

**OUR COMPANY**

We are the leading provider of oilfield services in the offshore China market. Our services cover each phase of the exploration, development and production of offshore oil and natural gas. We offer our services separately and on an integrated project basis. Our operations are divided into the following four segments:

- drilling services;
- well services;
- marine support and transportation services; and
- geophysical services.

We are the leading provider of drilling services to the offshore China market. We owned and operated a fleet of 12 drilling rigs, including nine jackups and three semi-submersibles, as of June 30, 2002, and have plans to acquire two second-hand jackup rigs. Our rig fleet is designed and equipped to accommodate the various water depths, weather and downwell conditions typically encountered offshore China. In addition to our drilling operations, we operate and maintain over 30 workover rigs on our customers' production platforms. We have been drilling offshore China since 1967, and have increased our drilling activity in terms of wells drilled at a compound annual growth rate of 17.8% over the last five years. Drilling is our largest business segment and, for the year ended December 31, 2001, accounted for 41.6% of our turnover and 50.1% of our EBITDA.

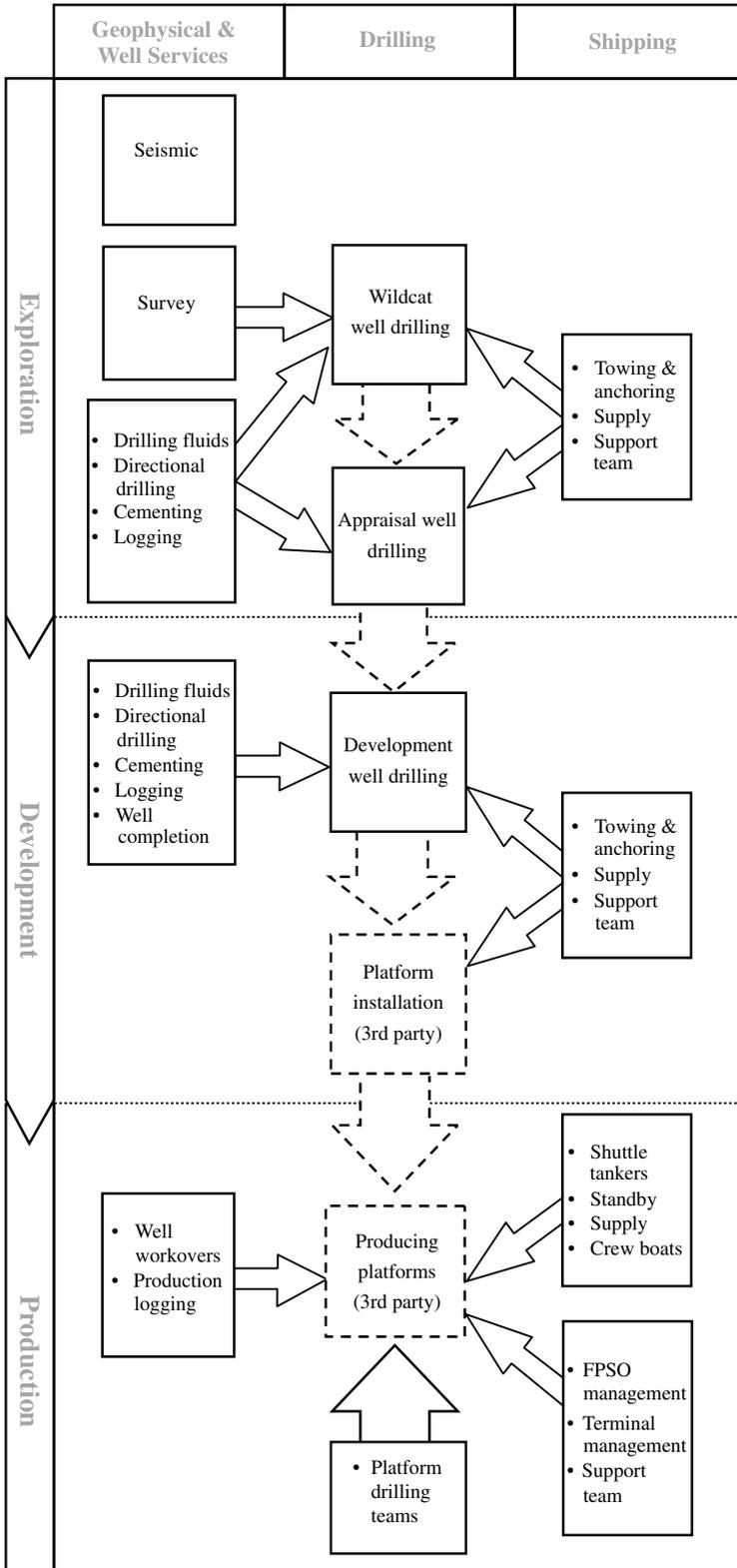
To support our drilling operations, we offer a full range of well services, including logging and downhole services, such as drilling fluids, directional drilling, cementing, well completion and well workovers. Well services accounted for 25.2% of our turnover for the year ended December 31, 2001 and 22.4% of our EBITDA.

We own and operate the largest and most diverse fleet of marine support vessels offshore China. Our fleet included 55 offshore support vessels and six oil tankers as of June 30, 2002. We have expanded our fleet by 12 vessels, or 24.5%, since 1997 and have plans to add 16 newbuild offshore support vessels to our marine support and transportation fleet by 2004. For the year ended December 31, 2001, marine support and transportation accounted for 20.2% of our turnover and 22.0% of our EBITDA.

We also offer geophysical services for offshore oil and natural gas exploration projects. Our line of geophysical services includes offshore seismic data collection, marine geotech surveying and data processing. Our geophysical services accounted for 13.0% of our turnover for the year ended December 31, 2001 and 5.5% of our EBITDA.

# BUSINESS

The following diagram shows our services and products at each phase of the exploration, development and production of offshore oil and natural gas. The production platforms and platform installation services that are distinguished by dotted squares are owned and/or provided by third parties.



**OUR COMPETITIVE STRENGTHS**

We believe that our success and future prospects are bolstered by a combination of our strengths, including the following:

- We have the leading position in our core market of offshore China.
- We stand to benefit from growing demand for oilfield services offshore China.
- We provide integrated offshore oilfield services across exploration, development and production activities.
- We provide our services under a competitive cost structure.
- We have an experienced management and skilled technical team.

***Leading position in our core market of offshore China.*** We are the leading provider of drilling, well marine support and geophysical services offshore China. In this market, we own and operate the largest and most diverse fleet of rigs and support vessels, which provides us with economies of scale and the capacity to serve all of offshore China. We have operated in this market for over 20 years during which time we have established strong relationships with CNOOC Limited and other international oil and gas companies. These relationships are central to our continued leadership in the PRC domestic market and represent an opportunity to facilitate our selective international expansion.

***Stand to benefit from a growing demand for oilfield services offshore China.*** Numerous recent discoveries, particularly in the Bohai Bay area, have led to increasing levels of drilling and other development activities offshore China. Our core customers, such as CNOOC Limited and various international oil and gas companies, are well capitalized operators capable of funding drilling and development activities throughout the oil price cycle. Moreover, offshore China continues to show sizeable exploration and development potential and is relatively underexplored compared to other offshore exploration areas. The offshore China exploration area is approximately 1.3 million square kilometers (501,800 square miles) in size, about twice the size of the U.S. Gulf of Mexico. As of June 30, 2002, over 700 exploration wells have been drilled offshore China, compared to over 14,000 exploration wells in the U.S. Gulf of Mexico.

***Integrated offshore oilfield services across exploration, development and production activities.*** We offer our customers a wide range of integrated oilfield services. In particular, we are able to provide well services and offshore support vessels in conjunction with our drilling operations. This integration allows us to provide strategic and comprehensive coverage of our customer's offshore service needs, from the early stages of exploration to the support of producing projects. It also allows us to apply value-added expertise across different business lines when working on a given project. We believe integration differentiates us from our competitors offshore China, and helps us to achieve cost savings and higher margins. By offering a variety of major service lines, we are also able to diversify our revenue streams across different business segments and different stages of the exploration, development and production of offshore oil and gas.

***Competitive cost structure.*** Our geographic concentration, lower labor costs and scale of operations enable us to offer our core services under a competitive cost structure. This competitive advantage should enable us to maintain our leading position in the offshore China market for drilling

and marine support and some well and geophysical services, even in the wake of China's recent entry into the WTO. Moreover, we believe our competitive cost structure will provide us with a strong platform for our selective expansion into international markets in the areas of offshore drilling, marine support and some of our well and geophysical services.

***Experienced management and skilled technical team.*** Our senior management team and key operating personnel have in-depth experience in the offshore China oilfield services sector. They have been working with international oil companies since 1982, including several oilfield services joint ventures with foreign parties. Our chief executive officer and chief financial officer have held senior management positions with CNOOC Limited, a publicly listed company in Hong Kong and New York. We have established a solid reputation among our customers for quality service and high safety standards. Our management is focused on achieving high operating efficiency and returns.

