



## CEO'S REPORT

Dear Shareholders,

2005 was a continuously rapid developed year for COSL. During the year, with conscientious implementation of the Board's decisions and the Company's strategies, we have achieved progress in the aspects of revenue growth, QHSE system, corporate governance, management process restructure, human resources, market expansion and new business development, equipment ability improvement, technology improvement, IPM, and our organization and execution capabilities.

### Business performance maintained at a good level

In 2005, the business performance of the Company reached new heights.

Turnover and net profit of the principal operations were RMB4.79 billion and RMB821 million respectively, representing increases of 25.2% and 17.0% compared with the same period last year. Operating profit margin reached 17.8%. ROA and ROE were 8.7% and 11.2%, respectively. Turnover increased by RMB965 million compared with that in 2004. This was mainly driven by the increased operating activities, higher rates, investment in technology and development of overseas markets.

From 2001 to 2005, turnover of the Company increased from RMB2.37 billion to RMB4.79 billion, representing a compound annual growth of 19.3%. Net profit increased from RMB273.1 million to RMB821.0 million, representing a compound annual growth of 31.7%. Total assets grew by 92.0% from RMB5.03 billion to RMB9.66 billion (of which fixed assets increased from RMB3.05 billion to RMB7.26 billion, representing an increase of 138.0%). Shareholders' equity increased

by 160.5% from RMB2.94 billion to RMB7.66 billion. Driven by its sustained and impressive performance, the Company's market capitalization was HKD12.48 billion based on the issued capital at the closing time on 30 December 2005 (the last trading day of 2005), representing an 86.0% growth as compared with HKD6.71 billion when the Company's shares were listed on 20 November 2002. COSL has realized sustainable, rapid growth and high quality, efficient development since its listing.

### Continual enhancement of the QHSE system

In 2005, the Company promoted the comprehensive and effective implementation of the QHSE system. This has kept quality, health, safety and environmental protection of the Company under control. Despite the challenges of an increasing work volume and rapid expansion of our workforce, safety conditions

have been stable with the unrelenting effort of all our staff. The Company did not record any major accidents during the year and no accident resulting in death occurred in our offshore operations. Compared with the same period last year, rate of occurrence of safety issues for the whole year decreased by 9.33%. Our OSHA occupational incident rate was 0.29.

### Development of IPM business

In 2005, IPM business experienced significant development and achieved satisfactory results in many projects: the IPM of the adjustment wells in Bohai played an important role in increasing the output of old oilfields for customers; the IPM of the appraisal wells in Western Nanhai, led to newly discovered reserves for customers; the IPM in Jidong not only facilitated our customers to achieve the purpose of drilling, but also brought new awareness of the Company's IPM services. Strong demand for COSL's IPM services resulted from our customers' increased awareness of them. In 2005, the Company's IPM business recorded RMB887.0 million of revenue, accounting for 18.5% of the total revenue and an increase of 24.6% as compared with the same period last year.

### Market diversification and internationalization

Diversification and internationalization of markets and customers are the way for COSL to expand its business scale, improve quality, enhance risk resistance and establish the COSL brand. Internationalization is one of the Company's four core strategies. Under the premises of consolidating the domestic market and maintaining core market advantages, the development of overseas market achieved considerable progress in 2005. At present, our operations cover 13 countries and regions. Sales revenue from overseas markets in 2005 accounted for 9.1% of the Company's total turnover, representing an 87.1% increase as compared with the same period last year. This demonstrates the ongoing enhancement in the degree of internationalization of the Company.

### Important breakthroughs achieved by improved in-house technology

As at 31 December 2005 COSL owns 28 patents and 39 R&D projects were launched in 2005, such as cementing, directional drilling and drilling fluids, of which 9 were patented. The Enhanced Logging Image System (ELIS) developed by the Company has been successfully applied in offshore production, which has tapped into the Middle East market. The key technology and equipment of the offshore time shift earthquake have been approved by the national team of 863 experts. Our research on deep water semi-submersible seabed apparatus has been successful. These results have urged us to further strengthen our belief and fortify our confidence, therefore further improve the execution of our technology-driven strategy.

### Increased investment in equipment development

Building up our equipment capacity is an effective way of enhancing productivity and strengthening development of the Company. The capital expenditure of COSL in 2005 was RMB2.25 billion, representing a 39.8% growth as compared with last year.

In 2005, COSL completed upgrading of several drilling rigs; two 400-ft jack-up rigs were under construction; 1 geotech survey vessel

and 1 seismic vessel were put into operation, which effectively enhanced our geophysical and exploration services capacity. One 8,000-horsepower utility standby vessel was added to the fleet, 2 chemical tankers were under construction and a second-hand chemical tanker was purchased in 2005. COSL increased its equipment investment, and 168 sets of equipment were added. Continuous building and upgrading of technical equipment, coupled with effective investment, have driven the Company's turnover growth.

Looking ahead to 2006, the world's economic development is expected to continue to rise, and globalization will remain as the trend. Oil and natural gas are still playing very important roles in economic development and international competition as strategic resources. Therefore, the investment in exploration and development activities will sustain its upward trend. Additionally, the exploration of offshore oil and natural gas in China will be further strengthened. The oilfield services industry is set to have more room for further development.

2006 is the first year for the implementation of the "11th five-year" plan, and is also a year of self-encouragement for the Company to strive to become a first class international oilfield services company.

We shall strengthen the innovation of technology, organization and management. We will continue to firmly implement the four core strategies, pursue a competition strategy to differentiate ourselves by capitalizing on our competitive edges. We will improve technology management, accelerate technology development and seek new breakthroughs. Strengthening the IPM services, improving services quality and efficiency, we will strengthen and enhance the development of overseas markets and operations management, and enhance the quality of our internationalization development. We will continue to increase investment in technical equipment, and concretely proceed with the projects of building deep water drilling rig and Liftboat. We will accelerate the development of human resources to make it as our main driver. We will strengthen the QHSE management, enhance services quality and control safety risks, so as to build a brand name of safe and quality service. We will expand income sources and reduce expenses, explore under-developed potentials to increase effectiveness, and sustain a high growth rate for our operating results.

In conclusion, while we are delighted about our successes in 2005, 2006 will be another milestone with new opportunities and challenges. The management has full confidence in capitalizing on the golden opportunity in the development of the industry, and lead our staff to create better results and higher value for shareholders.

I hereby express my gratitude to our staff for their hard working throughout the year. At the same time, I would also like to thank all the shareholders for their support to and trust in the Company.



**Yuan Guangyu**  
Chief Executive Officer