MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

*In 2005, international oil prices continued to reach new highs underpinned by robust demand and tight supply, even reached US$70.80 per barrel, an all time high for over two decades. Throughout the year, New York West Texas Intermediate (WTI) averaged at US$ **56.49** per barrel, up **36.3%** from 2004.*

The world's oilfield services industry in 2005 reveals that the industry is still in an upward trend driven by consistent oil price hikes.

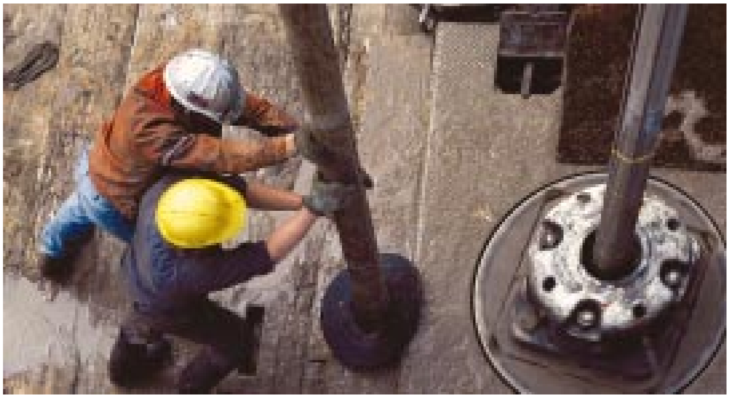
In 2005, international oil prices continued to reach new highs, to US$70.80 per barrel, an all time high for over two decades. Throughout the year, New York West Texas Intermediate (WTI) averaged at US$56.49 per barrel, up 36.3% from 2004. The 2005 international oil price trend bears two characteristics. The first is frequent changes with large fluctuations in price. There were 94 trading days with daily price swings exceeding US$1, which amounted to 36% of the total trading days of the year. On 19 September 2005, WTI futures price went up by US$4.39 per barrel when a hurricane threathened oil production in the Mexican Gulf. That was the largest daily price increase in 22 years since the introduction of crude oil futures on the New York Futures Exchange in 1983. The second characteristic is that oil prices, admist high levels, continued to surge during the year. The international oil price has been increasing for 4 consecutive years since 2002, with a year-on-year increase of 0.7%, 19.2%, 33.2% and 36.3%, respectively, and the 2005 WTI was up 118% compared to 2001.

Global Oilfield Services Market Summary for the Past 3 Years:

	2005	Increase %	2004	Increase %	2003
Rig Count (1)					
North America (the US, Canada)	1,838	17.9%	1,559	11.1%	1,403
Outside of North America	908	8.6%	836	8.4%	771
Global Total	2,746	14.7%	2,395	10.2%	2,174
Onshore drilling platforms	2,384	16.2%	2,052	11.8%	1,836
Offshore drilling platforms	362	5.5%	343	1.5%	338
Commodity Prices (2)					
Crude Oil (WTI)	$56.49	36.3%	$41.44	33.1%	$31.12
Natural Gas (Henry Hub)	$8.66	48.0%	$5.85	3.9%	$5.63

(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)

The reason behind this round of price hikes was that for the past two years, the fragile demand-supply equilibrium gave rise to market concern about oil supply, which then led to continued price surges in the international oil market. Nevertheless, the world economy continued to grow in 2005. According to an initial estimate by the World Bank, the world economy grew by 3.2% in 2005, a slowdown of 0.6% from 3.8% in 2004, yet still maintaining the vigorous rate of recent years which directly boosted oil consumption. Figures from the International Energy Association (IEA) showed that the world's daily demand for crude oil increased by 1.5%, or 1.26 million barrels, to 83.39 million barrels in 2005. In the same



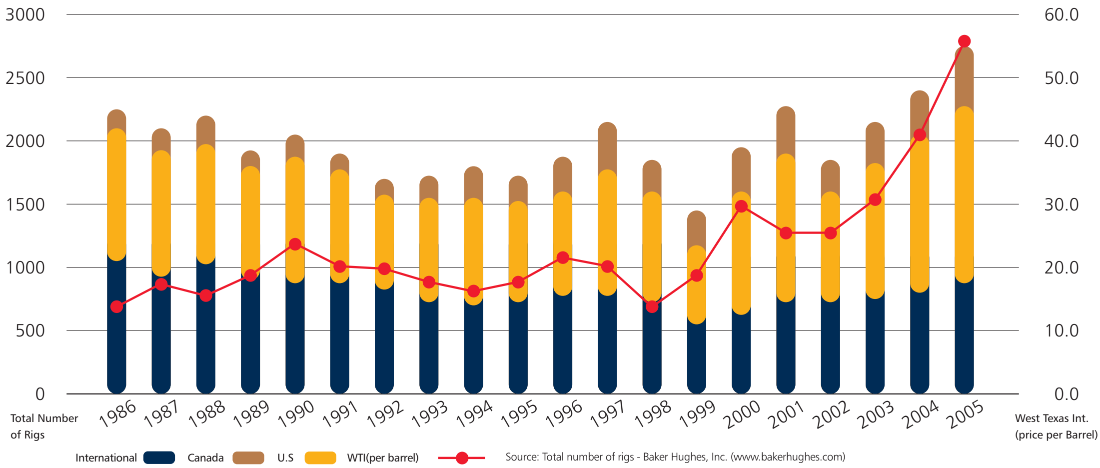
year, tight oil supply persisted because capacity growth remained stagnant for the reasons set out herein. First, there was inadequate surplus production capacity. The 2004 supply shortage remained acute in 2005 as much time is needed to produce oil (E&P). The world's per-day surplus production capacity declined to 1 million barrels from 2 million barrels in 2004, far below the average per-day surplus capacity of three to four million barrels as advised by OPEC. Second, structural adversity existed in crude oil supply. The increased production by OPEC in 2005 mostly comprised of heavy high-sulfur crude oil, as opposed to light low-sulfur crude oil generally demanded for. Third, a bottleneck in refinery capacity. According to British Petroleum's statistics, from 1993 to 2003, global crude oil refinery capacity increased 2.6% while consumption grew by 17%, creating a 14% gap. The world's daily surplus processing capacity was below three million barrels, substantially lower than 18 million barrels as recorded in the 1980s.

High oil prices means higher return for oil and natural gas E&P companies, and consequently more investments into E&P activities for increasing supplies, which ultimately enlivens the oilfield industry globally. Figures in the Bakerhughes website demonstrate major growth in the number of drilling platforms in 2005 to 2,746 sets, up by 14.7% or 351 sets compared to 2004, most of which were onshore drilling platforms, with North America being the leading growth region at a growth rate of 17.9%. Yearly supply of offshore platforms averaged at 362 sets in 2005, up by 5.5% from 2004, due to increased supply in regions other than North America. As ODS-Petrodata indicates, the utilization rate of offshore drilling platforms reached maximum levels in 2005, especially in the second half of the year, resulting in a shortage in platform supply.

In respect of China, the national economy maintained an exceptional growth rate of 9.9% in 2005, triggering enormous energy demand. According to British Petroleum, for three

INDUSTRY REVIEW (continued)

Oilfield Services Industry Trends since 1986 (Drilling rigs vs. Crude oil prices)



Source: Total number of rigs - Baker Hughes, Inc. (www.bakerhughes.com)
WTI Crude Price - Department of Energy, Energy Information Administration (www.eia.doe.gov)

consecutive years, approximately 30% of the world's incremental oil demand originated from China. In 2004, oil consumption increased by 0.9 million barrels per day, and grew at a rate of approximately 10% in 2005. China's demand for crude oil is expected to increase with robust growth in the foreseeable future, as industries like automobile, steel and chemicals are experiencing rapid development. Higher energy demand led to a new wave of expansion in offshore E&P activities. According to publicly available information released by CNOOC Limited (0883.HK), capital expenditure in exploration and development activities is estimated to grow by 34% from 2004 to US$2.27 billion in 2005. As the largest integrated offshore oilfield services provider in the offshore China market, COSL benefitted from this continued growth of E&P activities. In 2005, our revenue from principal operations reached RMB4,788.8 million, up by 25.2% compared to 2004. Sales revenue of the Company doubled from 2001 to 2005, with a combined annual growth rate of 19.3%.

