

CEO'S REPORT

Dear Shareholders,

With an objective of making COSL a first class international participant, the staff of COSL have implemented the four core strategies of the Company, adhered to the spirits of innovation and principle of factualism, as a result we have obtained remarkable progress in operational growth, management innovation, technical advance, capital efficiency, teamwork relations and corporate harmony over the last year.

In 2006 Operation
Profit was

1,392.2
RMB Million

In 2006, Operating
Profit Increased by

63.7%
as compared to RMB
850.3 million of 2005

In 2006, Operating
Profit Margin
Increased to

21.9%

In 2006, Revenue
from Overseas
Increased by

151.4%

Increased capital expenses, enhanced equipment capacity

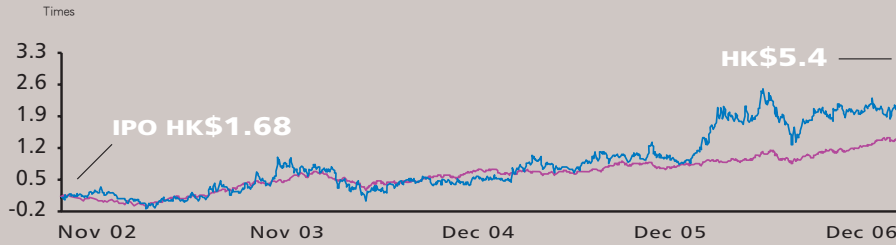
In 2006, the Company continued to devote significant capital investment, improve and advance the technical capabilities of the Company's equipment. The completion of construction of drilling rig COSL941 and geophysical vessel COSL718 and the introduction of other equipments not only strengthened the operating capabilities of the Company, but also have facilitated the preparation of expansion of overseas market as well.

In 2006, the Company commenced the construction of COSL 942 drilling rig, 2 liftboats and 18 marine support vessels. The construction of two 350-foot jack-up rigs and purchase of four sets of LWD equipments in 2007 were submitted to the Board for approval. The construction of four chemical tankers and other work in progress are progressing well. The Company's



CEO'S REPORT

2002-2006 COSL&HSI Stock Performance



capacity will be further increased along the consistent progress of these projects. The competitiveness of COSL was greatly enhanced as the Company seized the peak of industrial demand and anchored robust organic growth.

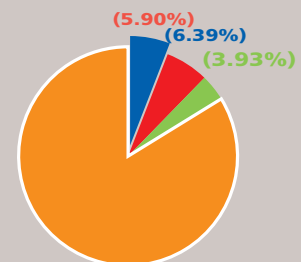
I am proud to report to you that last year the Company secured a contract with PEMEX, a Company in Mexico, for building four module rigs. With a tight schedule, enormous workload and limited domestic capacity, thanks to elite workforce, the Company proactively sought domestic construction resources, the design and procurements, implementation and completion were all accomplished within one year. The implementation and completion of this project has reaffirmed the Company's image as a committed, well organized and effectively performing Company which is mature and responsible. This also marked that COSL has achieved the leading world standard in constructing large-scale projects.

Enhanced technical momentum, accelerated technological progress

Through active implementation and solid work, salient progress was recorded in 2006 as the corporate R&D work focused on building core competence and satisfying market demands. The scientific and technological team in COSL has harvested abundant results by diligent work guided by autonomous as well as collective innovations which were based on years' of R&D foundations. The ELIS-II imaging system was successfully built with breakthrough to its critical technologies. The FCT stratum sampling device succeeded in the trial test in the Bohai Oilfield which performed the sampling functions of the well as well, an achievement that won splendid comments. With more than three years' technological reinforcement and consistent refinement, the FET has finalized design and commenced mass production. In 2006, COSL was granted 31 patents, and the Company has owned a total of 62 patents by the end of 2006.

COSL has established the foundation of the implementation of technical driven strategies from the setting up of technical management system and the consolidation and optimization of comprehensive research and development resources, the development and inspriment of research and development teams, the increased devotion of research and development efforts. The development of corporations depends on the advancement of sciences and technologies, and this sounds more important for the corporations with an aim of becoming a first class oilfield services company, like COSL. In future we will strive to achieve the aim to promote technical innovation, break the bottleneck of technologies, enhance our technologies, strengthen our competitively, improve our way of growth, increase our quality of growth. In addition to the focus of developing its proprietary technologies, increasing technological investment, the Company will also explore the use of various measures like merger and acquisition, development through cooperation and joint venture to accelerate our technological advancement. We will seek to shorten the time frame of transforming the new technologies into productivity while strengthening our scientific planning and management and the management of technical research and development..

Revenue derived from New Equipment as compared to Total Revenue



- COSL941 (5.90%)
- COSL718 (6.39%)
- BH512 4 streamer upgrade (3.93%)

CEO'S REPORT

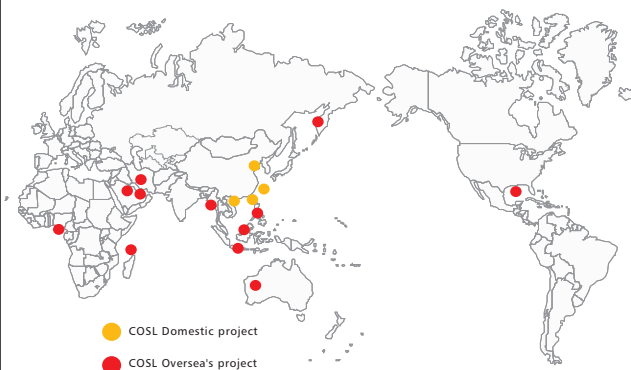
Enhancing refined management, maintaining cost advantages

Competitive operating cost is the conventional advantage for Chinese enterprises. In addition to lower labor costs and domestic network, COSL boasts the new and unique refined management capability on such basis. Apart from low operating costs, COSL emphasizes capital deployments, new financing channels, financial integration so comprehensive as to lower financing cost and risk. Last year, the Company has fully made use of its own development potentials and high credit rating to seek low cost financing and obtained satisfactory results.