## **OUR BUSINESS STRATEGY**

We intend to solidify our leading market position offshore China and selectively pursue opportunities to expand our operations outside the PRC. The implementation of our strategy consists of five main components:

***Expand our operating capacity.*** The expansion of our operating capacity will enable us to meet increased demand for oilfield services offshore China and to pursue additional business opportunities in overseas markets. Specifically, we intend to:

- acquire two second-hand jackup rigs by 2004;
- expand our support vessel fleet by 16 ships by 2004 to support new operating activities, especially offshore production;
- acquire a newbuild geotech survey vessel capable of performing submarine pipeline surveying; and
- purchase additional advanced logging tools and surface systems to target more advanced logging assignments.

***Further integrate our service lines.*** Further integration of our drilling, well, marine support and transportation and geophysical service lines will enable us to offer our customers a more convenient and cost efficient platform of oilfield services. We intend to further coordinate the marketing efforts of our four main business lines and to strengthen our Integrated Project Management program. We believe this strategy will improve our operating margins and differentiate us from our competitors.

***Increase our technical capabilities.*** Increasing our technical capabilities will strengthen our overall competitiveness and enable us to perform additional services for our customers. Specifically, we intend to:

- purchase advanced MWD and LWD tools to improve our directional drilling capabilities;
- acquire HTHP and horizontal well logging tools to strengthen our logging service line;
- add new marine support vessels with dynamic positioning capabilities; and
- leverage our joint ventures with international oilfield services companies to strengthen our technological capabilities.

**Strengthen and expand our client relationships.** Strengthening and expanding our client relationships will enable us to solidify our market position in China and facilitate our expansion into overseas markets. In particular, we intend to continue focusing on serving our largest customers, CNOOC Limited and its PSC partners operating offshore China. We also plan to begin targeting market opportunities in shallow water areas offshore China and with additional customers located onshore China.

**Selectively pursue international opportunities.** Focusing our international marketing efforts on oil and natural gas projects operated by current customers, such as CNOOC Limited, and in less developed offshore markets, such as Southeast Asia, the Middle East and Africa, will enable us to expand our level of international business activities. We believe that this strategy will help us diversify our revenue streams and improve our operating margins.

**OUR DRILLING OPERATIONS**

We are the leading provider of drilling services offshore China. We owned and operated 12 drilling rigs, including nine jackup rigs and three semi-submersibles as of June 30, 2002. We have plans to expand our rig fleet by purchasing two second-hand jackup rigs by 2004. Our rig fleet can drill in a range of water depths and is well suited for offshore China's drilling requirements. We offer our drilling services on a stand-alone basis as well as in conjunction with our well and marine support and transportation services. Since we began our drilling operations in 1967, we have completed over 700 exploration wells and approximately 800 development wells.

We have experienced strong demand for our drilling services over the last five years. From the beginning of 1997 to the end of 2001, our drilling activity in terms of wells drilled grew at a compound annual growth rate of 17.8%. Most of this demand came from development well drilling, which increased at a compound annual growth rate of 24.4%. Exploration well drilling remained relatively stable during this time period, despite oil price volatility. The highest demand for our drilling services has occurred in the Bohai Bay, which accounted for 91.1% of our 158 total wells drilled in 2001 and 63.6% of our 66 total wells drilled in the first half of 2002.

The following table sets forth the number of wells that we drilled by well type and area for the periods indicated.

	Year ended December 31,					Six months ended
	1997	1998	1999	2000	2001	June 30, 2002
<b>Wells drilled by type</b>						
Exploration wells .....	26	34	25	27	24	33
Development wells .....	56	31	161	117	134	33
Total wells drilled .....	<u>82</u>	<u>65</u>	<u>186</u>	<u>144</u>	<u>158</u>	<u>66</u>
<b>Wells drilled by area</b>						
Bohai Bay .....	69	36	167	109	144	42
East China Sea .....	8	1	—	4	1	—
Eastern South China Sea .....	4	19	11	7	4	4
Western South China Sea .....	1	9	8	24	9	20
Total wells drilled .....	<u>82</u>	<u>65</u>	<u>186</u>	<u>144</u>	<u>158</u>	<u>66</u>

Our drilling operations also include the provision of labor services to maintain and operate platform drilling units and conduct well workovers on our customers' production platforms. Currently, we have over 30 teams assigned to production platforms, and expect this business to grow in the future.

***Rig Utilization***

Demand for our offshore drilling rigs has been relatively strong and consistent, as reflected in our rig utilization rates. For the five-year period from 1997 to 2001, the average utilization rate for our jackups was 94.3%, while the average utilization rate for our semi-submersibles was 100.0%. Our jackup rigs accounted for 146 wells, or 92.4%, of our total wells drilled in 2001 and for 51 wells, or 77.3%, of our total wells drilled in the first half of 2002. For more information on how we calculate our utilization rates, see "Financial Information—Management's Discussion and Analysis of Results of Operations and Financial Position—Factors Affecting Our Results of Operations—Rigs and vessels utilization." Our semi-submersibles typically drill fewer wells per year than our jackup rigs because they operate in deeper water and usually drill deeper wells.

The following table sets forth the number of wells drilled, operating days and utilization rates for each of our two rig categories for the periods indicated.

	Year ended December 31,					Six months ended June 30,
	1997	1998	1999	2000	2001	2002
<b>Wells drilled by rigs</b>						
Jackup .....	75	43	172	109	146	51
Semi-submersible .....	7	22	14	35	12	15
Total wells drilled .....	<u>82</u>	<u>65</u>	<u>186</u>	<u>144</u>	<u>158</u>	<u>66</u>
<b>Operating days</b>						
Jackup .....	3,417	2,843	2,395	2,941	2,665	1,222
Semi-submersible .....	823	684	818	815	867	500
Total operating days .....	<u>4,240</u>	<u>3,527</u>	<u>3,213</u>	<u>3,756</u>	<u>3,532</u>	<u>1,722</u>
<b>Utilization rates<sup>(1)</sup></b>						
Jackup .....	100.0%	93.2%	82.6%	98.1%	97.9%	89.7%
Semi-submersible .....	100.0%	100.0%	100.0%	100.0%	100.0%	93.5%
Average utilization rate .....	<u>100.0%</u>	<u>94.4%</u>	<u>86.4%</u>	<u>98.5%</u>	<u>98.4%</u>	<u>90.7%</u>

(1) Drilling rig utilization rates are calculated by dividing the total number of operating days in a particular year by the total number of days of availability in such year. The total number of days of availability is calculated by subtracting the total number of preparation days in a particular year from the total number of days in that year. Since 2000 was a leap year, there were 366 days in that year.

### *Our Rig Fleet*

Our drilling fleet serves all of the operating regions offshore China, and also works in other regions around the world. We have support bases located in Tianjin in northeastern China and Zhanjiang on the southern coast of China. As of September 30, 2002, ten of our rigs were operating offshore China, one rig was working offshore West Africa and one rig was being deployed offshore Indonesia.

Our fleet of drilling rigs includes both jackup rigs and semi-submersibles. Jackup rigs are supported by adjustable legs that rest on the sea floor, whereas semi-submersibles rely on buoyancy chambers that are anchored to the bottom of the ocean. The most important piece of equipment on our rigs is the drilling system, which consists of a power plant, hoisting equipment for raising and lowering the drill bit and drill pipe, a rotary system for rotating the drill bit, mud pumps and systems for controlling well pressure. Our rigs are also equipped with logistical equipment, such as cementing units for well services, crew quarters, loading and unloading facilities, solid and liquid storage areas and a helicopter landing pad.

We purchased eight out of our nine jackup rigs as newbuilds, while all three of our semi-submersible rigs were acquired from other owners. As of June 30, 2002, the average age of our fleet was approximately 21 years for our jackup rigs and approximately 22 years for our semi-submersibles.

We believe that our drilling rigs are well maintained, and we endeavor to modify and upgrade our rigs to incorporate suitable new drilling technology and equipment. We have installed top drive drilling systems on all of our rigs, which enable them to drill with drill pipes over 90 feet in length as opposed to standard 30-foot lengths. The top drive drilling systems further allow the drill pipe to rotate while entering or exiting a well hole, which increases the drilling speed, safety and drilling efficiency and reduces the risk of a drill string sticking during operations. We have also modified two of our rigs to drill in high-temperature and high-pressure downwell conditions which we occasionally encounter offshore China and in other regions.

We have selected the rigs in our fleet based on a number of considerations, the most significant being the water depths at our customers' drill sites offshore China. We also consider anticipated well depths, well control requirements, special equipment and technological demands, as well as seabed, marine and weather conditions in particular areas. Our jackup rigs, which are typically more economical than our semi-submersibles, can only drill in up to 300 feet of water. Water depths greater than 300 feet generally require our semi-submersibles. Our current rig fleet is capable of drilling in 20 to 1,500 feet of water and is well equipped for drilling in the conditions typically found offshore China.