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

BUSINESS REVIEW

Drilling Services

We are the leading drilling services provider in the offshore China market. We operated a fleet of 14 drilling rigs, including 10 jack-up rigs, 3 semi-submersible rigs and 1 leased jack-up rig. In 2005, we drilled a total of 246 wells, including 56 exploration wells and 190 development wells.

The year 2005 witnessed strong exploration and development activities driven by unquenched global energy demand and high oil prices, which eventually benefitted the oilfield services industry. Drilling business revenue grew 28.5% to RMB2,205.7 million. We drilled a total of 246 wells in 2005, an increase of 5 wells, of which 190 are development wells, 4 more than 186 in 2004; 56 are exploration wells, 1 more than 55 in 2004. Of the wells drilled in 2005, 167 are in the Bohai Bay, China, 57 in the South China Sea, 21 in offshore Indonesia and 1 in offshore Myanmar (the Bay of Bengal).

As of 31 December 2005, we operated a total of 14 drilling rigs (including 1 leased rig). Of these rigs, 8 of them operated in the Bohai Bay, China, 4 operated in the South China Sea, 1 operated in offshore Indonesia and operated in Myanmar (the Bay of Bengal).

In 2005, our drilling rigs operated a total of 4,604 days, an increase of 85 days from 4,519 days in 2004. Operating days of our jack-up rigs increased by 251 days, while operating days for semi-submersible rigs declined by 166 days compared to 2004. The increase in jack-up rigs' operating days is attributable to a jack-up rig (COSL931) acquired in July 2004, which commenced operation on 6 January 2005 after receiving a recovery repair and upgrade on its drilling capability; it had a total of 309 operating days in the year. Jack-up rigs had a total of 234 days under maintenance, a 77-day increase over the 157 days recorded in 2004, partly offsetting the number of days increased. Semi-submersible rigs received a total of 177 days service, a 110-day increase over 67 days in 2004, which resulted in a decline in operating days. In 2005, the average calender day utilization rate was 90.1% against 94.2% in 2004. Average day rate for our rigs was US$43,542/day, up by 18.0% against US$36,899/day in 2004. Average day rate for our jack-up rigs was US$40,405/day, representing a 21.4% growth over the US$33,270/day last year. Our semi-submersible rigs recorded an average day rate of US$57,098/day, a 16.1% increase over US$49,176/day in 2004.

As the leading drilling services provider in offshore China, we also provide production platform maintenance and well workover services. Our well workover services were enhanced during 2005 with a total of 8,483 team day, a 16.0% up from the 7,315 team day last year. We also won an integrated services contract from CNOOC SES Ltd. in Indonesia, with a total contract value of approximately US$98.36million. As per the contract, the Company will provide 4 sets of well workover machines and IPM services in well workover, retrieval, logging, testing, tubing conveyed perforation (TCP), wireline operation,

Wells Drilled by Area

	2005	2004	2003	2002	2001	2000
Bohai Bay	**167**	176	134	76	144	109
East China Sea	-	4	1	-	1	4
South China Sea	**57**	37	36	47	13	31
Overseas	**22**	24	25	-	-	-
Total Wells Drilled	**246**	241	196	123	158	144

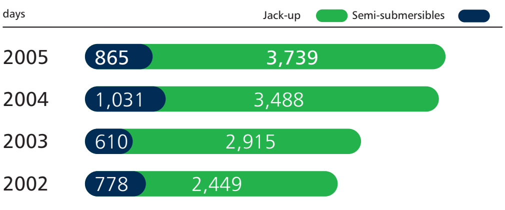
2005 Rig Assignments

Rig	Operator	Wells	Location
BH4	CNOOC SES	21	Indonesia
BH5	CNOOC Ltd.	15	Bohai Bay
BH7	CNOOC Ltd.	16	Bohai Bay
BH7	KERR-McGEE	3	Bohai Bay
BH8	KERR-McGEE	30	Bohai Bay
BH9	CNOOC Ltd.	7	Bohai Bay
BH9	Tianshi/Jidong	3	Bohai Bay
BH10	CNOOC Ltd.	20	Bohai Bay
BH12	CNOOC Ltd.	28	Bohai Bay
COSL931	CNOOC Ltd.	5	West of South Sea
COSL931	HUSKY	3	West of South Sea
COSL935 (lease)	KERR-McGEE.	15	Bohai Bay

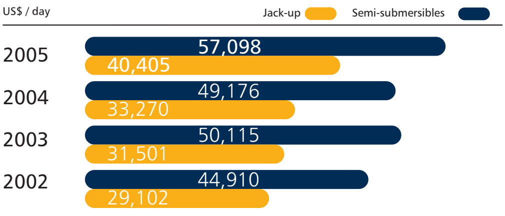
Rig	Operator	Wells	Location
NH1	CNOOC Ltd.	30	Bohai Bay
NH2	DAEWOO	1	Myanmar
NH2	CNOOC Ltd.	1	West of South Sea
NH2	CACT	1	East of South Sea
NH2	DEVON	2	East of South Sea
NH4	CNOOC Ltd.	26	West of South Sea
NH5	CNOOC Ltd.	5	East of South Sea
NH5	CACT	1	East of South Sea
NH5	STAT OIL	2	East of South Sea
NH6	CNOOC Ltd.	8	East of South Sea
NH6	CNOOC Ltd.	2	West of South Sea
NH6	STAT OIL	1	East of South Sea

Total: 246

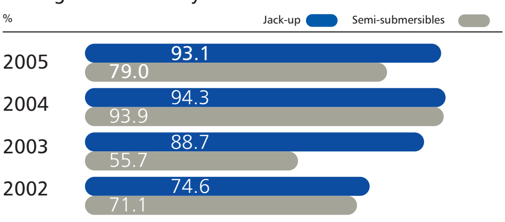
Operating Days



Drilling Day Rates



Average Calender Day Utilization Rate



cementing, well stimulation services (including hydrafrac, billabong and sealing, sand control, double pipes/Nitrogen Services and acid pumps). The contract came into effect on 4 May 2005 for a 5 year term. The successful bid on this contract represented a significant step towards opening up the overseas market to the Company and will serve as a cornerstone for the expansion of our service dimensions into a diversified market portfolio.

In response to the ever-growing demand for energy and opportunities for overseas expansion, the Company has decided, on the basis of market forecast and analysis, to invest more in drilling equipments to meet offshore exploration and development needs. The Company commenced the construction of the second 400-feet jack-up rig (COSL942) on 14 July 2005. According to the agreement, the Company and Dalian New Shipbuilding Heavy Industry Co., Ltd will jointly propose, agree upon and implement a modification scheme based on a blueprint of the construction of the first rig , which started in March 2004. Dalian New Shipbuilding Heavy Industry Co., Ltd will build the second rig on a turnkey contract basis, with a total approximate turnkey price (excluding VAT) of US$147 million. COSL942 is expected to be delivered by the end of December 2007.