To maintain cost advantage has been one of the core strategies of COSL. Maintaining low cost allows us to stay competitive, so that we can create values for clients, finally to achieve sustained growth of the Company and to enhance shareholders' value. We have been striving to keep operating costs below average and advantageous position of services price and competitive margin of profits from operations through various measures, like reinforced safety management, budget management, IPM business management, scientific decision-making process and ERP system support, so as to maintain a long term growth of the Company.

Expansion into overseas market, promoting the Company brand

The overseas sales revenue of COSL increased by 151.4% over that of 2005 and accounted for 17% of the total sales. The Company has commenced operations in thirteen countries or regions like Indonesia, Australia and countries in western Africa. NHVI has been towed to Australia to undertake the Shell operating contracts which is the first time for the Company to participate in high-end international market. The ELIS system researched and developed by the Company has entered the Middle East market and obtained the drilling rigs management and services contracts of sixth generation semi-submersible rigs in Iran. The length of the period between contract awarding to completion for the four module rigs of PEMEX in Mexico set various domestic records. It is the first propriety 7,000-metre marine module rigs with integrated technologies and equipments of the PRC and foreign countries created and around 92% of the its equipments have been built in the PRC, which marks the first time of the PRC marine module rigs with services be exported to foreign countries. The brand name of COSL has increasing by being recognised overseas and its brand name effects have been materialized. During the last year, COSL obtained satisfactory results in market expansion and operations and constantly strengthened its operation and management, which can be demonstrated from its capitalizing the booming demand for the domestic and foreign oilfield service markets and booming marine market in foreign markets, settling the contradiction of demand for large-scaled equipments and resources, reasonably allocation of the services resources of the Company and fully exploiting the services capacities of different business segments. Satisfactory results of increased revenues and profits has been resulted.



While internationalization is the main direction of the future development of COSL, for those corporations which want to increase their competitive advantages and accommodate unification of global economies, and diversify their market and reducing operating risks, the necessary trend is internationalization. It is also the necessary path for those companies which want to become a first class oilfield services company, while the acquisition of a Russian well cementing company set the first step in our Merge and Acquisition efforts. In the years to come, by carry out various means such as independent development, merger and acquisition, joint venture, we will strive to achieve the purpose of training up our teams, acquiring necessary resources and technologies, so that we can lay a solid foundation to become a first class international company and achieve the target of becoming a first class international oilfield services company.

CEO'S REPORT

To implement the Integrated Project Management by capitalizing on our resource advantages

The Integrated Project Management is another important part of our strategic objectives. With a related yet diversified professional service chain, COSL is able to maximize its competitive advantage as a complete service provider. Riding on our strong expertise and large equipment, we managed to integrate our professional technology and enhance our capability in provision of integrated services through the introduction of integrated solutions, so as to meet the requirements of oil companies. As a result, our overall competitiveness is enhanced. These are our unique competitive advantages.

To grow into an international premier oilfield services provider, COSL should be brave enough to abandon industry practices, explore new niche markets and business modes. In the face of increasing diversified clients, markets and demands, we will improve our capability in the Integrated Project Management by improving organizational management, consummating back-office support and accelerating the recruitment of talents. To enhance the overall competitive strength of the Company and provide value-added services, we will also promote the rapid growth of technical know-how and continue to provide integrated services.

To serve corporate citizens and shoulder our social responsibilities

As a listed company, COSL is constantly committed to its sustainable development. Besides creating corporate values, we also shoulder our social responsibilities. Besides seeking to provide shareholders with the best return, COSL is also committed to the improvement of employment, reduction of pollution and enhancement of the living quality of people in the community. We clearly understand that an enterprise cannot be successful and achieve long-term development unless it well coordinates the relationship among our economic, social and environmental responsibilities proactively. For this purpose, COSL has participated in a number of activities in the last year to perform its social responsibilities. Such activities involve emphasizing on environmental protection, providing funds for Hope primary schools, supporting the poor by way of commercial insurance and making disaster relief efforts.

In 2007, the economy of the world will continue to grow at a steady pace. The investments in global petroleum exploitation and development will continue to grow compared with that of 2006. The focus of exploitation and development will switch to regions outside North America, extending toward marine, especially deep-sea areas. Benefiting from the continued growth in oil exploitation and development in the offshore China market, the oilfield service industry will step into a period of favorable development.

In 2007, we will seek various funding sources with breakthroughs in various aspects. We will continue to implement the four core strategies and enhance the infrastructure level as well as operation capacity. More efforts will be put into the investment in technology, improvement of development methodology and enhancement of technical services. Also, we will continue to strengthen the internal and foreign capital operations and speed up the internationalization of the Company, so as to increase the proportion of overseas income in our revenue. Moreover, we will continue to enhance our integrated services and bring into play our unique competitiveness. We will also improve the QHSE system management and enhance the quality of services. The Company will strive to lower the operating costs and strictly control the underlying risks. Measures will be taken to establish the brand of COSL and save energy and increase efficiency, thus creating maximum values for our clients.

Finally, I would like to thank all employees of COSL for their hard work in the last year. I also desire to extend my heartfelt gratitude to all members of the society, Shareholders, Directors' Supervisors and our staff for their care and support. With their care and support, COSL will create new history..



Yuan Guangyu

Chief Executive Officer

23 March 2007