COSL

中海油田服務股份有限公司
China Oilfield Services Limited

(Incorporated in the People's Republic of China with limited liability)
(Stock Code: 2883.HK)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2006

Financial Highlights

1. Turnover increased by 32.9% to RMB6,364.8 million
2. Profit from operations increased by 63.7% to RMB1,392.2 million
3. Net profit increased by 37.4% to RMB1,128.2 million
4. Basic earnings per share were RMB28.23 fen
5. Proposed final dividend per share of RMB6.00 fen

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
TURNOVER	4	**6,364,839**	4,788,792
Other revenues	4	**31,341**	12,919
Operating expenses			
Depreciation of property, plant and equipment		**(900,244)**	(755,676)
Employee compensation costs		**(936,936)**	(833,345)
Repair and maintenance costs		**(356,510)**	(285,166)
Consumption of supplies, materials, fuel, services and others		**(1,934,817)**	(1,437,233)
Subcontracting expenses		**(206,325)**	(259,563)
Operating lease expenses		**(313,431)**	(213,436)
Other operating expenses		**(274,444)**	(105,288)
Other selling, general and administrative expenses		**(81,231)**	(61,737)
Total operating expenses		**(5,003,938)**	(3,951,444)
PROFIT FROM OPERATIONS	5	**1,392,242**	850,267
Financial (expenses)/income			
Exchange losses, net		**(46,694)**	(16,802)
Finance costs		**(36,708)**	(104)
Interest income		**27,856**	16,956
Total financial (expenses)/income		**(55,546)**	50
Share of profits of jointly-controlled entities		**113,505**	106,617
PROFIT BEFORE TAX		**1,450,201**	956,934
Tax	6	**(321,966)**	(135,938)
PROFIT FOR THE YEAR		**1,128,235**	820,996
Attributable to:			
Equity holders of the Company		**1,128,010**	820,996
Minority interests		**225**	–
		1,128,235	820,996
DIVIDENDS	7		
Special interim dividend		**–**	55,535
Proposed final dividend		**239,719**	164,208
		239,719	219,743
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted	8	**28.23 fen**	20.55 fen

CONSOLIDATED BALANCE SHEET
31 December 2006

	Notes	2006 RMB'000	2005 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**8,876,894**	7,258,247
Interests in jointly-controlled entities		**433,496**	239,936
Total non-current assets		**9,310,390**	7,498,183
CURRENT ASSETS			
Inventories		**293,160**	229,784
Prepayments, deposits and other receivables		**81,730**	208,854
Accounts receivable	9	**987,099**	709,453
Due from the ultimate holding company		**33,419**	45,913
Due from other CNOOC group companies		**17,455**	2,800
Available-for-sale investments		**75,008**	–
Pledged time deposits		**22,466**	1,093
Cash and cash equivalents		**2,309,443**	1,013,795
Total current assets		**3,819,780**	2,211,692
CURRENT LIABILITIES			
Trade and other payables	10	**1,830,808**	925,306
Short term debentures		**997,417**	–
Salary and bonus payables		**237,636**	206,805
Tax payable		**54,150**	94,573
Due to the ultimate holding company		**217,090**	218,844
Due to other CNOOC group companies		**25,769**	23,789
Total current liabilities		**3,362,870**	1,469,317
NET CURRENT ASSETS		**456,910**	742,375
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,767,300**	8,240,558
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**348,756**	385,816
Interest-bearing bank borrowings		**600,000**	–
Long term payable to the ultimate holding company		**200,000**	200,000
Total non-current liabilities		**1,148,756**	585,816
Net assets		**8,618,544**	7,654,742
EQUITY			
Equity attributable to equity holders of the Company			
Issued capital		**3,995,320**	3,995,320
Reserves		**4,383,505**	3,495,214
Proposed final dividend		**239,719**	164,208
		8,618,544	7,654,742

NOTES TO FINANCIAL STATEMENTS
31 December 2006

1. CORPORATE INFORMATION

China Oilfield Services Limited (the "Company" or "COSL") is a limited liability company incorporated in the People's Republic of China ("the PRC" or "Mainland China"). The registered office of the Company is located at 3-1516 Hebei Road, Haiyang New and Hi-Tech Development Zone, Tanggu, Tianjin 300451, the PRC. As part of the reorganisation (the "Reorganisation") of China National Offshore Oil Corporation ("CNOOC") in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "HKSE") in 2002, and pursuant to an approval document obtained from the relevant government authority dated 26 September 2002, the Company was restructured into a joint stock limited liability company.

