMB773.5 million in 2004. This increase mainly resulted from the operation of our newly-built vessels and an increase in average utilization rate of our vessels.

Turnover from geophysical services grew by RMB5.0 million, or 1.1%, from RMB475.3 million in 2003 to RMB480.3 million in 2004. The increase in turnover was mainly due to an increase in activity in South China Sea as well higher 3D data collection activity as a result of Binhai 501's improved efficiency.

Other Revenues

We earned RMB23.5 million in other revenues in 2004, a large portion of which came from insurance claims.

Overall Revenue



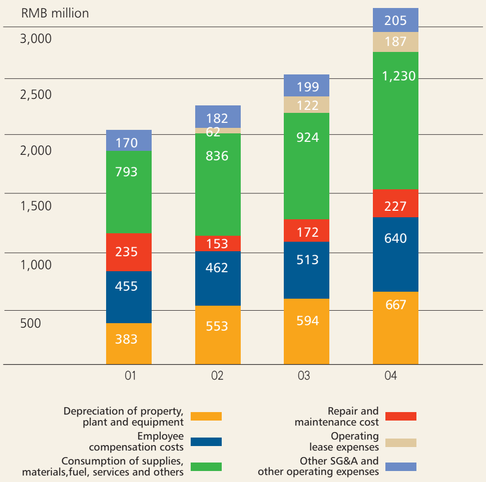
Operating Expenses

As of December 31, 2004, we recorded total operating expenses of RMB3,155.3 million, an increase of RMB631.1 million, or 25%, from total operating expenses of RMB2,524.2 million in 2003. This increase was mainly due to an increase in costs related to consumption of supplies, materials, fuel services and others, employee compensation costs, operating lease expenses and depreciation costs. A surge in raw material prices related directly to our costs in drilling parts and equipments affected

Financial Review continued

material consumption costs to a certain extent. Employee compensation costs increased by RMB127.1 million, or 24.8%, mainly from increased personnel needed to operate our two newly added drilling rigs and ten newly added marine support vessels. Operating lease expenses rose by RMB65.3 million, mainly from the leases of COSL 935, a set of Reservoir Characterization Instrument (RCI) and certain marine support vessels to complement increased marine support and transportation activity.

Total Operating Expenses



Depreciation of property, plant and equipment increased by RMB73.0 million, or 12.3%, mainly due to the expansion of our fleet and purchase of drilling equipments. Repair and maintenance costs rose by RMB55.0 million, or 31.7%, primarily attributable to the maintenance of Bohai 4, Bohai 5 and Nanhai 5.

In the year 2004, operating expenses from drilling services increased by RMB340.2 million, or 33.8%, to RMB1346.3 million, from RMB1006.1 million in 2003. This increase was mainly related to an increase in costs related to consumption of supplies, materials, fuel, services and others, operating lease expenses and employee compensation costs. Depreciation costs increase by 29.5 million, or 12.1%, to RMB272.8 million, mainly from the acquisition of equipments related to the modifications of our drilling rigs. The addition of personnel for the operation of two newly added drilling rigs (including COSL931, which began operating in mid January 2005) and for two well workover projects we performed. Repair and maintenance costs were RMB147.5 million, an increase of 47.5 million, or 47.4%, mainly for the maintenance of several rigs, including Bohai 4, Nanhai 5 and Bohai 12. Nanhai 2 also underwent a mandatory servicing conducted every five years. Driven by a growth in work activity and increases in equipment prices, specifically for the installation of top drive drilling systems and other tools, costs related to consumption of supplies, materials, fuel, services and others amounted to RMB480.4 million, increasing by RMB146.8 million, or 44.0%, compared to last year. Operating lease expenses amounted to RMB81.8 million, representing an increase of RMB45.3 million, or 124.4%, compared to 2003. This increase was largely related to the leasing of COSL 935 and a centrifuge to support Bohai 4's activity in Indonesia. Increased environmental protection costs resulted in a RMB5.5 million increase, or 7.2%, in other selling, general and administrative expenses, to RMB82.4 million in 2004.

In 2004, well services operating expenses increased by RMB170.4 million, or 30.2%, to RMB735.5 million, from RMB565.1 million in 2003. A rise in costs related to the consumption of supplies,

Financial Review continued

materials, fuel, services and others, employee compensation expenses and depreciation costs contributed to most of this increase. With our acquisition of new equipments including a formation evaluation LWD tool and a set of Ontrack logging too, depreciation costs grew by RMB24.5 million, or 28.0%, to RMB112.0 million. The addition of personnel led to an increase of RMB21.1 million, or 17.1%, to RMB145.4 million. Costs related to the consumption of supplies, materials, fuel, services and others were RMB372.4 million, an increase of RMB104.8 million, or 39.2%. This rise was attributed to consumption increases related to higher cementing and drilling fluids activity, and increased subcontracting expenses. Operating lease expenses rose by RMB10.0 million to RMB53.5 million, primarily attributable to the lease of a set of RCI.