Specifications of the 14 Drilling Rigs of the Company

As of 31 December 2005

Rig Name	Year Built /Rebuilt	Maker	Maximum Water Depth /Drilling Depth	Current Location	Current Customer
Jack-up Rigs					
BH4	1977	Hitachi Zosen Ship Yard	300 / 20,000 ft	Indonesia	CNOOC SES
BH5	1983	Dalian Shipyard,China	130 / 20,000 ft	Bohai Bay	CNOOC Ltd.
BH7	1983	Dalian Shipyard Co., China	40 / 6,000 M	Bohai Bay	CNOOC Ltd.
BH8	1979	MARATHON LETOURNEEN MARINE COMPANY	246 / 20,000 ft	Bohai Bay	KERR-McGEE
BH9	1984	Dalian Shipbuilding Heavy Industry Co, Ltd., China	40 / 6,000 M	Bohai Bay	Tianshi/Jidong
BH10	1980	Marathon Le Toumeau, Singapore	250 / 20,000 ft	Bohai Bay	CNOOC Ltd.
BH12	1978	Mitsubishi Heavy Industries, Ltd., Japan	56 / 6,000 M	Bohai Bay	CNOOC Ltd.
NH1	1976	Robin Shipyard (PTE) Ltd., Singapore	154 / 20,000 ft	Bohai Bay	CNOOC Ltd.
NH4	1979	Hitachi Zosen, Osaka works Sakai Japan	315 / 20,000 ft	Western of South China Sea	CNOOC Ltd.
COSL931	1995	Vyborg's Shipyard, Russia, and Finland	328 / 21,325 ft	Beibu Gulf of South China Sea	CNOOC Ltd.
COSL935 (leased)	1976/2005	JAPAN HITACHI SHIPBUILDING	300 / 20,000 ft	Bohai Bay	KERR-McGEE
Semi-Submersible Rigs					
NH2	1974	AKER GROUP	1,000 / 25,000 ft	Myanmar	DAEWOO
NH5	1983	Framnaes Mek, Norway	1,500 / 25,000 ft	modification in Youlian ship	
NH6	1982	Gotaverken Arendal Industry Co. Ltd., China	1,500 / 25,000 ft	Western of South China Sea	CNOOC Ltd.

Well Services

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

Well services benefitted from the continuous active exploration and development in offshore China, and growth in revenue from project sub-contracting, sales of well chemical materials as well as overseas business expansion. Our well services posted an extraordinary growth in 2005, turnover from well services amounted to RMB1,165.3 million in 2005, compared to RMB854.3 million in 2004, an increase of RMB311.0 million, or 36.4%.

Logging

We completed 698 logging trips in 2005, an increase of 113 trips from 585 trips in 2004. Turnover from logging services amounted to RMB215.4 million, against RMB205.8 million in 2004. The 4.7% growth is attributable to higher demand for logging services for development wells and production wells and growth in overseas business.

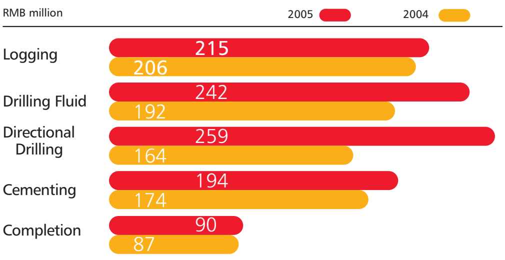
Drilling Fluids

We offered drilling fluids services on drilling, well completion and well workover tasks for 368 wells in 2005, an increase of 76 wells compared to 292 wells in 2004. Drilling fluids amounted to RMB241.5 million in 2005, increased from RMB192.0 million in 2004, which contributed to a 25.8% growth in revenue. The volume increase is attributable to higher demand for drilling fluid services and the use of crease-based fluids that requires a higher unit well charge.

Directional Drilling

We performed directional drilling services on 210 wells in 2005, 19 more than 191 trips in 2004. Turnover from directional drilling services amounted to RMB258.7 million, compared to RMB164.0 million in 2004. The 57.7% increase is attributable to an increase in outsource business, as well as an increase in horizontal wells and lateral wells that required more advanced technology and higher unit well charges.

Well Services Major Revenue Breakdown



Cementing

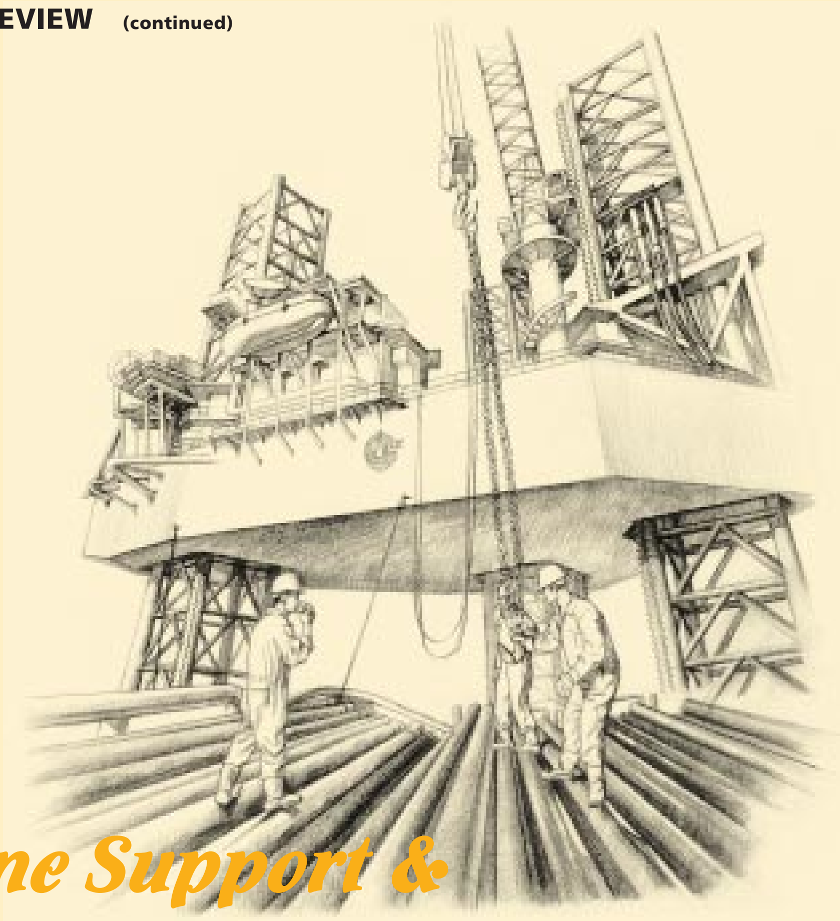
We completed cementing services on 249 wells in 2005, 13 more than 236 wells in 2004. Turnover generated from cementing services was RMB193.5 million, an 11.2% increase as compared to RMB174.0 million in 2004. Growth in revenue from cementing was driven by increases in the number of exploration wells and development wells which increased the demand for cementing services.

Sales of Well Chemical Materials

Apart from domestic sales in 2005, we further extended sales of well chemical materials to the North American market. The quality of our products gained recognition from the international market. Sales revenue in 2005 amounted to RMB123.8 million, RMB98.6 million more than the RMB25.2 million achieved in 2004.

Other Well Services

Other well services generated revenue of RMB132.4 million in 2005, an increase of RMB39.1 million over RMB93.3 million in 2004. Other well services include completion services, which revenue amounted to RMB90.0 million, RMB3.0 million increase compared to 2004. The 41.9% increase was due to the substantial growth in under-shaft services including sleeve pipe and acidification amongst others.



Marine Support & Transportation Services

We own and operate the largest and most comprehensive marine support fleet in the offshore China market. As of 31 December 2005, we operated a total of 68 marine support vessels, 5 oil tankers and 1 chemical tanker and leased 5 working vessels and 5 chemical tankers throughout the year. Our vessels mainly operate in the offshore China region, while working occasionally in other regions. Our marine support vessels provide services to offshore oil and gas exploration, development and production in a number of ways, including supply and crew transportation, tow, positions and anchor drilling rigs. Our oil tankers are used to transport crude and refined oil and gas products. Chemical tankers are used to transport chemical fluids.

With our marine support fleet and chemical tankers put into operation and a higher day rate, marine support and transportation services experienced stable growth in 2005. The number of operating days increased to 23,220, up by 6.5% from 21,805 days in 2004. Average calender day utility rate for useful days was 93.6% against 96.3% in 2004, while the average day rate increased by 6.0%.

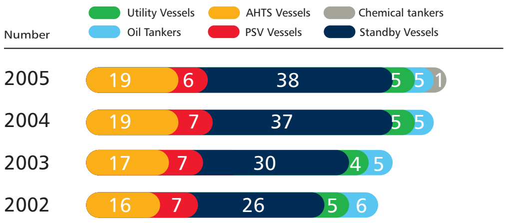
Oil tankers gross transportation volume for the period reached 1,472,300 tons, an increase of 23.0% or 275,400 tons over the 1,196,900 tons transported in 2004.