During the year, the Company and its subsidiaries (hereinafter collectively referred to as the "Group") were principally engaged in the provision of oilfield services including drilling services, well services, marine support and transportation services, and geophysical services.

In the opinion of the directors, the holding company and the ultimate holding company of the Company is CNOOC, which is a state-owned enterprise incorporated in the PRC.

2.1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standards ("HKASs") and interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for available-for-sale investments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2006. The results of the subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The acquisition of subsidiaries during the year has been accounted for using the purchase method of accounting. This method involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. Acquisition of minority interests are accounted for using the parent entity extension method whereby the difference between the consideration to the book value of the share of the net assets acquired is recognised as goodwill, if any.

2.2 IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements. The adoption of these new and revised standards and interpretations has had no material effect on these financial statements.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 27 Amendment	Consolidated and Separate Financial Statements: Amendments as a consequence of the Companies (Amendment) Ordinance 2005
HKAS 39 & HKFRS 4 Amendments	Financial Guarantee Contracts
HKAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 Amendment	The fair Value Option
HK(IFRIC)-Int 4	Determining whether an Arrangement contains a Lease

3. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group is engaged in a broad range of petroleum related activities through its four major business segments: drilling services, well services, marine support and transportation services, and geophysical services.

The Group's operating businesses are structured and managed separately according to the nature of their operations and the services they provide. Each of the Group's business segments represents a strategic business unit that provides services which are subject to risks and returns that are different from those of the other business segments. Summary details of the business segments are as follows:

(a) the drilling services segment is engaged in the provision of oilfield drilling services and well workovers;

(b) the well services segment is engaged in the provision of logging and downhole services, such as drilling fluids, directional drilling, cementing and well completion, and sales of well chemical materials;

(c) the marine support and transportation services segment is engaged in the transportation of materials, supplies and personnel to offshore facilities, and moving and positioning drilling structures and the transportation of crude oil and refined products; and

(d) the geophysical services segment is engaged in the provision of offshore seismic data collection, marine surveying and data processing services.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

(a) Business segments

The following table presents revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the year ended 31 December 2006:

	Drilling Services RMB'000	Well Services RMB'000	Marine support and transportation Services RMB'000	Geophysical Services RMB'000	Total RMB'000
TURNOVER					
Sales (including intersegment)	**3,345,395**	**1,395,331**	**1,080,095**	**893,166**	**6,713,987**
Less: Intersegment sales	**(244,990)**	**(43,151)**	**(37,327)**	**(23,680)**	**(349,148)**
Net sales to external customers	**3,100,405**	**1,352,180**	**1,042,768**	**869,486**	**6,364,839**
PROFIT FROM OPERATIONS					
Segment results	**849,251**	**176,934**	**215,590**	**150,467**	**1,392,242**
Exchange losses, net					**(46,694)**
Interest expenses					**(36,708)**
Interest income					**27,856**
Share of profits of jointly-controlled entities					**113,505**
Profit before tax					**1,450,201**
Tax					**(321,966)**
Profit for the year					**1,128,235**
ASSETS					
Segment assets	**5,192,274**	**1,468,481**	**2,674,394**	**892,978**	**10,228,127**
Interests in jointly-controlled entities	**–**	**418,550**	**–**	**14,946**	**433,496**
Unallocated assets					**2,468,547**
Total assets					**13,130,170**
LIABILITIES					
Segment liabilities	**815,906**	**123,931**	**455,120**	**76,106**	**1,471,063**
Unallocated liabilities					**3,040,563**
Total liabilities					**4,511,626**
OTHER SEGMENT INFORMATION					
Capital expenditure	**1,201,664**	**522,684**	**846,721(i)**	**144,177**	**2,715,246**
Depreciation of property, plant and equipment	**399,094**	**173,279**	**210,708**	**117,163**	**900,244**
Impairment of accounts receivable	**840**	**117**	**116**	**83**	**1,156**
Provision against inventories	**544**	**207**	**204**	**147**	**1,102**

(i) The balance included a capital contribution of US$20.9 million (equivalent to RMB167 million) to a newly incorporated joint-controlled entity in 2006.