In 2004, operating expenses from marine support and transportation services increased by RMB115.6 million, or 20.9%, to RMB669.1 million, from RMB553.5 million in 2003. A rise in costs related to the consumption of supplies, materials, fuel, services and others, operating lease expenses and depreciation costs contributed to most of this increase. Depreciation costs were RMB218.7 million, rising by RMB13.3 million, or 6.5%, compared to last year, mainly for the addition of new marine support vessels to our fleet. Employee compensation costs rose by RMB32.2 million, or 27.9%, to RMB147.7 million, mainly related to the addition of personnel to support the arrival of our new vessels. With surging material prices and the increased work volume directly related to the operation of our new marine support vessels, costs related to the consumption of supplies, materials, fuel, services and others increased by RMB47.3 million, or 32.9%, to RMB191.0 million. Operating lease expenses were RMB27.6 million, a rise of RMB18.5 million, or 203.3%, mainly because we leased several marine support vessels to support business needs.

Geophysical services operating expenses increased by RMB4.9 million, or 1.3%, from RMB399.4 million in 2003 to RMB404.4 million in 2004. This increase mainly resulted from increases in repair and maintenance costs, costs related to the consumption of supplies, materials, fuel, services and others, offset by a decrease in operating lease expenses and other selling, general and administrative expenses. Repair and maintenance costs amounted to RMB20.7 million, representing an increase of RMB5.8 million, or 38.9%, compared to last year. These costs arose mainly from the maintenance performed on our vessels, including Bohai 511 and Bohai 512, to boost their 3D collection capabilities. Costs related to the consumption of supplies, materials, fuel, services and others increased by RMB6.7 million or 3.7%, to RMB186.2 million, primarily from the purchase of supplement parts for vessel maintenance purposes. Operating lease expenses decreased by RMB8.6 million, or 26.5%, to RMB23.9 million, mainly because our customers were responsible for the leasing of convoy vessels operating in South China Sea. As a result, we incurred fewer costs related to the leasing of convoy vessels. Other selling, general and administrative expenses fell by RMB13.7 million or 36.5%, to RMB23.8 million, since we had on overseas traveling expenses.


Leading
Cost Structure

Financial Review continued

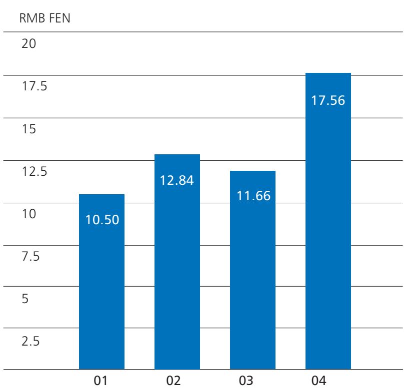
Profit from Operations

We recorded operating profits of RMB692.2 million, representing an increase of RMB142.4 million, or 25.9%. Operating profit from drilling services increased by RMB95.2 million, or 34.1%, to reach RMB374.3 million. Well services operating profit grew by RMB17.4 million, or 15.7%, to RMB127.9 million.Operating profit from marine support and transportationservices increased by RMB26.0 million, or 32.8%, to RMB105.2 million. Geophysical services operating profit amounted to RMB 84.7 million, recording a slight increase of RMB3.8 million, or 4.7%, compared to last year.

Financing Gain / Loss

In 2004, we realized a financing gain of RMB34.5 million, representing an increase of RMB3.0 million, compared to financing gains of RMB31.5 million in 2003. This increase was directly resulted from an increase in bank deposit interests and currency exchange differences of RMB2.1 million and RMB0.9 million, respectively.

EPS



Share of Profit from Jointly-Controlled Entities

Our share of profit from jointly-controlled entities in 2004 amounted to RMB99.2 million, an increase of RMB50.3 million over last year, mainly because of large improvements in operating results of China Nanhai-Magcobar and China France Bohai Geoservices that contributed to an increase in our share profit from these investments.

Profit before Tax

Profit before tax for the year of 2004 was RMB825.9 million, representing an increase of RMB195.7 million, or 31.1%, compared to profit before tax of RMB630.2 million in 2003. This increase is mainly due to an encouraging improvement in operating results of our drilling services, marine support and transportation services as well as well services.

Taxes

In 2004, we had tax liabilities of RMB124.1 million, a decline of RMB40.1 million, or 24.4%, compared to 2003. This decline was mainly a result of an increase in profit before tax and the tax incentive we enjoyed for being recognized as an advanced technology enterprise. With this tax incentive, we received a tax refund of RMB128.9 million in 2003, which we applied towards our tax expenses for 2004. We applied a similar tax refund of RMB45.5 million to our tax expenses in 2003.