As of 31 December 2005, the Company owned 68 support vessels, 5 oil tankers and 1 chemical tanker and continuously leased 5 working vessles and 5 chemical tankers. One platform supply vessel (BH256) was modified into a Seismic Surveying Vessel Nr. 6 (COSL718) at the end of March 2005, and an additional standby vessel joined service in April 2005.

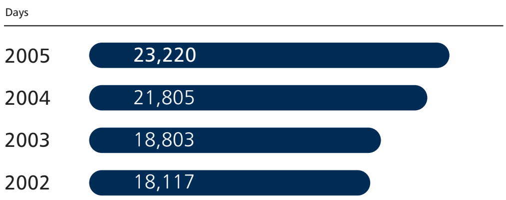
The Company adopted a well-planned selective approach for the marine transportation of chemical materials, which offers attractive long-term returns. All current transportation is based on long-term contracts, which brings stable cash flow to the Company. The Company acquired a chemical tanker in July 2005, and leased another 5 such vessels for the transportation of chemical materials.

As of 31 December 2005, we operated a total of 67 support vessels, 5 oil tankers and 1 chemical vessel in offshore China, and 1 operating vessel in the Middle East.

Total Number of Vessels and Tankers



Total Operating Days



Key Specifications of Our Oil Tankers and Chemical Tanker

As of 31 December 2005

Vessel	Year built	Type	Length(feet)	M/E Power(KW)	Gross Tonnage
Binhai 604	1980	Oil Tanker	331	2,238	2,485
Binhai 605	1976	Oil Tanker	318	2,387	2,630
Binhai 606	1988	Oil Tanker	352	2,536	3,456
Binhai 607	1999	Oil Tanker	377	3,039	4,044
Binhai 608	1999	Oil Tanker	377	3,039	4,044
COSL 801	2004	Chemical Tanker	248	734	1,578

BUSINESS REVIEW (continued)

Key Specifications of Our Operating Vessels

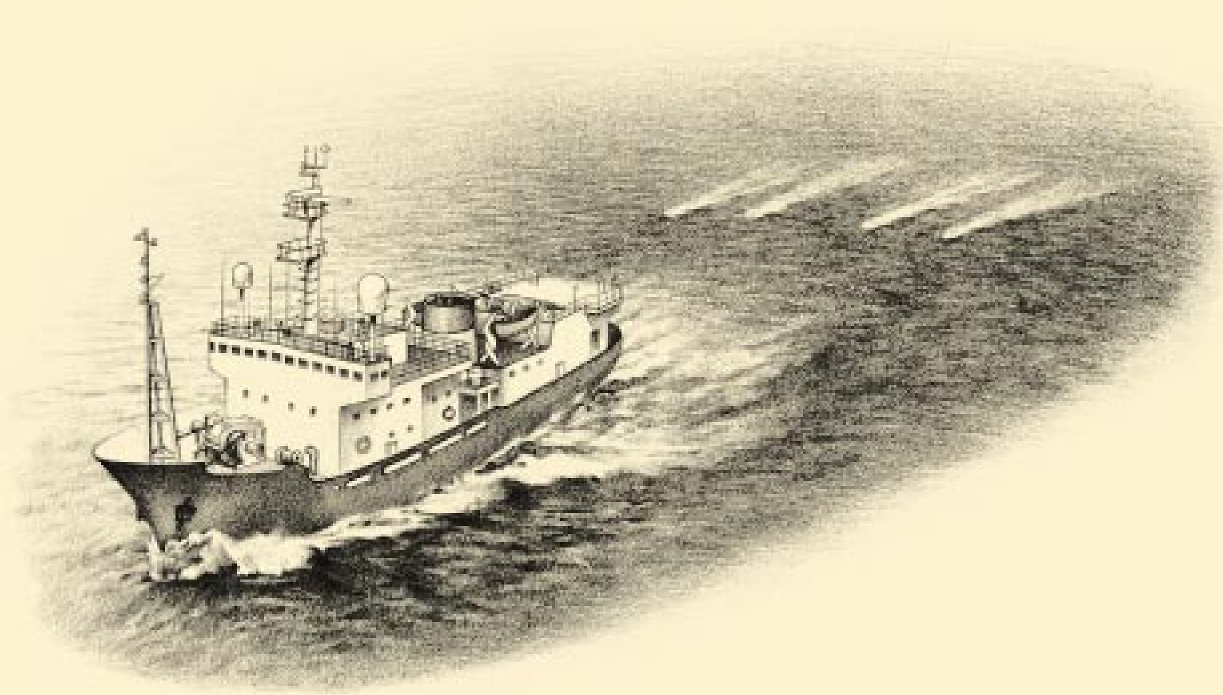
As of 31 December 2005

Vessel	Year built	Length(feet)	BHP	KW	Gross Tonnage
Standby vessels					
Binhai207	1973	174	3,800	2,794	565
Binhai208	1974	174	3,800	2,794	565
Binhai209	1974	169	2,600	1,910	664
Binhai212	1975	169	2,600	1,910	645
Binhai213	1975	169	2,600	1,910	645
Binhai241	1984	184	4,800	3,528	805
Binhai242	1984	184	4,800	3,528	805
Binhai243	1984	184	4,800	3,528	805
Binhai244	1984	176	4,000	2,944	890
Binhai245	1984	176	4,000	2,944	890
Binhai262	1986	192	6,528	4,800	1,197
Binhai264	1987	192	6,528	4,800	1,197
Binhai265	1987	192	6,528	4,800	1,197
Binhai282	1979	220	8,000	5,880	1,607
Binhai266	2003	228	6,800	5,000	1,767
Binhai267	2003	228	6,800	5,000	1,767
Binhai268	2003	228	6,800	5,000	1,767
Nan Ou	1982	217	5,296	5,296	1,344
Nan Ying	1982	217	7,200	5,296	1,344
Nanhai 201	1974	174	7,200	2,793	569
Nanhai 202	1975	174	3,800	2,793	569
Nanhai 203	1975	174	3,800	2,793	569
Nanhai 206	1978	220	8,000	5,880	1,524
Nanhai 208	1979	203	6,000	4,410	1,209
Nanhai 210	1986	212	6,528	4,800	1,405
Nanhai 211	1986	212	6,528	4,800	1,405
Nanhai 217	2001	217	6,908	5,080	1,595
Nanhai 218	2001	217	6,908	5,080	1,595
Nanhai 219	2002	217	6,908	5,080	1,595
Nanhai 220	2003	227	6,908	5,080	1,890
Nanhai 221	2003	227	6,908	5,080	1,890
Nanhai 222	2004	227	14,150	10,400	2,411
COSL 653	2004	226	6,404	4,708	1,840
COSL 654	2004	226	6,404	4,708	1,840
COSL 655	2004	226	6,404	4,708	1,840
COSL 656	2004	226	6,404	4,708	1,840
COSL 689	2005	231	8,320	6,120	1,976
COSL 623	2004	227	8,160	6,000	1,992

Vessel	Year built	Length(feet)	BHP	KW	Gross Tonnage
AHTS vessel					
Binhai214	1975	174	3,800	2,794	565
Binhai215	1975	174	3,800	2,794	565
Binhai263	1986	192	6,528	4,800	1,197
Binhai281	1979	220	8,000	5,880	1,607
Binhai283	1984	211	8,160	6,000	1,320
Binhai284	1992	224	8,000	5,880	1,535
Binhai285	1993	224	8,000	5,880	1,535
Binhai291	1982	215	10,200	7,500	1,357
Binhai292	1980	220	13,000	9,560	1,894
Binhai286	2003	230	8,160	6,000	1,944
Binhai287	2004	230	8,160	6,000	1,944
Nanhai205	1975	208	8,000	5,880	1,277
Nanhai207	1979	220	8,000	5,880	1,524
Nanhai209	1979	203	6,000	4,410	1,209
Nanhai212	1984	218	10,560	7,760	1,541
Nanhai213	1981	222	10,560	7,760	1,582
Nanhai215	1983	222	12,730	9,360	1,963
Nanhai216	1983	222	12,240	9,000	1,631
COSL688	2004	231	8,320	6,120	1,976