The following table presents revenue, profit and certain asset, liability and expenditure information for the Group's business segments for the year ended 31 December 2005:

	Drilling Services RMB'000	Well Services RMB'000	Marine support and transportation Services RMB'000	Geophysical Services RMB'000	Total RMB'000
TURNOVER					
Sales (including intersegment)	2,446,524	1,205,401	899,540	566,331	5,117,796
Less: Intersegment sales	(240,813)	(40,060)	(31,839)	(16,292)	(329,004)
Net sales to external customers	2,205,711	1,165,341	867,701	550,039	4,788,792
PROFIT FROM OPERATIONS					
Segment results	505,453	150,350	110,351	84,113	850,267
Exchange losses, net					(16,802)
Interest expenses					(104)
Interest income					16,956
Share of profits of jointly-controlled entities					106,617
Profit before tax					956,934
Tax					(135,938)
Profit for the year					820,996
ASSETS					
Segment assets	4,281,207	1,142,170	2,154,123	662,397	8,239,897
Interests in jointly-controlled entities	–	230,434	–	9,502	239,936
Unallocated assets					1,230,042
Total assets					9,709,875
LIABILITIES					
Segment liabilities	468,543	118,442	62,233	48,433	697,651
Unallocated liabilities					1,357,482
Total liabilities					2,055,133
OTHER SEGMENT INFORMATION					
Capital expenditure	1,585,820	302,085	104,772	260,325	2,253,002
Depreciation of property, plant and equipment	323,448	124,546	224,100	83,582	755,676
Impairment/(write-back of impairment) of accounts receivable	(60,834)	519	387	245	(59,683)
Provision against inventories	416	219	163	103	901

(b) Geographical segments

In determining the Group's geographical segments, revenues are attributed to the segments based on the location of the customers. No further analysis of geographical segment information is presented for total assets and capital expenditure incurred to acquire segment assets as over 90% of the Group's assets are located in the Mainland China.

The following table presents revenue information for the Group's geographical segments for the years ended 31 December 2006 and 2005.

Year ended 31 December 2006	**Mainland China** *RMB'000*	**Others** *RMB'000*	**Total** *RMB'000*
Segment revenue:			
Sales to external customers	**5,260,851**	**1,103,988**	**6,364,839**

Year ended 31 December 2005	Mainland China *RMB'000*	Others *RMB'000*	Total *RMB'000*
Segment revenue:			
Sales to external customers	4,349,614	439,178	4,788,792

4. TURNOVER AND OTHER REVENUES

Turnover represents the net invoiced value of offshore oilfield services rendered, net of sales surtaxes.

Other revenues comprise the following:

	2006 *RMB'000*	2005 RMB'000
Gain on disposal of scrap materials	**8,286**	670
Insurance claims received	**14,999**	11,483
Others	**8,056**	766
Total other revenues	**31,341**	12,919

5. PROFIT FROM OPERATIONS

The Group's profit from operations is arrived at after charging/(crediting):

	2006 *RMB'000*	2005 RMB'000
Auditors' remuneration	**4,000**	3,350
Employee compensation costs:		
Wages, salaries and bonuses	**699,350**	600,279
Social security costs	**169,981**	174,995
Retirement benefits contributions	**67,605**	58,071
	936,936	833,345
Depreciation of property, plant and equipment	**900,244**	755,676
Loss on disposal of property, plant and equipment, net	**20,780**	1,359
Minimum lease payments under operating leases in respect of land and buildings, berths and equipment	**313,431**	213,436
Impairment/(write-back of impairment) of accounts receivable, net	**1,156**	(59,683)
Provision against inventories	**1,102**	901
Repair and maintenance costs	**356,510**	285,166
Research and development costs	**189,549**	129,850
Included in:		
Depreciation of property, plant and equipment	**6,105**	27,764
Employee compensation costs	**33,260**	25,838
Consumption of supplies, materials, fuel, services and others	**91,561**	31,390
Other operating expenses	**58,623**	44,858

6. TAX

The Group is subject to income tax on an entity basis on the profit arising in or derived from the tax jurisdictions in which members of the Group are domiciled and operate. The Group is not liable for income tax in Hong Kong as it does not have assessable income currently sourced from Hong Kong.