**Jackup Rigs.** Our jackup rigs consist of a mobile drilling platform supported by adjustable legs. Water depth and the nature of the seabed determine the specific jackup selected for a job. After towing the jackup rig to a drill site, we lower its legs to the sea floor. We then jack up the platform until it is elevated above the water. After completion of the drilling operations, we lower the hull until it rests in the water and then retract the legs for relocation to another drill site.

Three of our jackups, Bohai V, VII, and IX, are limited to a maximum water depth of 130 feet and only drill in shallow water areas, such as the Bohai Bay. Three other jackups, Bohai IV, VIII, and XII, are capable of drilling in maximum water depths of 185 to 300 feet and may be used in the Bohai Bay, the East China Sea and the South China Sea. Our Nanhai IV jackup rig has a maximum water depth of 300 feet and has been specially modified to drill gas development wells. Nanhai IV and Bohai IV are our most advanced jackup rigs. We sold one of our jackup rigs, Bohai VI, in January 2001.

We have modified our jackup rigs to improve their capabilities and efficiency. In particular, we have fitted all of our jackup rigs with top drive systems that allow for greater drilling efficiency and safety. We have also installed cantilevers in six of our jackups, rather than use a fixed slot in the hull of the rig. The mobility of the cantilevers system enables these rigs to drill wells over adjacent development platforms and also allows us to drill a large group of wells without moving the rig. This function is particularly useful for development well drilling. One of our slotted jackups, Bohai V, has a skidded slot drilling system, which we can slide onto production platforms for drilling development wells. Two of our shallower water jackups use their original slot designs. These are primarily used for drilling exploratory wells.

All of our jackup rigs have independent legs, which provide more stability in deeper water, strong underwater currents and uneven seabed conditions. In addition, Bohai V and Bohai VII have enlarged leg footing, and Bohai XII has strengthened leg footing. These upgrades provide additional stabilization in soft sea floor areas of the Bohai Bay.

The table below sets forth the key specifications for each of our jackup rigs as of June 30, 2002.

### Our Jackup Rigs

	Bohai IV	Bohai V	Bohai VII	Bohai VIII	Bohai IX	Bohai X	Bohai XII	Nanhai I	Nanhai IV
Mode .....	Cantilever	Skidding Base/Slot	Slot	Cantilever	Slot	Cantilever	Cantilever	Cantilever	Cantilever
Rated water depth (ft) .....	300	130	130	250	130	250	186	154	300
Rated drilling depth (ft).....	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Variable load (tons).....	2,640	1,500	1,500	1,270	1,500	1,270	2,160	2,300	2,300
BOP max pressure (psi).....	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Mud pump capacity (hp) .....	3 x 2,000	2 x 2,000	2 x 2,000	2 x 2,000	2 x 2,000	2 x 2,000	2 x 2,000	3 x 2,000	3 x 2,000
Mud pumps .....	National 1 x 12-P-160 2 x F-1600	National F-1600	Continental EMSCO FB-1300	National 12-P-160	Continental EMSCO FB-1300	National 12-P-160	National 12-P-160	National 1 x 10-P-130 2 x F-1600	National 1 x 10-P-130 2 x 12-P-160
Top drive.....	Varco TDS-8SA	Varco IDS-1	Varco TDS-115	Varco IDS-1	Varco IDS-1	Varco MH-500	Varco IDS-1	Varco IDS-1	Varco TDS-3S
Crew accommodation.....	100	100	99	97	95	98	99	102	114
Construction date.....	1977	1983	1983	1980	1984	1980	1978	1974	1980
Acquisition date.....	1977	1983	1983	1980	1984	1980	1989	1976	1980
Designer .....	Hitachi Zosen	Bethlehem/ Dalian Shipyards	Bethlehem/ Dalian Shipyards	Marathon LeTourneau	Dalian Shipyards	Marathon LeTourneau	Mitsubishi Heavy Industries	ETA/ Robin Loh	ETA/ Robin Loh
Design .....	R300-S	VHT-904	VHT-904	82-SD-S	VHT-904	82-SD-S	MD-T45J	R300	R300
Shipyards .....	Hitachi Zosen, Japan	Dalian, China	Dalian, China	Marathon LeTourneau, Singapore	Dalian, China	Marathon LeTourneau, Singapore	Mitsubishi, Japan	Robin, Singapore	Hitachi Zosen, Japan
Latest modification (year).....	Cantilever installed (1998)	Enlarged leg footing (1999)	Enlarged leg footing (2001)	Cantilever installed (2001)	Modified living quarters (1997)	Cantilever installed (1987)	New top drive, strengthened leg footing (1998)	Cantilever installed (2000)	Renewed SCR generator, living quarters (2002)

**Semi-submersible Rigs.** Our semi-submersible rigs consist of a mobile drilling platform supported by large buoyancy chambers. After we tow the semi-submersible rig to a drill site, we anchor it to the sea floor with multiple lines and then partially flood its columns and pontoons with ballast water to submerge it further into the sea for additional surface stabilization. Because they float and can support large variable loads, our semi-submersible rigs are capable of drilling in much deeper water depths than our jackups. Our semi-submersibles can also carry most of their drilling equipment and tools, which reduces their need for platform supply vessel support. Because of their large size and design characteristics, our semi-submersibles are capable of operating in rough sea and harsh weather conditions, including typhoons, which occasionally occur in the South China Sea.

Two of our three semi-submersible rigs, Nanhai V and VI, can drill in water depths up to 1,500 feet, and have been modified for high-temperature and high-pressure drilling conditions. The third semi-submersible, Nanhai II, has a rated water depth of 1,000 feet.

The following table sets forth the key specifications for each of our semi-submersible rigs as of June 30, 2002.

	<b>Nanhai II</b>	<b>Nanhai V</b>	<b>Nanhai VI</b>
Rated water depth (ft) .....	1,000	1,500	1,650
Rated drilling depth (ft) .....	25,000	25,000	25,000
Variable load (tons).....	2,900	2,900	2,800
BOP max pressure (psi).....	10,000	15,000	15,000
Mud pump capacity (hp) .....	3 x 2,000	3 x 2,000	3 x 2,000
Mud pumps.....	Continental EMSCO F-1600 (x3)	National 12-P-160 (x3)	Continental EMSCO F-1600 (x3)
Top drive .....	Varco TDS-3S	Varco TDS-4S	Varco TDS-3S
Crew accommodation .....	108	96	92
Construction date.....	1974	1983	1982
Acquisition date.....	1978	1986	1989
Designer .....	Aker Engineering	Friede & Goldman	Friede & Goldman
Design .....	Aker H-3	L-907	Enhanced Pacesetter L-907
Shipyards .....	Aker, Norway	Framnaes Mek, Norway	Gotaverken Arendal, Sweden
Last drydocking .....	Hong Kong (1999)	Singapore (1998)	Hong Kong (2000)

### ***Rig Fleet Development Plan***

We plan to spend approximately US\$120 million by 2004 for the purchase of two second-hand jackup rigs that have capabilities similar to our Bohai IV. This purchase is subject to the availability of suitable second-hand rigs. We have also budgeted approximately US\$69 million for general upgrades and maintenance of our other rigs through 2005 and US\$9 million to purchase a multi-purpose platform in 2003 to support our drilling operations. We estimate that the total capital expenditures for our drilling services division will be approximately US\$210 million between 2002 and 2005.

### ***Drilling Contracts***

All of our current drilling contracts offshore China are well-by-well contracts, which means that they cover a single well or a group of separate wells. In the future, we may also enter into term contracts, which are for a specific period of time without specifying a particular number of wells. Our well-by-well contracts generally last for one to six months. The majority of our well-by-well contracts are based

on fixed daily fees, or day rates. In the period from January 1999 to June 30, 2002, we also entered into approximately 10 turnkey contracts. Our turnkey contracts typically provide a lump sum payment for drilling and drilling-related services for a specified number of wells regardless of actual completion time and costs. While turnkey contracts present additional risks, such as cost overruns, they also provide us with an opportunity to increase our profit margins. We believe that our experience offshore China and integrated service capabilities enable us to manage these risks effectively. We plan to increase our number of turnkey contracts in the future. For the three years ended December 31, 2001 and the six-month period ended June 30, 2002, turnkey contract revenues accounted for approximately 7.7%, 20.8%, 17.7% and 9.6%, respectively, of our total drilling revenues, whereas well-by-well contracts represented approximately 81.7%, 69.4%, 78.4% and 81.0%, respectively, of our total drilling revenues. The remaining portion of our drilling revenues consisted of related drilling services that were not covered by drilling contracts. All of our drilling contracts provide a payment regardless of whether the drilling results in a successful well, and our customers typically pay us installments based on the progress of the contracts.

Under our well-by-well contracts, we typically are responsible for the operating costs of the rig, such as crew wages, rig maintenance and spare parts. Our customers, however, usually provide for the cost of rig preparation and towing as well as mobilization and demobilization costs. Our customers also pay for additional drilling services, such as drilling fluids, cementing, casing, logging and completion services. Our drilling contracts generally terminate if the drilling unit is rendered an actual or constructive loss and may be terminated if drilling operations are suspended for a period of 10 to 20 days because of major equipment repairs. In addition, some of our contracts permit our customers to terminate the contract by giving notice and paying an early termination fee. In many instances, our customers have the option to extend the contract and drill additional wells.