Profit after Tax

Our profit after tax increased by RMB235.8 million, or 50.6%, from RMB465.9 million in 2003 to RMB701.1 million in 2004.

Financial Review continued

Distributions

In 2004, we distributed a special interim dividend of RMB91.5 million, or RMB2.29 cents per share. We expect to declare a final dividend distribution of RMB175.4 million, or RMB4.39 cents per share. The recommended distribution date is June 15, 2005 (Wednesday).

Debt Servicing Ability and Funding Resources

Cash and cash equivalents were RMB2,198.6 million at January 1, 2004. Cash provided by operations was RMB1,511.6 million. Cash outflow from investment activities was RMB863.2 million2004. Cash outflow from capital raising activities was RMB182.2 million. Fix deposits of three months or above and short term investments of three months or below also led to a drop in balance by RMB502.5 million. Cash and cash equivalents were RMB2,162.3 million at December 31, 2004, representing a decrease of 1.7% over the period under review.

Long term payable to CNOOC reduced from RMB600 million to RMB400 million as RMB200 million is payable within one year.

Cash Provided by Operations

Net Cash provided by operations in 2004 increased by RMB640.3 million, or 73.5%, to RMB1,511.6 million. While profit from operations increased by RMB142.4 million, depreciation costs also increased by RMB73.0 million. Cash provided by trading and other accounts payable and salary and benefits payable to employees increased by RMB275.8 million and RMB199.9 million, respectively. At the same time, an increase in accounts receivable and other receivables led to a decrease of RMB61.5 million in cash provided by operations.

Capital Expenditures and Investments

Total capital expenditures for 2004 increased by RMB497.6 million, or 44.7%, to RMB1,611.9 million. Capital expenditures for drilling services were RMB855.9 million, mainly for the construction of the 400 feet drilling rig and the purchase of COSL931. Well services capital expenditures were RMB193.9 million, mainly for the purchase of LWD tools and sand control pumps. Capital expenditures for marine support and transportation services were RMB450.2 million, primarily for the construction of support vessels. Capital expenditures for geophysical services amounted to RMB111.8 million, primarily for the upgrade Binhai 501's seismic data collection capability, and the building of a geotech survey vessel.

Cash Provided by Capital Raising Activities

In 2004 our cash outflow from capital raising activities was RMB182.2 million, mainly for dividend distribution. We did not exercise any other external capital raising activities during the period under review.

Outlook

According to United Nations' World Economic Situation and Prospects 2005 that was published on January 25, 2005, global economic growth for 2005 is forecasted at approximately 3.25%, which is slightly lower than the 4% growth in 2004. The report also predicts that even though high oil price and policy measures intended to avert economic overheating would slow down growth, the world economy would still remain positive rather positive.

A report published by the International Energy Agency on January 18 suggests that demand for crude oil will remain high in 2005. According to the report, demand growth was at a high magnitude, surging ahead by 2.6 million barrels/day, or 3.3%, in 2004, compared to 2003, representing the highest rate of demand growth since 1976. The 2005 global oil demand forecast has been raised to 1.44 million barrels/day. The report also suggests that although both world economic growth and global oil demand growth are expected to be slow down in 2005, demand growth will still exceed supply growth. At the same time, further supply disruptions cannot be ruled out in an environment marked by geopolitical uncertainty.

According to the business strategy and development plan of 2005 that CNOOC Limited, one of our major customers and the largest offshore oil and gas production company, announced in February 2005, they expect capital expenditures for 2005 E&P activities to reach US2,465 million, an increase of 28.6% over 2004. They also expect the number of development wells to reach 16, an increase of 3 wells compared to 2004.

Given the above previews on what we may expect in the coming year, we are optimistic that E&P activities and oilfield services will be able to ride on their momentum going into 2005. We will still be putting our core focus on the offshore China market, while looking out for suitable expansion in overseas markets, including Southeast Asia.

Looking into 2005, the operation of our newly purchased jack-up rig, COSL 931, is expected to further stimulate growth of our drilling services. With increased drilling volume and further promotion of our IPM program, we expect our well services to attain healthy growth. The application of new technology should also strengthen our capabilities and competitiveness in this area. For geophysical services, having performed and completed streamline maximization on one of our seismic vessels and data collection capability upgrades on Binhai 501, our 3D collection and processing capabilities should go up. In terms of surveying, the addition of our geotech survey vessel is expected to boost our seabed foundation analysis capabilities.

Our main strategies for 2005 will be to strengthen technological innovation, to maintain healthy cost structure, to integrate management and to penetrate into international markets. As we enter a new economic cycle, we strive to stay abreast with market trends while strengthening our market position, to strengthen our management and to expand our market share, so as to continual growth in overall profitability.