In accordance with the relevant tax laws in the PRC, the Company and its subsidiary incorporated in PRC are subject to corporate income tax at the rate of 33%.

During the year, the application by the Company as an advanced technology enterprise for tax exemption purposes was approved and the Company's corporate income tax rate for the fiscal year 2005 was reduced from 33% to 15%. As a result, a tax refund of approximately RMB176 million relating to fiscal year 2005 has been recorded by the Company. The eligibility for such tax rate reduction in future is conditional upon the fulfilment of certain conditions on an annual basis as stipulated in the relevant tax rules, which include a minimum proportion of sales of advanced technology services to total sales and minimum proportions of research and development expenses to total expenses and total revenue under the PRC accounting principles, respectively.

As the reduction in the corporate income tax rate from 33% to 15% for the year ended 31 December 2006 cannot be ascertained, at the date of this report, management considers it is appropriate to use the rate of 33% to accrue for the income tax liability of the Company for the year ended 31 December 2006.

The Company's principal subsidiary incorporated in Malaysia, COSL (Labuan) Company Limited, is subject to a deemed profit withholding tax of 6% based on its gross service income generated from its drilling activities in Indonesia.

The Company's principal subsidiary incorporated in Australia, COSL (Australia) Pty Limited, is subject to income tax of 33% based on its taxable profit generated from its drilling activities in Australia.

The Company's operation in Myanmar is subject to an income tax rate of 3% based on its gross service income generated from its drilling activities in Myanmar.

An analysis of the Group's provision for tax is as follows:

	Group **2006** *RMB'000*	2005 RMB'000
Hong Kong profits tax	–	–
Overseas income taxes:		
Current income taxes	32,901	33,582
PRC corporate income taxes:		
Current income taxes	502,116	341,078
Tax refund as an advanced technology enterprise	(175,991)	(191,280)
Deferred income taxes	(37,060)	(47,442)
Total tax charge for the year	321,966	135,938

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for the Mainland China where the Company and its jointly-controlled entities are domiciled to the tax expense at the effective tax rate and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate are as follows:

	2006 *RMB'000*	%	2005 *RMB'000*	%
Profit before tax	**1,450,201**		956,934	
Tax at the statutory tax rate of 33% (2005: 33%)	**478,566**	**33.0**	315,788	33.0
Profits and losses attributable to jointly-controlled entities	**(37,457)**	**(2.6)**	(35,184)	(3.7)
Tax refund as an advanced technology enterprise	**(175,991)**	**(12.1)**	(191,280)	(20.0)
Expenses not deductible for tax and others	**56,848**	**3.9**	46,614	4.9
Total tax charge at the Group's effective rate	**321,966**	**22.2**	135,938	14.2

Expenses not deductible for tax and others included income and deemed income tax expenses of certain overseas subsidiaries which are not deductible for Mainland China corporate income tax purposes.

The share of tax attributable to jointly-controlled entities amounting to RMB29,652,444 (2005: RMB27,429,000) is included in "Share of profits of jointly-controlled entities" on the face of the consolidated income statement.

7. DIVIDENDS

	2006 *RMB'000*	2005 RMB'000
Proposed and declared special interim dividend – nil (2005: 1.39 Fen per ordinary share)	–	55,535
Proposed final dividend – 6.00 Fen (2005: 4.11 Fen per ordinary share)	**239,719**	164,208
	239,719	219,743

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Cash dividends to shareholders in Hong Kong will be paid in Hong Kong dollars.

Following the establishment of the Company, under the PRC Company Law and the Company's articles of association, net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowance has been made for the following:

(i) making up prior years' cumulative losses, if any;

(ii) allocations to the statutory common reserve fund of at least 10% of after-tax profit, until the fund aggregates 50% of the Company's registered capital. For the purpose of calculating the transfer to the reserves, the profit after tax shall be the amount determined under the PRC accounting principles and financial regulations. Transfer to this reserve must be made before any distribution of dividends to shareholders.