Since 1997, our utilization levels offshore China have been more stable than those in the global drilling market. As a result, we have been less dependent on balancing long-term and short-term contract exposures.

The following table summarizes our drilling contracts as of June 30, 2002.

Rig	Contract	Contractor	Drilling Start Date	Location
<b>Jackup Rigs</b>				
Bohai IV .....	Drilling (turnkey)	Sinopec Group	05/10/2002	Bohai Bay
Bohai VIII .....	Drilling	Phillips	03/31/2002	Bohai Bay
Bohai IV .....	Drilling	CNOOC Limited	01/01/2002	Bohai Bay
Bohai V .....	Drilling	CNOOC Limited	03/30/2002	Bohai Bay
Bohai X .....	Drilling	CNOOC Limited	02/26/2002	Bohai Bay
Bohai XII .....	Drilling	CNOOC Limited	02/26/2002	Bohai Bay
Bohai IX .....	Drilling	Amni	02/20/2002	Nigeria
Bohai VII .....	Drilling	Kerr-McGee	05/05/2002	Bohai Bay
Nanghai I .....	Drilling	ChevronTexaco	12/21/2001	Bohai Bay
Nanghai IV .....	Drilling	CNOOC Limited	02/28/2002	Western South China Sea
Nanghai IV .....	Drilling	CNOOC Limited	05/15/2002	Western South China Sea
<b>Semi-Submersible Rigs</b>				
Nanghai II .....	Drilling	CNOOC Limited	05/07/2002	Western South China Sea
Nanghai II .....	Platform support (day rate)	CNOOC Limited	01/16/2002	Eastern South China Sea
Nanghai V .....	Drilling	CNOOC Limited	05/28/2002	Western South China Sea
Nanghai V .....	Drilling	CACT <sup>(1)</sup>	03/24/2002	Western South China Sea
Nanghai VI .....	Drilling	CNOOC Limited	03/25/2002	Eastern South China Sea

(1) CACT is the operator of a PSC among CNOOC Limited, Agip and ChevronTexaco.

As of September 30, 2002, our Bohai IV was being deployed offshore Indonesia. We have dispatched Bohai VIII to replace Bohai IV in the Bohai Bay and Nanhai I to replace Bohai VIII. Nanhai I completed its drilling assignments in the above table in early July 2002.

## **OUR WELL SERVICES**

We are a leading provider of well services offshore China and also provide a limited amount of well services for onshore projects. The customers for our well services consist of large PRC oil and gas companies, such as CNOOC Limited, and multinationals or their associates, including BP, Phillips and ChevronTexaco. We offer well services both in conjunction with our own drilling operations and on a stand-alone basis. Our well services are categorized into the following divisions: logging, drilling fluids, directional drilling, cementing, well completion, and well workovers.

### ***Logging***

We provide a wide range of logging services for open-hole and cased-hole exploration and production wells. Our main logging services consist of electric wire-line logging and pipe convey logging. These services use either wire or cable to lower sensors into a well to collect and transmit data on the surrounding rock and petroleum reservoir formations. We use this information to analyze exploration wells, including petroleum reservoir sizes, and also to design, plan and drill effective and safe production wells. After we collect and process the logging data, we also offer our clients reservoir, production and well log interpretation services at our logging data processing and interpretation center in the Yanjiao Development Zone, Hebei Province, China.

Our logging operations rely heavily on advanced technology. We operate 12 different CLS surface system units and seven different ECLIPS<sup>SM</sup> units, which allow us to process logging data on a real time basis at the drill site. All of our ECLIPS<sup>SM</sup> units were manufactured by Baker Hughes. We anticipate demand for our ECLIPS<sup>SM</sup> units to grow and such units to become our most common surface system. Our downhole logging tools are capable of performing a wide range of measurements, including exploration logging, cementing, completion work and production performance analysis. In addition to imported high-tech drilling tools, our research and development center has developed some of our own logging tools, including downhole imaging and acoustic tools, and is continuing to research and develop logging instruments.

We have entered into two logging joint ventures with foreign logging companies. These joint ventures provide us with access to advanced logging technology and equipment as well as a good opportunity to learn from experienced construction and maintenance engineers from these companies. We hold a 50% interest in both of these joint ventures. The first logging joint venture, China France Bohai Geoservices Company, Limited, was formed in November 1983. Geoservices S.A., a leading logging services provider based in Europe, is our partner in this business venture. In May 1984, we entered into our second logging joint venture, called China Petroleum Logging-Atlas Cooperation Service Company. Our foreign partners in this enterprise are two associates of Baker Hughes. This company primarily focuses on providing advanced logging services.

### ***Drilling Fluids***

We offer our customers drilling fluid design services, fluid compounds and related equipment used during drilling operations. Drilling fluid, or mud, lubricates the drill bit and removes cuttings during the drilling process. Drilling fluid also controls downhole pressure and ensures the integrity of the well bore. Our drilling fluids typically are either water or oil based and consist of mixtures of clay and chemicals to control specific downhole conditions. In addition to drilling fluids, we provide completion

fluids, which are used to drill through petroleum reservoir rock without damaging or clogging the surface of the formation. Our completion fluid designs use a clear brine, or metallic, salt-based solution. We purchase the materials used in our drilling and completion fluids from PRC domestic manufacturers, which produce these compounds based on our specific design instructions.

We have entered into two joint ventures to manufacture drilling fluids. In October 1984, we entered into a joint venture called the China Nanhai-Magcobar Mud Corporation Limited. We own a 60% majority interest in this entity, while M-I Drilling Fluids Company, a joint venture between Smith International and Schlumberger, holds the remaining 40% interest. In September 1993, we entered into a domestic joint venture with our parent company, CNOOC. This domestic joint venture, Tianjin Jinlong Petro-Chemical Company Limited, is 50% owned by us and 50% owned by CNOOC. The primary business of this joint venture is to manufacture and process drilling fluids and cementing slurry additives.

### ***Directional Drilling***

We provide a complete line of directional drilling services, including directional, horizontal, slim hole directional and cluster well drilling. Directional drilling technology enables us to drill from various angles to reach specific reservoirs. This technology allows us to reach multiple and distant geological targets from a single surface location. We also have the ability to drill horizontal wells, which can maximize a well's production capacity and decrease development costs. We have used this technology for over eight years, drilling 15 horizontal wells. Most of the development wells that we drill offshore China are directional. We have eight teams that work with downhole steerable drilling motors and a variety of our measuring-while-drilling, or MWD, tools. MWD tools measure the direction of the drill bit while drilling. We intend to strengthen our directional drilling competitiveness by acquiring a new logging-while-drilling, or LWD, instrument in 2003 and additional MWD tools. LWD capabilities would increase the accuracy of our horizontal wells, especially in petroleum reservoir formations.

### ***Cementing***

We support our drilling operations by designing special cement compounds as well as providing cement mixtures and leasing cementing equipment. Cementing is used to support and strengthen the casing of exploration and development wells against downhole formation pressures and unexpected pressure kicks. We bolster the well casing by pumping cement slurries into the space between the metal well casing and the well wall. We specially design our cement slurries to meet various well requirements, such as density, thickening time and compression strength. We purchase the materials for our cement mixtures from domestic producers, which manufacture the compounds based on our specific requirements. We own and lease 19 cementing units that are installed on drilling rigs and production platforms. These units include a cement pump, tank and slurry mixing system.

### ***Well Completion***

Our well completion services include casing design and installation as well as reservoir treatments, including sand control and acidization. These treatments increase the productivity and prolong the lifespan of a production well. After installing and cementing the well casing, we fracture the reservoir rock with holes, called fracs, using specifically designed downhole explosives to increase the petroleum flow rate. We can also treat carbonate reservoir rock with acid solutions to dissolve drilling fluids that have accumulated on the face of the reservoir rock. If the reservoir rock is sandstone, we typically insert gravel into our fractures, a process commonly referred to as frac or gravel packing, to keep the fractures from being clogged by sand. We frequently use this technology in the Bohai Bay, where the sandstone formations are particularly soft.

In April 1993, we established a well completion joint venture with Otis Engineering Corporation, an associate of Halliburton. This joint venture, called CNOOC-Otis Well Completion Services Limited, employs technology developed by Halliburton.

***Well Workovers***

After a well begins production, we provide follow-up maintenance and workover services which increase the productivity and extend the lifespan of a well. Workovers typically involve treating the reservoir rock with refracturing, sand control or acidization, and may include removing and replacing the well casing and downhole tools. We provide our workover services on a turnkey basis and also offer complete well workover management programs. In most areas offshore China, crude oil wells require workovers once a year. However, production wells in the Bohai Bay can require more frequent workovers because of the soft sandstone reservoir and the relatively heavy crude oil found in this area. As a result of these conditions and the sharp increase in production wells in the Bohai Bay, the demand for this service has grown considerably over the last few years.