Vessel	Year built	Length(feet)	BHP	KW	Gross Tonnage
PSVs					
Binhai251	1995	196	5,456	4,010	1,470
Binhai252	1995	196	5,456	4,010	1,470
Binhai253	2001	231	5,306	3,900	2,308
Binhai254	2001	231	5,306	3,900	2,308
Binhai255	2001	256	6,404	4,708	3,007
Binhai256	1982	271	9,600	7,060	3,285

Vessel	Year built	Length(feet)	BHP	KW	Gross Tonnage
Utility vessels					
Binhai210	1974	169	2,600	1,910	664
Binhai211	1975	169	2,600	1,910	664
Binhai216	1976	190	2,640	1,940	986
Binhai217	1978	190	2,640	1,940	986
Xinshijiyihao	2004	130	6,090	4,480	738



Geophysical Services

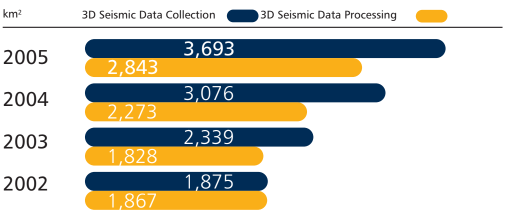
We are the dominant geophysical services provider in the offshore China market. We also operate in other regions including the South and North Americas, the Middle East, offshore Africa and offshore Europe. Our geophysical services are divided into two main categories: seismic services and surveying services. We own a fleet of 7 seismic vessels and 4 geotech survey vessels.

Seismic Services

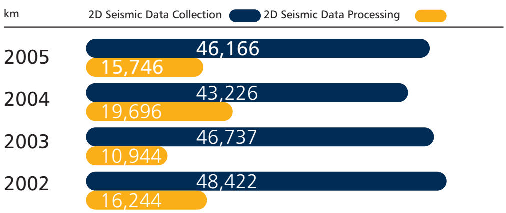
The offshore China market experienced great demand for geophysical services in 2005, therefore we strengthened inputs into this business area to enhance the overall seismic operation capacity of the Company. Firstly, we upgraded the seismic collection system of a Seismic Vessel "the Oriental Pearl". Next, we commenced modification of a platform supply vessel (BH256) into a seismic vessel Nr.6 (COSL718) which was ready for delivery by 27 December. As of 31 December 2005, the Company owned a fleet of 7 seismic vessels, of which 4 were operating in offshore China, 2 in Western Africa and 1 was under modification in Shanghai to operate in offshore China once modifications are completed.

We collected 3,693 sq. kilometers and 46,166 kilometers of 3D and 2D seismic data, respectively, in 2005. 3D data collection increased by 617 sq. kilometers, or 20.1% compared to 3,076 sq. kilometers last year, mainly due to increased activities in offshore China and improved collection capacity of the vessel, Oriental Pearl, with an upgrade to its collection system. 2D seismic data collection increased by 6.8% or 2,940 kilometers against 43,226 kilometers in 2004 primarily due to increased operation load in the South China Sea and overseas regions compared to last year. On 14 March 2005, the CNOOC Group, the Philippine National Petroleum Company and Vietnam Petroleum and Natural Gas Company formally reached a joint agreement - "A Joint Agreement on the Allied Marine Seismic Operation in the Agreed Region of the South China Sea" in Manila, the capital city of the Philippines. According to the Agreement, the three oil companies will join hands for a three-year exploration programme covering 143,000 sq. kilometers in area. Combining technological advantages with rich experience in marine seismic operation, we prepared a price quotation which was formidably competitive with the support of thorough market analysis, and eventually won the bid. The project was accomplished in mid-November, five months ahead of schedule. Nanhai 502, the seismic vessel assigned to this mission, collected a total of 11,020 kilometers of 2D wired seismic data.

3D Seismic Data Collection and Processing



2D Seismic Data Collection and Processing



We processed 2,843 sq. kilometers of 3D seismic data in 2005, an increase of 25.1% or 570 sq. kilometers from 2,273 sq. kilometers last year. A total of 15,746 kilometers of 2D seismic data were processed, a decline of 20.1% or 3,950 kilometers from 19,696 kilometers in 2004, due to a decline in the data processing requirements of our clients.

Surveying Services

As part of the Company's strategy to extend its business scope and competitiveness of its surveying services, a geotech surveying vessel went into service in February 2005, which can perform seabed wire and pipe investigations, enabling business diversification into inspection and maintenance services from pure surveying services. As of 31 December 2005, the Company owned 4 surveying vessels, of which 2 were operating in Bohai Bay, China, and 2 in the South China Sea.

Turnover from surveying services totalled RMB124.9 million in 2005, an increase of RMB22.9 million, or 22.5% from RMB102.0 million last year, mainly due to the addition of a new geotech surveying vessel which increased our operation volume.

Key Specifications of Our Seismic Vessels

As of 31 December 2005

Name	Year of Construction	Seismic Capability	2-D Seismic Capability (km/year)	Cruising Speed (knots/hour)	Gross Tonnage	Length (feet)	Maximum Streamers	Streamer Data	Recording System	Quality Control System	Navigation System	Flag
COSL718	2005	2-D/3-D	36,000	15.0	5,086	258	6	Digital	Sercel-seal	Focus/PC-cluster	CONCEPT	PRC
ORIENT PEARL	1994	2-D/3-D	34,000	15.0	3,676	258	4	Digital	Sercel-seal	Focus/PC-cluster	CONCEPT	PRC
BINHAI511	1979	2-D/3-D	32,000	15.8	2,231	266	3	Digital	Sytrak-960	Focus/PC-cluster	CONCEPT	PRC
BINHAI512	1979	2-D/3-D	32,000	15.8	1,964	259	4	Digital	Sercel-seal	Focus/PC-cluster	CONCEPT	PANAMA
BINHAI517	1997	2-D/3-D	28,000	11.0	1,240	196	2	Digital	Sytrak-960	Focus/Ultra-80	CONCEPT	PRC
BINHAI518	1982	2-D/3-D	28,000	9.0	704	163	2	Digital	Sytrak-960	Focus/Ultra-60	CONCEPT	PRC
BINHAI502	1979	2-D/3-D	30,000	13.0	931	197	2	Digital	Sytrak-960	Focus/Ultra-80	CONCEPT	PRC

Key Specifications of Our Surveying Vessels

As of 31 December 2005

Name	Types	Year Built	Length (meter)	Gross Tonnage	Steaming Radius (sea mile)	Functional Features
BH218	Geotechnical Investigation Vessel	1979	54.96	595.88	1,500	4-point anchoring system
BH521	Geophysical & Environmental Survey Vessel	1975	51.19	618.14	5,000	-
NH503	Geotechnical, Geophysical & Environmental Survey Vessel	1979	75.88	1,778	-	4-point anchoring system
COSL709	Integrated Survey & Inspection Vessel	2005	79.8	3,119	12,000	Joint Control DP- II powered positioning

Integrated Project Management

Based on our IPM strategy, the Company utilizes its superior equipment, expertise and extensive service chain to provide one-stop technical solutions design, construction, and management services spanning each phase of oilfield exploration, development and production, etc. Through its superior equipment, we can integrate related technical services to satisfy the different needs of our customers, thus increasing the Company's operating revenue and enhancing the synergy of the Company. In 2005, we further cultivated our integration service capabilities into production stages, and we devoted extensive efforts in promoting our integration service. We have made considerable improvements based on the foundation of maintaining our integrated service markets: on the one hand, we promoted the overall integrated services in the rim of the Bohai Bay and completely undertook the service of adjustment wells and drilled wells on the production platform directly. This has laid the foundation for opening up markets for our integration services for adjustment wells and drilled wells; on the other hand, we provided integrated services in drilling of exploration wells and assessment wells in the South China Sea. This will help open markets for our newly-equipped drilling rig, COSL931. In addition, with the use of the integrated service platform, the Company has sped up the on-site testing and application of its achievements in scientific research and the application of these technical achievements in turn have significant implications for the expansion of the technological services markets, enhancing the technological levels and service capability of the Company.