The statutory common reserve can be used to offset previous years' losses, if any, and part of the statutory common reserve can be capitalised as the Company's share capital provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the registered capital of the Company;

(iii) until 31 December 2005, allocations of 5% to 10% of after-tax profit, as determined under the PRC accounting principles and financial regulations, to the Company's statutory public welfare fund, which was established for the purpose of providing the Company's employees with collective welfare benefits such as the construction of dormitories, canteens and other staff welfare facilities. The fund formed part of the shareholders' equity as individual employees could only use these facilities, while the title of such facilities is held by the Company. Transfer to this fund had to be made before any distribution of dividends to shareholders. Beginning 1 January 2006, the new PRC Company Law took effect and appropriation to statutory public welfare fund is no longer required and the balance in the Company's Statutory public welfare fund brought forward from 31 December 2005 are required to be transferred to the statutory common reserve fund; and

(iv) allocations to the discretionary common reserve if approved by the shareholders. The discretionary common reserve can be used to offset prior years' losses, if any, and can be capitalised as the Company's share capital.

In accordance with the articles of association of the Company, the net profit after tax of the Company for the purpose of profit distribution will be deemed to be the lesser of (i) the net profit determined in accordance with the PRC accounting principles and financial regulations and (ii) the net profit determined in accordance with Hong Kong Financial Reporting Standards.

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amounts is based on the net profit attributable to shareholders for the year ended 31 December 2006 of RMB1,128,010,000 (2005: RMB820,996,000) and 3,995,320,000 shares in issue during the year and 2005.

There were no potentially diluting events for the years ended 31 December 2006 and 2005.

9 ACCOUNTS RECEIVABLE

The general credit terms of the Group range from 30 to 45 days upon the issuance of the invoices. The Group's accounts receivable relate to a large number of diversified customers. Other than the accounts receivable related to CNOOC Group and CNOOC Limited Group as disclosed below, there is no significant concentration of credit risk of the Group's accounts receivables. All accounts receivable are non-interest-bearing.

An aged analysis of the accounts receivable as at the balance sheet date is as follows:

	Group **2006** *RMB'000*	2005 *RMB'000*	**Company** **2006** *RMB'000*	2005 *RMB'000*
Outstanding balances aged:				
Within one year	**976,219**	708,400	**1,347,377**	817,941
One to two years	**11,246**	1,059	**3,146**	1,059
Two to three years	**826**	779	**826**	779
Over three years	**1,453**	704	**1,453**	704
	989,744	710,942	**1,352,802**	820,483
Less: Provision for doubtful debts	**(2,645)**	(1,489)	**(2,645)**	(1,489)
	987,099	709,453	**1,350,157**	818,994

Included in the accounts receivable are the following amounts due from CNOOC Limited, its subsidiaries and associates (collectively known as the "CNOOC Limited Group") and CNOOC, its subsidiaries and associates other than the CNOOC Limited Group (collectively known as the "CNOOC Group"), are arose from the ordinary course of business and repayable on similar credit terms to those offered to independent third party customers:

	Group **2006** *RMB'000*	2005 *RMB'000*	**Company** **2006** *RMB'000*	2005 *RMB'000*
Due from CNOOC Group and CNOOC Limited Group	**486,569**	237,046	**437,746**	237,046

Included in the Company's accounts receivable at 31 December 2006 was an amount due from its subsidiaries of RMB548,048,000 (2005: RMB228,431,000) which was unsecured, non-interest-bearing and repayable on similar credit terms to those offered to the major customers of the Group.

10. TRADE AND OTHER PAYABLES

An aged analysis of the trade and other payables as at the balance sheet date is as follows:

	Group **2006** *RMB'000*	2005 *RMB'000*	**Company** **2006** *RMB'000*	2005 *RMB'000*
Outstanding balances aged:				
Within one year	**1,817,032**	875,912	**1,750,103**	808,110
One to two years	**7,219**	37,446	**6,747**	37,446
Two to three years	**771**	6,301	**771**	6,301
Over three years	**5,786**	5,647	**5,786**	5,647
	1,830,808	925,306	**1,763,407**	857,504

Trade and other payables are non-interest-bearing. Trade and other payables are normally settled on terms ranging from one month to two years.