The following table summarizes the demand for our well services for the periods indicated. Each well service category in the following table includes multiple services of the same category or of different categories for a single well.

	Year ended December 31,					Six months ended June 30,
	1997	1998	1999	2000	2001	2002
Logging trips .....	378	386	356	739	660	272
Drilling fluids (total wells serviced) .....	87	121	152	318	345	94
Directional drillings .....	45	52	145	158	172	45
Well cementing jobs .....	123	90	166	183	201	40
Well completion jobs <sup>(1)</sup> .....	121	121	161	431	505	267
Well workovers .....	105	147	134	192	319	315

(1) This category includes both new wells and well workovers.

We plan to spend approximately US\$74 million for well services capital expenditures this year and over the next three years, including approximately US\$22 million for logging tools. This plan also includes spending approximately US\$8 million for a LWD tool in 2003. Our estimated total capital expenditure for the well services segment is US\$74 million between 2002 and 2005.

***Well Services Contracts***

We normally enter into well-by-well or term contracts for our various well services. We also offer our well services in connection with our IPM program and occasionally enter into stand-alone turnkey contracts for these services.

**OUR MARINE SUPPORT AND TRANSPORTATION OPERATIONS**

As of June 30, 2002, we owned and operated a fleet of 55 marine support vessels and six oil tankers. These ships primarily operate offshore China, but have also worked in other regions such as the Korean Sea, Gulf of Thailand and Persian Gulf. Our offshore support vessels transport materials, supplies and personnel to offshore facilities as well as move and position drilling structures. Our oil tankers transport crude oil and refined products in connection with our oilfield services offshore China. Since 1997, we have increased the size of our marine support and transportation fleet by 12 vessels, or 24.5%, to meet increased demand as a result of additional oil and gas exploration and production activity offshore China.

***Marine Support Vessels***

We have the largest fleet of marine support vessels in the offshore China market. As of June 30, 2002, 29 of our vessels were deployed in the Bohai Bay, 18 in the South China Sea, five in the East China Sea, two in the Korean Sea and one was under repair. We provide logistic support to our vessels primarily from bases located in Tianjin in northeastern China and Zhanjiang in the south of China. We also have operation support centers located in Shanghai, Shenzhen and Sanya. All of our offshore support vessels are registered in the PRC. The average age of our offshore support vessels was approximately 19 years as of June 30, 2002.

We categorize our offshore vessels based on their primary function. Currently, we have the following types of ships:

- anchor handling, towing and supply, or AHTS, vessels;
- platform supply vessels, or PSVs;
- standby vessels; and
- utility vessels.

Our AHTS vessels are used to tow, position and anchor drilling rigs and other structures. These vessels can also be used to transport supplies. As of June 30, 2002, we owned 16 AHTS vessels, six of which had more than 10,000 brake horsepower.

Our PSVs can handle large cargo and are primarily used to transport supplies, such as fuel, water, drilling fluids, cement, equipment and provisions, to offshore drilling and production facilities. These vessels range in size from 2,300 to 3,100 dead weight tons and are from 196 to 272 feet in length. As of June 30, 2002, we owned seven platform supply vessels.

Standby vessels provide continuous support to offshore production facilities. They are equipped to provide first aid, rescue, fire fighting and pollution control services. In addition, standby vessels also function as supply vessels. As of June 30, 2002, we owned 26 standby vessels.

Utility vessels provide a combination of services including crew transportation, standby and supply services. Our utility vessels are small to medium size vessels with approximately 2,600 brake horsepower and often provide backup or replacement services for more specialized vessels. As of June 30, 2002, we owned six utility vessels.

The following table lists the key specifications for each of our support vessels as of June 30, 2002.

	<u>Year built</u>	<u>Length (feet)</u>	<u>BHP</u>	<u>kW</u>	<u>Gross tonnage</u>
<b>AHTS vessels</b>					
Binhai 214 .....	1974	174	3,800	2,794	565
Binhai 215 .....	1974	174	3,800	2,794	565
Binhai 263 .....	1983	192	6,528	4,794	1,197
Binhai 281 .....	1978	220	8,000	5,882	1,607
Binhai 283 .....	1983	211	8,160	6,000	1,320
Binhai 284 .....	1991	224	8,000	5,880	1,535
Binhai 285 .....	1992	224	8,000	5,880	1,535
Binhai 291 .....	1981	216	10,200	7,500	1,357
Binhai 292 .....	1979	220	13,000	9,560	1,894
Nanhai 205.....	1975	208	8,000	5,880	1,277
Nanhai 207.....	1978	220	8,000	5,880	1,524
Nanhai 209.....	1978	203	6,000	4,410	1,209
Nanhai 212.....	1983	218	10,560	7,760	1,541
Nanhai 213.....	1981	222	10,560	7,760	1,582
Nanhai 215.....	1982	222	12,730	9,360	1,963
Nanhai 216.....	1982	222	12,240	9,000	1,631
<b>PSVs</b>					
Binhai 251 .....	1993	196	5,460	4,010	1,470
Binhai 252 .....	1993	196	5,460	4,010	1,470
Binhai 253 .....	2000	231	5,300	3,900	2,308
Binhai 254 .....	2000	231	5,300	3,900	2,308
Binhai 255 .....	2000	256	6,400	4,708	3,007
Binhai 256 .....	2000	256	6,400	4,708	3,007
Binhai 293 .....	1981	272	9,600	7,060	3,285
<b>Standby vessels</b>					
Binhai 207 .....	1973	174	3,800	2,794	565
Binhai 208 .....	1974	174	3,800	2,794	565
Binhai 209 .....	1974	169	2,600	1,900	664
Binhai 212 .....	1974	169	2,600	1,910	645
Binhai 213 .....	1974	169	2,600	1,910	645
Binhai 241 .....	1983	184	4,800	3,528	805
Binhai 242 .....	1983	184	4,800	3,528	805
Binhai 243 .....	1983	184	4,800	3,520	805
Binhai 244 .....	1984	176	4,000	2,944	890
Binhai 245 .....	1983	176	4,000	2,944	890
Binhai 262 .....	1986	192	6,528	4,800	1,197
Binhai 264 .....	1984	192	6,528	4,800	1,197
Binhai 265 .....	1984	192	6,528	4,800	1,197
Binhai 282 .....	1978	220	8,000	5,880	1,607
Nan Ou.....	1982	218	7,200	5,300	1,344
Nan Ying.....	1982	218	7,200	5,300	1,344
Nanhai 201.....	1974	174	3,800	2,794	569
Nanhai 202.....	1975	174	3,800	2,792	569
Nanhai 203.....	1975	174	3,800	2,794	569
Nanhai 206.....	1978	220	8,000	5,880	1,524
Nanhai 208.....	1978	203	6,000	4,410	1,209
Nanhai 210.....	1985	212	6,520	4,800	1,405
Nanhai 211.....	1985	212	6,520	4,800	1,405
Nanhai 217.....	2000	217	6,911	5,080	1,595
Nanhai 218.....	2000	217	6,911	5,080	1,595
Nanhai 219.....	2000	217	6,911	5,080	1,595
<b>Utility vessels</b>					
Binhai 206 .....	1975	225	2,200	1,617	850
Binhai 210 .....	1974	169	2,600	1,910	664
Binhai 211.....	1974	169	2,600	1,910	664
Binhai 216 .....	1975	190	2,640	1,940	986
Binhai 217 .....	1978	190	2,640	1,940	987
Binhai 219 .....	1981	180	2,640	1,940	895

*Oil Tankers*

We own and operate six oil tankers. Our oil tankers are used to transport crude oil from offshore production facilities to ports onshore China and to ship refined products between ports along the coast of China. Historically, our crude oil transportation business operated only in the Bohai Bay, where we serviced smaller production platforms in shallower waters. Currently, the PRC Government only issues a limited number of licenses for oil tankers services offshore China. We expect the government to issue more licenses in the future and we are in discussions with the PRC Government to expand our oil tanker business to other regions. For further details, see the section headed “Industry Overview—Regulatory Framework—Oil Tanker Regulation” in this Prospectus.

The following table lists the key specifications for each of our tankers as of June 30, 2002.

Vessel	Gross tonnage	Length (feet)	Year built
Binhai 601 .....	842	221	1979
Binhai 604 .....	2,485	331	1979
Binhai 605 .....	2,630	319	1976
Binhai 606 .....	3,478	352	1988
Binhai 607 .....	4,044	377	1999
Binhai 608 .....	4,044	377	1999

The following table shows the tons transported for our oil tankers for the periods indicated.

	Year ended December 31,					Six months ended June 30,
	1997	1998	1999	2000	2001	2002
Tons transported .....	555,333	531,275	586,420	1,382,922	1,356,379	620,190

***Vessel Utilization***

The following table shows the total operating days and average utilization rates for our marine support vessels for the periods indicated.