In 2005, we undertook integrated service projects of adjustment wells production in Bohai, drilling wells in Yuedong, workover wells in Jidong Bohai. We signed 15 integrated service contracts in total and the aggregate contract value amounted to RMB887.0 million, representing 18.5% of 2005 total operating revenue, an increase of 24.6% when compared to RMB712.0 million last year.

Overseas Business Expansion

In 2005, our overseas business achieved great progress. We have obtained a number of service contracts. The operating revenue of the Company from overseas markets for the full year amounted to RMB436.0 million, accounting for 9.1% of 2005 total revenue, an increase of 87.1% when compared to RMB233.0 million last year.

As for our drilling business, following the integrated service contract for well workover services that we secured in Indonesia in April, we secured drilling contracts for our semi-submersible rigs Nanhai 2 and Nanhai 6 in Myanmar and Australia in October and November, respectively. The Company also succeeded in signing a cooperative agreement with Northern Drilling Company of Iran in December.

While progress has been made in our drilling business overseas, our well services business in overseas markets has also made much progress. In late December, we secured a two-year service contract from Philippine National Oil Corporate for cementing of 28 geothermal wells. The project involves an aggreate contract amount of US$3.7 million. The service contract is expected to be carried out soon. Services under this contract include the provision of equipment, tools, personnel and technical services and assisting the client in tapping geothermal steam to generate electricity. In addition, the Company has secured oilfield technical service contracts in drilling fluid and cementing in Myanmar.

Our success in overseas business expansion symbolizes that our services have won greater recognition in the overseas markets among overseas customers and this has helped the Company accumulate valuable experience to further expand into the international markets and participate in international tenders.

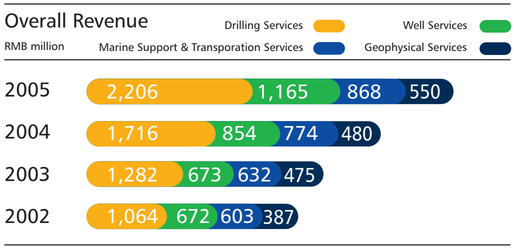
Technology and Development

We understand that technological advantage is the ultimate fuel for elevating our competitiveness and growth, that is why we regard enhancement of our technical capabilities as a long- term development strategy. In line with this understanding, we will continue to abide by our principle of combining research with practical application, and in so doing maintain our market-oriented approach. We strive to systematically create new technologies to push our technological advancement and we will further perfect our technology management systems. In 2005, the Company was granted 9 patents (of which 4 were invention patents), for a total of 28 patents (of which 7 were invention patents).

The Company has made a number of technological breakthroughs in 2005: ELIS-I , a self-developed logging system entered offshore operations jointly with over 100 pieces of peripheral logging instruments for imported logging equipment that were all developed in-house; whilst the prototype of the critical time-phase marine seismic technology was approved by the National's '863' Expert Panel. The technology for the series of increasing production by nitrogen foaming series that has been successfully applied at sea is a prime example of the Company's research and development capabilities, the Company combined oilfield chemistry, geologic reservation and oil exploitation processing technology it possesses and translated it into our research capability in integrated technology service. Other technological breakthroughs include: the non-balanced drilling wells techniques research project that was undertaken in oilfield JZ25-1S in the Bohai Bay which further widened our know-how in that area of technical service; the Company's research into the application of unplugging and water filling techniques has better equipped the Company in the area of oilfield production services.; the application of the MEG drilling fluids and zero free-float fluid systems has increased our technical competency; and lastly, a feasibility study conducted on Phase II of the Pinghu oilfield project has led to the development of technical solutions that enabled the Company to introduce oilfield production integrated services ahead of schedule.

In 2005, the Company entered into an exclusive agreement with ADTH in Norway regarding the use of deepwater drilling technology in Asia. Nine related research works and experiments for this project have commenced. We have completed the early stage project design for deepwater drilling for the ASDD project and have commenced work for the preparation of research and development of deepwater drilling.

FINANCIAL REVIEW



Turnover

Turnover for the year 2005 amounted to RMB4,788.8 million, representing an increase of RMB964.8 million, or 25.2%, compared to RMB3,824.0 million over the same period last year. This increase was mainly attributable to a significant increase in revenues from drilling services and well services.

In 2005, we recorded turnover of RMB2,205.7 million from drilling services, representing an increase of RMB489.8 million, or 28.5%, compared to RMB1,715.9 million for the same period last year. The increase was mainly attributable to the increasing of drilling day rate and working volumes compared to the same period last year. At the same time, well workover services provided also increased.

In 2005, turnover from well services amounted to RMB1,165.3 million, representing an increase of RMB311.0 million, or 36.4%, compared to RMB854.3 million over the same period last year. The substantial increase was mainly attributable to the sales revenue from well chemical materials and higher revenue derived from directional drilling, drilling fluids and logging as compared to the same period last year.

In 2005, turnover from marine support and transportation services amounted to RMB867.7 million, representing an increase of RMB94.3 million, or 12.2%, compared to RMB773.4 million for the same period last year. The increase was mainly attributable to an increase in day rate and the delivery of vessels in 2004.

In 2005, turnover from geophysical services amounted to RMB550.0 million, representing an increase of RMB69.7 million, or 14.5%, compared to RMB480.3 million for the same period last year. This increase was mainly attributable to an increase in data collection activities in the South China Sea and overseas, upgrading of the seismic data collection system of one seismic vessel which resulted in improved efficiency, as well as increased 2D and 3D data collection activities compared to the same period last year.

Other Revenues

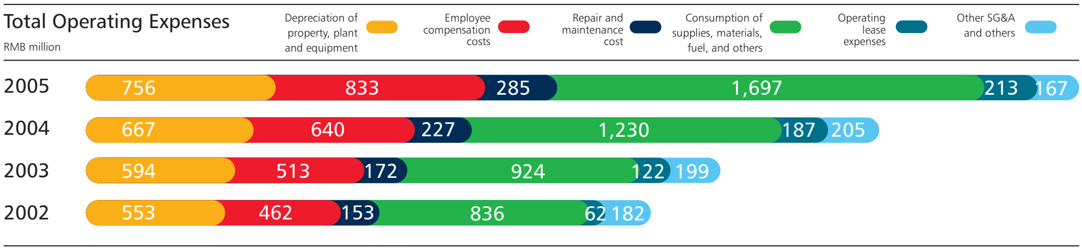
In 2005, we recorded other revenues of RMB12.9 million, representing a decrease of 45.1% from RMB23.5 million for the same period last year. This decrease was mainly attributable to less insurance claims in line with a drop in the number of casualties.

Operating Expenses

For the year ended 31 December 2005, we recorded total operating expenses of RMB3,951.4 million, representing an increase of RMB796.1 million, or 25.2%, from RMB3,155.3 million for the same period last year. The increase in operating expenses was mainly attributable to an increase in costs related to consumption of materials and other services, employee compensation costs, sub-contracting costs and depreciation charges and so on. Costs relating to consumption of materials and other services amounted to RMB1,437.2 million, increasing by RMB311.3 million, or 27.6%, compared to RMB1,125.9 million for the same period last year, mainly due to increased consumption of materials and others on increased work volume, and surges in the cost of spare parts for vessels, fuel prices and costs related to sales of well chemical materials. Labour costs amounted to RMB833.3 million, increasing by RMB193.1 million, or 30.2% from RMB640.2 million for the same period last year, mainly from increased personnel for the operation of drilling rigs, well workover projects, vessels and manpower in preparation for our COSL 941 drilling rig to be completed and operational in 2006. Sub-contracting costs increased by RMB155.5 million, or 149.4% to RMB259.6 million from RMB104.1 million for the same period last year, which was mainly attributable to increased sub-contracting costs from the construction of a newly added module rig and turnkey contract for directional drillings and drilling fluid services. Depreciation charges increased by RMB88.7 million, or 13.3% to RMB755.7 million from RMB667.0 million for the same period last year, mainly attributable to the newly added second-hand (COSL931) drilling rig, one geotech survey vessel and marine support vessels as well as the depreciation of well services equipment. Repair and maintenance costs increased by RMB58.5 million, or 25.8% to RMB285.2 million from RMB226.7 million for the same period last year, mainly attributable to maintenance of drilling rigs and directional drilling equipment as scheduled. Operating lease expenses amounted to RMB213.4 million, representing an increase of RMB26.6 million, or 14.2% from RMB186.8 million for the same period last year. This increase was largely related to the lease of jack-up rig (COSL935). According to the terms of the contract, the daily lease rate would be increased after completion of the second phase upgrade and modification. In addition, the increase of business activities required us to hire more operating vessels and standby vessels. Other sales and management fees amounted to RMB61.7 million, representing an increase of RMB23.7 million, or 62.4% from RMB38.0 million for the same period last year, this is mainly attributable to the increased expenses incurred on business travel, and secondments of personnel abroad for various business expansion activities. Other operating costs amounted to RMB105.3 million, representing a decrease of RMB61.3 million, or 36.8% from RMB166.6 million for the same period last year, this is mainly attributable to the write-back of RMB59.7 million provision for doubtful debt.