BUSINESS REVIEW

Drilling Services

Global oil and natural gas exploration and production business remained robust in 2006. Building upon a sustained domestic market share of our drilling services business, we actively expanded into the overseas markets and achieved major breakthroughs. We have 2 semi-submersible rigs and 1 jack-up rig operating in Indonesia, Myanmar and Australia, respectively. Our quality services attracted many new overseas clients, including Daewoo E&P, Genting Oil Natuna Pte. Ltd., Medco Moeco Langsa Ltd. and Woodside.

In 2006, turnover from our drilling business increased by 40.6% over the previous year, reaching RMB3,100.4 million. Overseas business contributed RMB827.4 million, representing 26.7% of the total turnover. Meanwhile, COSL941, China's first 400-feet cantilever jack-up rig commenced operation on 25 June 2006 in Beibu Gulf. Its operation record throughout the year was promising.

As of 31 December 2006, we operated a total of 15 drilling rigs (including 1 leased rig). Of these rigs, 8 were located in the Bohai Bay, China, 4 were located in the South China Sea, 2 were located in offshore Indonesia and 1 at offshore Australia. During the year, we drilled a total of 221 wells, of which 56 were exploration wells and 165 were development wells. Of the wells drilled, 168 were in the Bohai Bay, China, 36 were in South China Sea and 17 were located overseas.

In 2006, our drilling rigs operated a total of 824 and 3,945 days from overseas and China respectively. These added up to a total of 4,769 operating days, up by 165 days compared to the 4,604 days in 2005. Jack-up rigs contributed 100 days to the increase (an increase of 210 days for domestic operation and a decrease of 110 days for overseas operation). The increase was mainly attributable to the total 179 operating days for COSL941, which commenced operation on 25 June 2006. In addition, as contracts followed closely one after another and the market condition was favourable, the total number of days in operation increased by 42 days. Nevertheless, in accordance with the annual repair and maintenance plan, days to maintenance increased by 131 days over last year, (including 10 days for the maintenance of COSL 941). Semi-submersible rigs had 65 more operating days (resulting from a decrease of 465 days for domestic operation and an increase of 530 days for overseas operation). The increase was mainly derived from fewer lapses between contracts, which increased operation days by 53 days. Moreover, maintenance days according to the repair and maintenance plan were reduced by 12 days from the previous year. In 2006, the average calendar day utilization rate was 90.0%, same as that in 2005. Utilization rates for jack-up rigs and semi-submersible rigs were 91.3% and 84.9% respectively. The available day utilization rate reached 100%, compared to 98.0% of the same period last year. Both jack-up rigs and semi-submersible rigs achieved an utilization rate of 100% as to available days.

Average day rate for our rigs was US$67,830/day, which was a 55.8% increase from US$43,542/day of the same period last year. Of the increase, the average day rate for jack-up rigs was US$55,559/day, which was a 37.5% increase from US$40,405/day of the same period last year. Average day rate for semi-submersible rigs was US$118,483/day, up by 107.5% from US$57,098/day of the same period last year.

In addition, we achieved more outstanding development in well workover in 2006. We completed well workover operation of 13,369 team days, up by 57.6% from 8,483 team days of the same period last year. The increase mainly came from the provision of integrated well workover service to CNOOC SES Ltd. in Indonesia.

In order to expand our operation capacity, we commenced construction of the second 400-feet jack-up rig (COSL942) on 14 July 2005. The Company implemented modification of the design jointly with Dalian New Shipbuilding Heavy Industry Co., Ltd. The rig is currently in the construction stage, and is expected to be completed in the first half of 2008. In addition, we secured a contract with PEMEX in Mexico for four module rigs, which are expected to commence operation in the second quarter of 2007. In December, we entered into a construction agreement with China Merchants Heavy Industry Co., Ltd. in relation to the construction of two liftboats. The liftboats to be constructed will feature those functions including well workover, adjustment well drilling, crushing, acidification, continuous oil pipe operation and development operation of marginal oilfield. Once completed and operation commenced, the project will systematically alter the mode of oilfield development operation. It will further enhance the cooperation between COSL and our clients in oilfield services.