	Year ended December 31,					Six months ended June 30,
	1997	1998	1999	2000	2001	2002
<b>Operating days</b>						
Standby vessels .....	7,966	7,580	7,675	7,661	7,469	4,235
AHTS vessels .....	4,955	4,770	4,961	4,897	5,358	2,669
PSVs .....	628	941	1,041	899	1,397	1,118
Utility vessels .....	997	1,039	1,787	1,999	1,894	849
Total operating days .....	<u>14,546</u>	<u>14,331</u>	<u>15,464</u>	<u>15,456</u>	<u>16,118</u>	<u>8,871</u>
<b>Support vessel utilization<sup>(1)</sup></b>						
Standby vessels .....	98.2%	96.9%	96.6%	99.0%	95.4%	96.1%
AHTS vessels .....	97.1%	94.0%	97.9%	96.2%	98.3%	95.4%
PSVs .....	96.6%	95.3%	95.7%	97.5%	96.0%	90.4%
Utility vessels .....	98.5%	98.6%	93.7%	97.8%	91.2%	81.8%
Average utilization rate .....	<u>97.8%</u>	<u>95.9%</u>	<u>96.6%</u>	<u>97.8%</u>	<u>95.9%</u>	<u>93.6%</u>

(1) The support vessel utilization rates are calculated by dividing the total number of operating days in a particular year by the total number of days of availability in such year. The total number of days of availability is calculated by subtracting the total number of preparation days in a particular year from the total number of days in that year. Since 2000 was a leap year, there were 366 days in that year.

***Vessel Fleet Expansion Program***

In response to increased exploration, development and production activity offshore China, we have acquired several new and used vessels. We also plan to order several additional vessels over the next five years. Since the beginning of 2001 we have increased our fleet by seven newbuild vessels, including the completion of six vessels in 2001 and one vessel in the first half of 2002.

We plan to increase the overall size of our marine support and transportation fleet to 66 vessels by the end of 2003 and to 74 by the end of 2004. These estimates reflect plans to decommission a total of three older vessels by 2004. The additional vessels are intended to meet anticipated demand from CNOOC Limited, which is beginning to appraise and develop recent discoveries. We have received letters of intent from CNOOC Limited stating its intention to contract several of these vessels upon completion. Two of our new vessels will have dynamic positioning, or DP, systems, which enable them to maintain a fixed position near offshore facilities without the use of tie-up lines. We estimate that the total capital expenditure for our marine support and transportation segment will be approximately US\$268 million between 2002 and 2005.

The following table lists the key specifications for each of the newbuild vessels that we are scheduled to receive in 2003 and 2004.

<b>Vessel</b>	<b>Type</b>	<b>Expected delivery date</b>	<b>Length (feet)</b>	<b>BHP</b>	<b>kW</b>	<b>DWT</b>	<b>Cost (Rmb'000)</b>
BH266.....	Standby	February 2003	224	6,500	4,778	1,450	75,000
BH267.....	Standby	April 2003	224	6,500	4,778	1,450	75,000
BH268.....	Standby	June 2003	224	6,500	4,778	1,450	75,000
BH286.....	AHTS	February 2003	224	8,000	5,880	1,450	87,150
BH287.....	AHTS	August 2003	224	8,000	5,880	1,450	87,150
NH220 .....	Standby	February 2003	227 <sup>(1)</sup>	6,911	5,080	1,800	75,000 <sup>(1)</sup>
NH221 .....	Standby	August 2003	227	6,911	5,080	1,800	75,000
BH295 .....	AHTS	February 2004	220	13,600	10,000	1,900	141,100 <sup>(1)</sup>
Vessel 1 .....	Crewboat	January 2004	131	5,500	4,000	N/A	68,500
Vessel 2 .....	Standby	September 2004	223	8,000	5,880	1,500	86,606
Vessel 3 .....	Standby	September 2004	223	8,000	5,880	1,500	86,606
Vessel 4 .....	Standby	September 2004	213	6,000	4,410	1,400	73,930
Vessel 5 .....	Standby	September 2004	213	6,000	4,410	1,400	73,930
Vessel 6 .....	Standby	September 2004	213	6,000	4,410	1,400	73,930
Vessel 7 .....	Standby	September 2004	213	6,000	4,410	1,400	73,930
Vessel 8 .....	Standby	September 2004	223	6,500	4,778	1,550	80,890

(1) NH220 and BH295 will have DP systems installed at an estimated cost of US\$700,000 each, which is included in their estimated costs.

Construction of a new offshore support vessel is capital intensive and typically takes 18 months. Although we generally insist on a letter of intent from our customers to hire a vessel before we commit to building it, market conditions may change during the construction period and our letters of intent typically are not legally enforceable. See “Risk Factors—Risks Relating to Our Business—The execution of our capital expenditure plan is subject to some uncertainty.”

### ***Marine Support and Transportation Contracts***

Most of our contracts are standard industry charters or service agreements involving the use of one or more of our vessels for either a set period of time or a period covering a specific number of wells. Charters for development and production activities normally state a specific period of time, whereas charters for exploration activities normally state a specific number of wells to be drilled. All of our current charters and service contracts for offshore support vessels are based on fixed day rates with the customer assuming responsibility for certain variable costs, such as fuel and port charges. The day rates for our offshore support vessels are calculated based on the capabilities of each vessel, the term of contract and the service to be performed. Our current charters for tankers, on the other hand, are usually based on the volume of crude oil and other products transported. We also enter into a limited number of term contracts for our tankers, and charge these customers based on fixed monthly rates.

Our charters for development and production activities frequently are renewable on an annual basis. We also conclude “spot” or “short duration” charters that range from a single voyage to several months. If a customer requests a vessel that is not presently available, we occasionally charter a similar vessel from a third party to meet our customer’s needs.

**OUR GEOPHYSICAL SERVICES**

We are a leading provider of geophysical services offshore China and also provide seismic and survey services in other regions, including North and South America, the Middle East, offshore Africa and offshore Europe. Our geophysical services are divided into two main categories: seismic and surveying.

***Seismic Services***

We own and operate a fleet of six seismic vessels and are a leading provider of seismic services offshore China. Seismic analysis is an exploration method which uses sound waves to map subsurface geological formations. Offshore seismic data collection involves a vessel that produces sound waves and trailing streamers that record reflected wave measurements. Our seismic fleet is equipped with modern seismic and navigational equipment, and is capable of gathering both two dimensional, or 2-D, and three dimensional, or 3-D, high resolution seismic data. Our fleet has the capacity to collect up to 120,000 kilometers (74,568 miles) of 2-D seismic and 5,000 square kilometers (1,913 square miles) of 3-D seismic per year. We also own and operate a central processing center, which has the capacity to process 80,000 kilometers (49,712 miles) of 2-D and 10,000 square kilometers (3,861 squares miles) of 3-D per year. This center, which is located in Tianjin in the northern part of China, has a large database of seismic data collected from offshore China.

A ship's seismic data collection capacity is determined primarily by its number of streamers. Seismic data can be shot and recorded in either 2-D, 3-D or 4-D form. 4-D measures 3-D seismic data over time intervals. Five of our six seismic vessels are equipped for both 2-D and 3-D seismic data collection capabilities. 3-D seismic data is more expensive than 2-D seismic data because it requires more equipment and considerably more processing capacity and technology. Because of this, 2-D seismic data is often used in initial exploration to identify potential prospects, while 3-D seismic is reserved for analyzing specific prospects before drilling.

Our seismic ships can be deployed to cover potential drilling sites offshore China and most other offshore regions. We believe that our 2-D seismic collection is competitive internationally because of our low cost structure in this industry segment. Since 1999, three of our vessels have been deployed outside China. Nanhai 502 has been working in the Gulf of Mexico and offshore Brazil, Spain, West Africa, Sierra Leone and Portugal; Binhai 512 has been operating in the Gulf of Mexico, offshore Canada and Caribbean Sea as well as the Persian Gulf and offshore Oman, Madagascar, Eritrea and Sri Lanka. Binhai 517 operated offshore Iran and Sri Lanka and returned to China in mid-2002. The international market has become an important source of demand for our 2-D seismic data services in recent years.

# BUSINESS

The table below lists the key specifications for each of our seismic vessels as of June 30, 2002.

	<b>Orient Pearl</b>	<b>Binhai 511</b>	<b>Binhai 512</b>	<b>Binhai 517</b>	<b>Binhai 518</b>	<b>Nanhai 502</b>
Seismic capability .....	2-D/3-D	2-D/3-D	2-D/3-D	2-D/3-D	2-D/3-D	2-D/3-D
2-D seismic capacity (km/year) ..	34,000	32,000	32,000	28,000	28,000	30,000
Cruising speed (knots/hour) .....	15.0	15.8	15.8	11.0	8.8	13.0
Gross tonnage .....	3,676	2,231	1,964	1,240	704	931
Length (feet) .....	258	266	259	196	163	197
Maximum streamers .....	4	3	4	2	2	2
Streamer data .....	Digital	Digital	Digital	Digital	Digital	Digital
Recording system .....	I/O	Syntrak 960				
Quality control system .....	SUN 4500/CGG	IBM/CGC	IBM/CGC	SUN 4500/CGG	SUN 4500/CGG	IBM/CGC
Navigational system .....	CONCEPT	CONCEPT	CONCEPT	CONCEPT	CONCEPT	CONCEPT
Year of construction .....	1994	1979	1979	1997	1982	1979
Flag .....	PRC	PRC	Panama	PRC	PRC	Panama

The following table summarizes our seismic collection activity for the periods indicated.