In 2005, operating expenses from drilling services amounted to RMB1,704.8 million, representing an increase of RMB358.5 million, or 26.6%, compared to RMB1,346.3 million over the same period last year. This increase was mainly attributable to a substantial growth in costs related to consumption of materials and other services, labour costs, sub-contracting costs, depreciation costs, lease expenses and repair costs as compared with the same period last year. Costs related to the consumption of materials and other services amounted to RMB576.9 million, representing an increase of RMB116.9 million, or 25.4%, compared to RMB460.0 million for the same period last year. Such increase was mainly due to increased expenses incurred on materials and transportation which resulted from increased work volume in well workover services as well as a surge in raw material prices for drilling spare parts. Labour costs amounted to RMB363.4 million, representing an increase of RMB96.3 million, or 36.1% over RMB267.1 million for the same period last year. This increase was mainly due to increased personnel required for the addition of the drilling rig (COSL931), preparation for the drilling rig (COSL941) and well workover projects. Sub-contracting costs amounted to RMB107.3 million, representing an increase of RMB86.9 million, or 426.6% over RMB20.4 million for the same period last year. This increase was mainly due to increased sub-contracting costs from the module rigs. Depreciation costs amounted to RMB323.5 million, representing an increase of RMB50.7 million, or 18.6% over RMB272.8 million for the same period last year. This increase was primarily attributable to the upgrade of drilling rigs and in turn increased the depreciation costs. Repair and maintenance cost increased by RMB37.5 million, or 25.4% to RMB185.0 million from RMB147.5 million for the same period last year, this is mainly attributable to maintenance of some drilling rigs as scheduled. Operating lease expenses amounted to RMB105.3 million, representing an increase of RMB23.5 million, or 28.8% from RMB81.8 million for the same period last year. This increase was largely related to the lease of jack-up rig (COSL935). According to the requirements of the contract, daily leasing day rate would be increased after the completion of the second phase upgrade and modification. Other sales and management fees amounted to RMB30.7 million, representing an increase of RMB16.4 million, or 114.7% from RMB14.3 million for the same period last year, mainly attributable to the increased expenses in business travel for business expansion overseas. Other operating costs amounted to RMB12.7 million, representing a decrease of RMB69.7 million or 84.6% from RMB82.4 million for the same period last year, mainly attributable to the write-back of RMB59.7 million provision for doubtful debt.

In 2005, operating expenses from well services amounted to RMB1,022.8 million, representing an increase of RMB287.3 million, or 39.1% from RMB735.5 million for the same period last year. This increase was mainly attributable to the growth in costs related to consumption of materials and other services, labour costs, sub-contracting costs, depreciation costs and repair costs as compared with the same period last year. Costs related to the consumption of materials and other services amounted to RMB492.8 million, representing an increase of RMB190.5 million, or 63.0%, compared to RMB302.3 million for the same period last year. This increase was mainly due to increased expenses in materials and parts resulting from an increased work volume. Additionally, the costs for materials surged as the sales revenue from well chemical materials increased. Sub-contracting costs amounted to RMB137.6 million, representing an increase of RMB67.5 million, or 96.3% over RMB70.1 million for the same period last year. This increase was mainly due to increased sub-contracting costs from directional drilling and drilling fluids. Labour costs amounted to RMB166.8 million, representing an increase of RMB21.4 million, or 14.8% over RMB145.4 million for the same period last year, this is mainly attributable to increased personnel to meet the higher work volume. Depreciation costs amounted to RMB124.5 million, representing an increase of RMB12.5 million, or 11.2% over RMB112.0 million for the same period last year. This increase was primarily attributable to the purchasing of equipment for logging and cementing that in turn increased the depreciation costs. Repair costs increased by RMB9.2 million, or 95.8% to RMB18.8 million from RMB9.6 million for the same period last year, this is mainly attributable to maintenance of equipment as scheduled. Operating lease expenses amounted to RMB34.0



million, representing a decrease of RMB19.5 million, or 36.4% from RMB53.5 million for the same period last year. The decrease was largely related to less hiring of logging equipment.

In 2005, operating expenses from marine support and transportation services were RMB757.4 million, representing an increase of RMB88.3 million, or 13.2%, compared to RMB669.1 million over the same period last year. This increase was mainly due to the rise in labour costs, leasing costs and repair costs as compared to the same period last year. Among which, labour costs amounted to RMB209.7 million, representing an increase of RMB62.0 million, or 42.0%, compared to RMB147.7 million over the same period last year. This increase is mainly due to more personnel needed for 1 newly added marine support vessel, 1 chemicals tanker and another 4 chemicals tankers. Repair and maintenance costs increased by RMB12.3 million, or 25.2% to RMB61.2 million from RMB48.9 million for the same period last year, this is mainly attributable to maintenance of some vessels as scheduled. Also, as demand for vessel repairing outstripped supply, repair charges surged. Operating lease expenses amounted to RMB42.5 million, representing an increase of RMB14.9 million, or 54.0% from RMB27.6 million for the same period last year. This increase was mainly attributable to an increase in hiring of vessels.

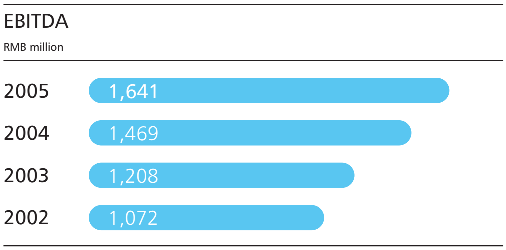
In 2005, operating expenses from geophysical services were RMB466.4 million, representing an increase of RMB62.0 million, or 15.3%, compared to RMB404.4 million over the same period last year. The increase was mainly due to depreciation, the consumption of materials and other services, labour costs and operating lease expenses over the same period last year. Among which, depreciation costs amounted to RMB83.6 million, representing an increase of RMB20.1 million, or 31.7%, compared to RMB63.5 million over the same period last year. The increase in depreciation cost is mainly due to 1 geotech survey vessel having commenced operation and the transformation of the data collection system of a seismic vessel. Costs related to the consumption of materials and other services amounted to RMB191.3 million, representing an increase of RMB18.8 million, or 10.9%, compared to RMB172.5 million over the same period last year, mainly due to a surge in fuel costs; and increase in material costs and transportation costs resulting from a significantly greater work volume. Labour costs amounted to RMB93.4 million, representing an increase of RMB13.4 million, or 16.8%, compared to RMB80.0 million over the same period last year. The increase was mainly due to increased personnel for 1 geotech survey vessel. Operating lease expenses amounted to RMB31.5 million, representing an increase of RMB7.6 million, or 31.8%, compared to RMB23.9 million over the same period last year. The increase is mainly due to the increase in hiring of standby vessels.