Well Services

Well services benefited from the continuous active exploration and development at offshore China and expansion into overseas markets in 2006. As our well services business solidified its position in the domestic market, it also actively expanded into new overseas markets including the Philippines, Indonesia, Myanmar and Papua New Guinea. Turnover from well services amounted to RMB1,352.2 million in 2006, compared to RMB1,165.3 million in 2005, an increase of RMB186.9 million, or 16.0%.

Logging

We completed 837 logging trips in 2006, an increase of 139 trips, or 19.9%, from 698 trips in 2005. Turnover from logging services amounted to RMB290.5 million, a 34.9% increase compared to last year. The increase in turnover was mainly attributable to the utilization of COSL's self-developed Enhanced Logging Image System (ELIS), as well as the expansion in the new markets of Conoco Phillips exploration wells and logging of development wells in the Bohai area, and the new market of open-hole logging in the ROC block. Open-hole logging operation in the Bohai area also increased.

Drilling Fluids

In 2006, we offered drilling fluids services for 291 wells, down by 77 wells from the 368 wells in 2005. Turnover from drilling fluids services amounted to RMB308.6 million, an increase of 27.8% over last year. The increase was mainly derived from the development of new service markets such as the Jidong oilfield and CML in Myanmar, and the utilization and application of the SBM-II drilling fluids technology, and other new technologies such as MB new drilling fluids and retrieval device for heavy crystals.

Directional Drilling

In 2006, we performed directional drilling services on 242 wells, an increase of 32 wells from 210 wells in 2005. Turnover from directional drilling services in 2006 was RMB319.1 million, an increase of 23.3% from RMB258.7 million for last year. The increase was mainly attributable to the development of new onshore market (Jidong oilfield) and the utilization of advanced equipment, such as the Logging While Drilling (LWD) system, pumping production and Reservoir Performance Monitor (RPM).

Cementing

We completed cementing services on 332 wells in 2006, 83 more than the 249 wells completed last year. Turnover from cementing totaled RMB297.7 million in 2006, an increase of 53.9% from the RMB193.5 million for last year. The increase was mainly attributable to the cementing services provided to the new Conoco Phillips Phase 2 project, Philippine National Oil Corporate, Sinopec project in Sakhalin-Veninsky, Russia and CNOOC Myanmar Limited. The application of new latex slurry technology and cementing technology also contributed to the turnover growth.

Well Completion

We performed well completion on 1,244 wells in 2006, 11 more than the 1,233 wells for the same period last year. Turnover from well completion was RMB97.9 million in 2006, whereas turnover for last year was RMB90.0 million.

Other Oilfield Technology Services

In 2006, turnover from other oilfield technology services amounted to RMB38.4 million, a decrease of RMB127.8 million or 76.9% from the RMB166.2 in 2005. The decrease was mainly derived from a drop in the volume of trading of non self-produced materials.

Marine Support and Transportation Services

Our marine support and transportation services business continued its steady upward trend in 2006. While our self-owned vessels could not accommodate the volume of operation, we expanded our market share through operating leased vessels to maintain our leading position in the offshore China market. Turnover from marine support and transportation services in 2006 reached RMB1,042.8 million, up 20.2% from the RMB867.7 million for last year. Annual total operating days rose from 23,220 days last year to 23,668 days in 2006, representing an increase of 1.9%. The calendar day utilization rate was 95.1%, a 1.5% increase from 93.6% last year. Average day rate increased by 14.8%.

Gross transportation volume of oil tankers was 1,380,054 tons, a 6.3% decrease from 1,472,300 tons last year. Transportation volume of the chemical tanker reached

499,970 tons, a 739.0% increase over the 59,590 tons for last year. The rise was brought along by new clients such as CNOOC Oil Base Group Limited's Huizhou oil products company and CNOOC Kingboard Chemical Limited.

In November 2006, the Company's new Anchor Handling, Towing and Supply (AHTS) vessel COSL671 commenced operation. At the same time, in order to further strengthen our leading position in the offshore China marine support vessels arena, we commenced a shipbuilding plan for 18 marine support vessels in December. The 18 marine support vessels (4000-6500 kw) to be built constitute the largest construction project for the Company's marine support and transportation services business in recent years. The project not only can improve the vessel age structure of the existing COSL fleet, but also lay a solid foundation for the business' expansion into international markets.