	<b>Year ended December 31,</b>					<b>Six months ended June 30,</b>
	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>
<b>2-D seismic collected (km)</b>						
Offshore China .....	13,056	34,047	29,684	22,080	8,167	12,000
International .....	—	—	—	35,991	44,192	7,000
Total .....	<u>13,056</u>	<u>34,047</u>	<u>29,684</u>	<u>58,071</u>	<u>52,359</u>	<u>19,000</u>
<b>3-D seismic collected (km<sup>2</sup>)</b>						
Offshore China .....	3,763	3,285	2,429	728	3,503	667
International .....	—	—	—	1,127	—	—
Total .....	<u>3,763</u>	<u>3,285</u>	<u>2,429</u>	<u>1,855</u>	<u>3,503</u>	<u>667</u>

The following table summarizes our seismic data processing activity for the periods indicated.

	Year ended December 31,					Six months ended June 30,
	1997	1998	1999	2000	2001	2002
<b>2D seismic processed (km)</b>						
Offshore China .....	18,051	12,457	8,380	16,510	38,788	7,000
International .....	—	—	—	—	—	—
Total .....	<u>18,051</u>	<u>12,457</u>	<u>8,380</u>	<u>16,510</u>	<u>38,788</u>	<u>7,000</u>
<b>3D seismic processed (km<sup>2</sup>)</b>						
Offshore China .....	1,785	1,831	2,845	3,133	1,598	1,667
International .....	—	—	—	—	—	—
Total .....	<u>1,785</u>	<u>1,831</u>	<u>2,845</u>	<u>3,133</u>	<u>1,598</u>	<u>1,667</u>

We plan to spend approximately US\$15 million in capital expenditures on our seismic operations in 2002 through 2005. This includes increasing the streamer capacity of our seismic vessel, Eastern Pearl, from four to six streamers.

### *Survey Services*

We own and operate a fleet of three marine geotech survey vessels, and are the leading provider of marine survey services offshore China. Our marine geotech survey services include seabed topographical surveying, soil sampling, navigation, oceanographic and marine environmental studies, soil geohazard studies and seabed foundation engineering analysis. After collecting this data, we analyze it at our onshore laboratory and processing center in Tianjin. The results of the analysis are then used to place drilling rigs and production platforms.

Two of our survey vessels, Nanhai 503 and Binhai 218, are used as geotechnical coring vessels and are equipped with onboard drilling rigs. These drilling rigs enable us to take soil samples from up to 450 feet below the sea floor. Both Nanhai 503 and our third vessel, Binhai 521, are used as geophysical survey vessels equipped with high-resolution digital and analog equipment for mapping seabed topography and geohazard surveying. Nanhai 503 is a large geotechnical coring vessel and is classified by PRC classification societies as suitable for international deployment. Both Binhai 218 and 521 have been classified by PRC classification societies as suitable for deployment in Southeast Asia.

In addition to offshore China, our geotech survey vessels have worked on regional assignments since 1995, including surveying for ExxonMobil offshore Sakhalin, Russia and for the Korea National Oil Corporation offshore South Korea.

In August 1983 we entered into a survey joint venture called China Offshore Thales GeoSolutions (Tianjin) Company, Limited. We and our joint venture partner, Thales GeoSolutions Limited, each own 50% of its equity interest. This company focuses on site surveys, cable and pipeline surveys and remote operation vehicle positioning, and primarily serves offshore China.

We plan to spend a total of approximately US\$15 million in capital expenditures on our survey operations in 2002 through 2005. This includes our plan to order a large integrated survey vessel with a dynamic positioning system in 2002. This vessel is being designed to have the ability to inspect and repair submarine pipelines. We plan to spend approximately US\$12 million for this purchase, with delivery of the vessel expected in 2004.

### ***Geophysical Contracts***

We normally enter into contracts for specific exploration blocks with individual customers for our geophysical services. We also engage in multiple-customer exploration efforts where we first collect and process survey and seismic data and then sell this data to interested customers.

## **SALES AND MARKETING**

### ***Our Customers***

Our most important customer in the offshore China market is CNOOC Limited, the leading upstream offshore petroleum company in China and the only company permitted to engage in oil and gas exploration and production offshore China in cooperation with foreign parties. CNOOC Limited accounted for approximately 52.8% of our turnover for the year ended December 31, 2001, and 57.7% of our turnover for the six-month period ended June 30, 2002. Our other top four customers for the year ended December 31, 2001 were Texaco, Kerr-McGee, Shanghai Petroleum and Natural Gas Company Limited (owner of the Pinghu gas field in the East China Sea) and CACT (the operator for a PSC among CNOOC Limited, Agip and ChevronTexaco) in terms of revenue. These customers are international oil and gas exploration and production companies and PSC partners with CNOOC Limited in the offshore China market. CNOOC Limited and these four customers together accounted for approximately 73.2% of our turnover for the year ended December 31, 2001, and approximately 73.6% of our turnover for the six-month period ended June 30, 2002.

### ***Integrated Project Management***

We offer our customers an Integrated Project Management, or IPM, program. This program packages and tailors our various services and products to meet our customer's specific requirements. The package can be designed to cover a portion or the entire life of an oil and natural gas field from discovery to abandonment. We manage our drilling turnkey contracts under our IPM program. These contracts, however, typically include only our drilling and well services. In the period from January 1999 to June 30, 2002, we entered into approximately 10 turnkey drilling contracts. In the future, we intend to increase the number of drilling turnkey contracts under our IPM program. We also plan to integrate more of our geophysical and workover operations into our IPM program. We believe that integrating our services will strengthen our overall competitiveness.

### ***Marketing***

Our marketing department is responsible for coordinating our PRC and overseas marketing efforts. In the PRC, we have local offices in Zhanjiang, Shenzhen, Shanghai, Tianjin and Xinjiang that market our oilfield services and products for oil and gas projects in their respective regions. We also have international offices in the United States and occasionally use agents to market our oilfield services and products overseas. Internationally, we market our geophysical services on a stand-alone basis, while we market our drilling rigs together with our well services and marine support services.

We primarily market our drilling rigs for assignments offshore China. However, we currently have one drilling contract offshore Nigeria in West Africa, and we intend to market more of our oilfield services for assignments in that region as well as Southeast Asia and the Middle East in the future. In particular, we intend to participate in more drilling contract bids solicited by CNOOC Limited as it expands into other regions. In August 2002, through our local agent, we won the bid for a drilling contract from CNOOC Limited offshore Indonesia.

We primarily market our well services for projects offshore China and, to a lesser extent, onshore China and internationally. In the offshore China market and other international offshore regions, we typically offer our well services in conjunction with our drilling rigs. However, for offshore projects that are not being served by our drilling rigs and for projects located onshore China, we market our well services on a stand-alone basis.

Our offshore support vessels and tankers generally target specific regions offshore China, but also work outside the PRC. Our support vessels based in northern China are primarily marketed for projects in the Bohai Bay as well as the Yellow Sea, Korean Sea and East China Sea, whereas support vessels based in southern China primarily target assignments in the South China Sea. Our six oil tankers are marketed for crude oil transportation work in the Bohai Bay and also for refined products transportation assignments between ports along the coast of China. One important strategy in our marketing of vessels is to focus on production wells, which require long-term vessel service and tend to generate steady revenue for our marine support business. Outside China, we also market our marine support vessels in conjunction with our drilling rigs and related services.

We primarily market our geophysical services to offshore oil and gas exploration and development companies, such as CNOOC Limited and PSC partners, offshore China. In recent years, we have also begun to market our seismic and survey vessels for projects located in North and South America, the Middle East, offshore Africa and offshore Europe. We will continue to focus on our dominant market offshore China while selectively seeking opportunities in the international market for secondary growth.

## **PRICING POLICY**

Historically, prior to the reorganization of CNOOC Limited in October 1999, our prices charged to CNOOC and its wholly owned subsidiaries were set by CNOOC. Since the reorganization of CNOOC Limited in October 1999, the prices we charge to CNOOC Limited primarily reflect negotiations under prevailing local market conditions, which are primarily determined by market supply and demand, and take into consideration factors such as volume of business, length of contract, package of services, overall customer relationship and other market factors. Although we usually participate in competitive bids for our contracts, in some cases, especially in relation to certain geographical markets or service areas with a limited number of competitors, we are awarded our contracts through negotiation. Given CNOOC Limited's dominant position in the offshore China market and based on the various considerations described above, we have been offering CNOOC Limited discounts on some of our services. These discounts are also available to other customers whose volume of business and contract terms are similar to those of CNOOC Limited. For further details, see the section headed "Connected Transactions" in this Prospectus. Our prices charged to PSC partners and third parties have been based on negotiations under prevailing market conditions.