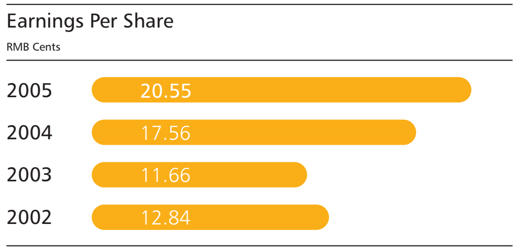
Operating Profit

In 2005, we achieved an operating profit of RMB850.3 million, representing an increase of RMB158.1 million, or 22.8%, compared to RMB692.2 million over the same period last year. The increase is primarily attributable to growth in drilling services and well services. Drilling services recorded an operating profit of RMB505.5 million, representing an increase of RMB131.2 million, or 35.1%, compared to RMB374.3 million for the same period last year. Well services recorded an operating profit of RMB150.4 million, representing an increase of RMB22.5 million, or 17.6%, compared to RMB127.9 million for the same period last year. Operating profit from marine support and transportation services amounted to RMB110.3 million, representing an increase of RMB5.0 million, or 4.7%, compared to RMB105.3 million for the same period last year. Operating profit from geophysical services amounted to RMB84.1 million, representing a drop of RMB0.6 million, or 0.7%, compared to RMB84.7 million for the same period last year.

Financial Income

Financial income in 2005 amounted to RMB50,000, decreasing by RMB34.45 million from RMB34.50 million for the same period last year. This decrease was mainly due to a drop in interest income of RMB17.45 million from bank deposits and





an increase of RMB17.0 million in net loss of foreign exchange.

Share of Profit from Jointly-Controlled Entities

Our share of profit from jointly-controlled entities amounted to RMB106.6 million, representing an increase of RMB27.2 million, or 34.3%, compared to RMB79.4 million for the same period last year. The increase was mainly attributable to the significant improvement in the revenue contributions of China Nanhai-Magcobar Mud and China-France Bohai Geoservices.

Profit Before Tax

Profit before tax amounted to RMB956.9 million, representing an increase of RMB150.8 million, or 18.7%, compared to RMB806.1 million for the same period last year. The increase was mainly due to our growth in drilling services and well services.

Income Tax

In 2005, we had tax liabilities of RMB135.9 million, representing an increase of RMB31.5 million, or 30.2%, compared to RMB104.4 million in 2004. This comprised of tax liabilities of RMB327.2 million offset by a tax refund of RMB191.3 million from the tax authority in 2004 for our treatment as an advanced technology enterprise.

Profit After Tax

Our profit after tax in 2005 was RMB821.0 million, representing an increase of RMB119.3 million, or 17.0%, compared to RMB701.7 million for the same period last year.

Dividends

In 2005, the Company distributed a special interim dividend of RMB55.5 million, or RMB1.39 cents per share. The Board of the Company also proposed to declare a final dividend distribution of RMB164.2 million or RMB4.11 cents per share. The recommended date for distribution is 15 June 2006 (Thursday).

Debt Servicing Ability and Funding Resources

Cash and cash equivalents were RMB2,162.3 million at the opening of the year 2005. For this period, net cash inflow from operating activities was RMB1,261.4 million, net cash outflow from investing activities was RMB1,358.2 million, net cash outflow from financing activities was RMB430.9 million and term deposits for more than three months and short-term investment within three months together decreased by RMB620.8 million. As at 31 December 2005, we have cash and cash equivalents amounting to RMB1,013.8 million.

Cash Provided by Operations

Net cash generated from operating activities amounted to RMB1,261.4 million in 2005, a decline of 16.6% or RMB250.2 million against RMB1,511.6 million for the same period last year. The decrease was principally caused by increased taxation charges that reduced cash from operating activities by RMB140.8 million, wages and benefits payable caused a decrease in cash by RMB178.2 million, various current account payments reduced cash by RMB174.2 million and other factors such as net amounts from translation caused cash to shrink by RMB3.8 million. The aforesaid items collectively reduced cash from operations by RMB497.0 million, offsetting the increases in operating profits and depreciation charge of RMB158.1 million and RMB88.7 million, respectively.

Capital Expenditure

To meet domestic and foreign demand for oilfield services, the Company continued to increase its capital expenditure and enhance its facilities. Capital expenditure in 2005 was RMB2,253.0 million, representing a 39.8% growth or an increase of RMB641.2 million over RMB1,611.8 million for the same period last year. RMB1,585.8 million was spent on drilling business, mainly used for construction of two 400 feet jack-up rigs; RMB302.1 million on oil and gas well technical services, mainly used for purchases of facilities such as those for directional wells, well testing and well cementing; RMB104.8 million on offshore marine support boats and transportation services, mainly used for purchase of 1 chemicals tanker and construction of 2 more chemical tankers; RMB260.3 million on geophysical exploration services, mainly used for transformation of the collection system of 1 seismic vessel and transformation of 1 offshore supply vessel into a seismic six-cable vessel.

Cash Outflow from Financing Activities

In 2005, net cash outflow from financing activities amounted to RMB430.9 million, comprising RMB230.9 million of dividend payment and RMB200.0 million of loan repayment to CNOOC.

Subsequent Events

In compliance with the Articles of Association of the Company, an Extraordinary General Meeting was held on 12 January 2006 at which a special resolution in respect of issuing short-term debentures with an aggregate principal not exceeding RMB2 billion was passed. The short-term debentures will be issued to institutional investors in the PRC and will be unsecured, with a term of one year and to be issued in two tranches of RMB1 billion each. On 10 February 2006, the Company issued a short term debentured to RMB1 billion. The short term debenture has a coupon rate of 3.2%. The purpose of issuing the debenture is to meet the Company's short term working capital needs The proceeds from the issuance of the short-term debentures will be used in purchasing fuel, lubricant oil, parts used by vessels and for other like operating expenses. In other words, the funds raised will be used to meet the short-term financial needs of the Company's operation so as to ensure that the Company can continue to operate smoothly.

Outlook

With oil demand rising steadily, the world economy is expected to remain in good shape in 2006. The Energy Information Administration (EIA) predicts that the aggregate world supply of crude oil will be 85,500,000 barrels daily, representing a growth of 1.4% or 1,200,000 barrels over the same period last year. Despite the fact that OPEC continues to exert significant influence on the world oil market, the non-OPEC countries show strong momentum. Emerging oil production countries such as Russia, Central Asia and countries in the Gulf of Guinea, Africa are rising rapidly and are playing more important roles. Pursuant to oil explorations activities in the South China Sea and the East China Sea, the oil supply from East Asia will also be changed. Institute Francais du Petrole (IFP) estimates the world investment in oil in 2005 and 2006 to be USD170 billion and USD185 billion representing 13% and 9% in growth, respectively. In view of the favourable conditions for growth in demand for oil and gas well exploration and oilfield technical services, the Company will capitalize on the opportunities for oil and gas business development. While continuing to lead in the offshore market in China, we will strive to explore overseas markets such as Southeast Asia and establish our position in both domestic and foreign markets.

The first 400 feet jack-up rig which we invested in and constructed will be put into operation in 2006. This will drive the growth of our drilling business. At the same time, we will continue to develop our IPM service, taking advantage of our quality facilities to drive technical services, deepen our involvement in technological research and its commercialization and strengthen growth in oilfield technical services business. With regard to offshore marine and transportation services, we started to build 2 chemicals tankers in 2005, and the 2 chemicals tankers which we have contracted for during the year are due to become operational in the second half of 2006. The above developments together with 1 second-hand chemicals tanker which we already own will see us well prepared to handle market demand for chemicals transportation services. In respect of our geophysical exploration services, the modification of our geophysical six-streamer seismic vessel was completed in late 2005. The vessel can commence operation in early 2006, which should enormously strengthen our ability in 3D seismic data collection.

Looking forward to the year 2006, the Company as a whole will continue to uphold the corporate vision of "we must do better", follow the conduct standard of "Do everything carefully" and endeavour to fulfil the following objectives: continue to grow revenue and profits to reinforce the momentum of high growth, and strive to seek breakthroughs in our technological progress; continue to take hold of opportunities to accelerate the enhancement of productivity and speed up the effort in developing deep offshore services; steadfastly expand our IPM businesss and rapidly boost our capability in oilfield production services; continue to establish our brand in international services; and continue our efforts in maintaining a healthy, safe and environmentally-friendly workplace and create the most value for our shareholders, customers and employees.