## **COMPETITION**

Our primary market is offshore China although we have also begun competing for oilfield service assignments in other regions. The PRC offshore oilfield services industry is competitive and we expect this competition to intensify following China's entry into the WTO. Before September 2001, the PRC Regulations on Exploitation of Offshore Petroleum Resources in Cooperation with Foreign Enterprises

required operators of oil and gas projects offshore China to give preference to PRC oilfield service providers and product suppliers provided that they were competitive in terms of quality, price, time of delivery and services. An amendment to these Regulations promulgated on September 23, 2001 eliminated such preferences for PRC companies.

In the offshore China market, we currently face competition from local companies that specialize in a particular market segment or region and from large multinational companies that possess technological advantages over most local companies. Outside China, our main competitors are global oilfield service providers. Many of these companies possess significantly greater resources and operating experience than we do. We compete primarily on the basis of our price, safety record, operational capabilities, equipment, crew and quality of service.

***Drilling Services.*** We compete against both local and foreign companies in the drilling services market offshore China. Associates of the Sinopec Group own and operate eight drilling rigs, six of which are shallow water jackup rigs. Foreign drilling companies occasionally operate in the offshore China market. These rigs usually enter the market when local drilling rigs are unavailable.

***Well Services.*** Our competitors in the offshore China well services sector include both domestic Chinese companies and foreign operators. Domestic competitors include associates of CNPC and the Sinopec Group that are relatively small in size. On the other hand, foreign competitors such as Schlumberger, Baker Hughes and Halliburton are strong and active in technology intensive areas, such as horizontal drilling, wire logging and logging-while-drilling, or LWD.

We have provided well services to various international petroleum companies, including Phillips, Kerr-McGee, Agip and ChevronTexaco. For oilfields operated independently by CNOOC Limited, we have benefited from our long-standing relationship with CNOOC Limited and years of experience in the offshore China market, except in areas requiring sophisticated technologies, such as HTHP logging.

***Marine Support and Transportation Services.*** Our competitors in the offshore support vessel market are smaller than us and usually operate in specific local regions offshore China. Currently, there are five marine support service providers, including us, with a total fleet of over 90 support vessels offshore China. As of June 30, 2002, we owned and operated a total of 55 vessels, 53 of which provided services offshore China, whereas Hua Wei had 12 vessels working offshore China. Our oil tanker fleet is relatively small and competes against several large local companies. We are in discussions with the PRC Government to obtain licenses to operate more oil tankers and expand our operating area offshore China.

***Geophysical Services.*** We are the market leader for geophysical services offshore China. Our competition varies depending on geographical locations. Our competition frequently depends on the level of technology required to perform the specific service. International competitors began to enter the market for seismic services offshore China in 1997. In 2002, Petroleum Geo-Services ASA, a U.S. based provider of geophysical services, won a 800-square-kilometer (308.9-square-mile) 3-D contract for a project jointly owned by CNOOC Limited and Devon Energy and a 680-square-kilometer (262.5-square-mile) contract from CNOOC Limited for an independent operation in the South China sea. Currently, our largest competitors in geophysical services are Petroleum Geo-Services ASA and Western Geco. We plan to increase our competitiveness by investing significant resources to raise our operating efficiency and improve our technology.

**SUPPLIERS**

The most important raw materials and supplies used in our operations consist of spare parts, chemicals, fuel, steel wires, cement, drill pipes, drill collars and others. We purchase these materials and supplies primarily from suppliers located in the PRC and we usually settle with our suppliers within 45 days after receiving and inspecting the materials. For the year ended December 31, 2001 and the six-month period ended June 30, 2002, our largest supplier accounted for approximately 5% and 4%, of our total supply purchases, respectively. During the same periods, our five largest suppliers (which included an associate of CNOOC) accounted for approximately 13% and 13% of our total supply purchases, respectively.

**RESEARCH AND DEVELOPMENT**

Our research and development center, located in the Yanjiao Development Zone, Hebei Province, primarily researches and develops technology and products used in the exploration, development and production of offshore oil and natural gas. It also advises us on technological developments in the industry and analyzes geophysical, logging and other data collected by us. We also own research and development facilities in Tianjin and Zhanjiang.

Our current research and development efforts are focused on developing advanced logging instruments, directional drilling technology and equipment, exploration and completion fluids and cement compounds. We have successfully developed a wide variety of technology and equipment, including our perforation guns, drilling fluid and cementing additives, pay zone protection and treatment system and a data totalization system.

As of June 30, 2002, our research and development team consisted of 96 employees, four of whom hold Ph.D. degrees in geology, petroleum engineering and mechanical engineering and six of whom hold master's degrees in geology, geophysics, petroleum engineering, electrical engineering and others. We have 59 senior and 37 junior technicians.

During the three years ended December 31, 1999, 2000 and 2001 and the six months ended June 30, 2002, we expended approximately Rmb 27.5 million, Rmb 24.7 million, Rmb 30.0 million and Rmb 10.6 million, respectively, on research and development activities.

**INTELLECTUAL PROPERTY**

We have a license to use a trademark owned by CNOOC. The trademark is of value in the conduct of our business. Under a non-exclusive license agreement, we have obtained the right to use the trademark for nominal consideration.

We also own nine patents in the PRC and have applied to register another eight patents with the PRC State Intellectual Property Bureau.

**QUALITY, HEALTH, SAFETY AND ENVIRONMENT PROGRAM**

We have implemented a quality, health, safety and environment program, which includes a safety management system and an occupational health and safety program similar to that employed by other international oilfield service companies. Under these programs, we closely monitor and record health and safety incidents and promptly report them to government agencies and organizations. We recently issued our safety management manual and implemented our occupational health and safety program. We believe this program is broadly in line with the United States government's Occupational Safety and Health Administration guidelines.

**OPERATING HAZARDS AND UNINSURED RISKS**

We emphasize ongoing safety and training programs and have installed significant safety equipment, all designed to promote a safe working environment. We have obtained the ISO9002 quality management standard in respect of offshore drilling services. We have not obtained but are committed to achieving the ISO14000 environmental management standard and the OSHA 18000 occupational health and safety standard.

Nevertheless, our operations are subject to many hazards inherent in the drilling, production and transportation of crude oil and natural gas, including loss or damage of downhill drilling equipment, riser ruptures, spills, fires, explosions, encountering formations with abnormal pressures, blowouts, cratering and natural disasters, any of which can result in loss of hydrocarbons, environmental pollution and other damage to our property and the property of our customers. In addition, certain of our operations are located in areas that are subject to weather disturbances, some of which can be severe enough to cause substantial damages to facilities and interrupt production.

As protection against operating hazards, we maintain insurance coverage against some, but not all, potential losses, including the loss of wells, blowouts, or other damage, certain costs of pollution control and physical damages on certain assets. We carry all risks and third party liability insurance for our drilling, marine support and transportation and geophysical services divisions and maritime insurance for our marine support and transportation services. We believe that our level of insurance is adequate and customary for the PRC offshore oilfield services industry. However, we may not have sufficient coverage for some of the risks that we face, either because insurance is not available or because of high premium costs. For instance, our insurance does not cover war, internal disturbances, business interruption, expropriation or nationalization. In addition, pollution and similar environmental risks generally are not fully insurable and we may be liable for oil spills, costs of controlling a wild well, well loss or damage and similar matters. Losses and liabilities arising from uninsured or underinsured events could have a material impact on our results of operations. See the section headed “Risk Factors—Our drilling and marine support and transportation businesses are subject to significant operational risks that may not be fully covered by our insurance policies” in this Prospectus.

**LEGAL PROCEEDINGS**

We are not a defendant in any material litigation, claim or arbitration, and we are not aware of any pending or threatened proceeding which would have a material adverse effect on our financial condition.

For the three years ended December 31, 2001 and the six-month period ended June 30, 2002, we have incurred no material actual or contingent liabilities as a result of lawsuits and other proceedings.

**REAL PROPERTIES**

Our registered office is in Tianjin, China, and our corporate headquarters is located in the Yanjiao Development Zone, Hebei Province, China. We lease several properties, including office and production premises, from CNOOC in China. The rental payments under these lease agreements are based on arm's length negotiations. For further details regarding the terms of these leases, see the section headed “Connected Transactions” in this Prospectus. We lease some premises from CNOOC that are located on State allocated land. Under relevant PRC regulations, CNOOC must obtain the approval of the land administration authorities within a specified time period to enter into lease agreements for these properties. Moreover, CNOOC must remit a portion of the rental payments for such properties to the PRC Government as land use fees. We consider these risks when negotiating and concluding our lease agreements. However, if CNOOC is unable to obtain the necessary approvals, our use of such premises could be adversely affected. Our Directors will take steps to comply with any relevant PRC legal requirements. For further details, see “Risk Factors—Risks Relating to Our Business—Our right and interests as lessee of certain real property are subject to some uncertainty.”

We also own one property in the United States through our wholly owned subsidiary, Lico International, Inc. This property is located in Houston, Texas, and is primarily used as a residence. For more information about the above properties, see Appendix III “Property Valuation” to this Prospectus.