In addition, the Company established a joint venture with Trico Marine Services Inc. in the United States in 2006, namely Eastern Marine Services Ltd. The joint venture was registered in Hong Kong, mainly providing services to the South East Asian market, one of the Company's target overseas markets. The joint venture provides marine support services for offshore oil and natural gas exploration, production and relevant construction. The establishment of a joint venture is in line with the Company's long-term strategy of strengthening its leading position as a provider of marine support services in the offshore China market. By providing diversified quality marine support services to the vast South East Asian offshore market, the operation capacity of our Company will be further strengthened.

Geophysical Services

With the sustained growth in energy demand in recent years, the geophysical market in offshore China has been robust. Demand for 3D seismic data is especially strong. The Company's geophysical services experienced fast growth in 2006.

As the 6-streamer seismic vessel COSL718 commenced operation in March and the renovation of 4-streamer Binhai 512 has been completed, the overall geophysical operation capacity of the Company was enhanced. With respects to seismic data collection, we collected 7,337 sq. kilometers of 3D seismic data and 45,682 kilometers of 2D seismic data. 3D seismic data increased by 3,644 sq. kilometers, or 98.7%, from 3,693 sq. kilometers for last year, mainly resulted from COSL718 collected 2,486 sq. kilometers more 3D seismic data and Binhai 512 collected 906 sq. kilometers more 3D seismic data after renovation. 2D seismic data decreased by 484 kilometers for last year, of 1.0%, from 46,166 kilometers for last year, resulted from mainly because Binhai 512 primarily collected 3D seismic data after the 4-streamer renovation. As a result, the amount of 2D seismic data collected was less than last year's figures.

In terms of data processing, we processed a total of 4,187 sq. kilometers of 3D seismic data in 2006, which was 1,344 sq. kilometers more than 2,843 sq. kilometers for last year, representing an increase of 47.3%. 2D seismic data of 14,512 kilometers was processed, down by 1,234 kilometers, or 7.8%, from 15,746 kilometers for last year.

Surveying Services

Turnover from surveying services in 2006 amounted to RMB232.3 million, which was an increase of RMB107.4 million or 86.0% from RMB124.9 million for last year. RMB65.4 million in turnover generated by COSL709, which commenced operation in the second half of 2005, contributed to the majority of the increase.

Integrated Project Management

The Integrated Project Management is one of the Company's core strategies. We benefited from our complete service chain and the superior capacity of our oilfield services equipment to provide comprehensive or bundled integrated service to our clients. The Company entered into 14 integrated contracts in 2006, 1 less than in 2005. Turnover realized from integrated services totaled RMB747.8 million, representing 11.7% of the Company's gross revenue.

OVERSEAS BUSINESS EXPANSION

The Company has basically achieved regional internationalization in 2006, with our overseas business extending to 13 countries and regions including Indonesia, Myanmar, Australia, the Philippines and Mexico. The Company's turnover from overseas markets in 2006 amounted to RMB1,104.0 million, constituting 17.3% of the Company's total turnover, and representing an increase of 151.4% over the RMB439.2 million for the same period last year.

Besides contributing to the well workover project in Indonesia and the B4 long-term contract, ELIS logging service has caught attention in the Middle East market. We secured a contract through open tender to provide senior Workover Pulling Unit management personnel for BR Energy in Malaysia. What is more important is that building on the lessons we learned from experience, our overseas expansion was accelerated. As a result, this year we experienced further breakthroughs in our overseas business.

N2, a semi-submersible rig, executed three drilling operation contracts in Myanmar and Indonesia. After the first contract won N2 the favor of our client, its brand reputation was established. New clients came enquiring about opportunities for cooperation and the day rate of N2 rose continuously. Through working with Maersk, the semi-submersible rig N6 was sent to Australia to execute the Woodside drilling contract, entering the international high-end market of Shell Oil Company.

The commencement of the drilling rig management service project in Iran created a new drilling rig service mode for us and reached a new stage from managing our own drilling rigs to managing those of our clients.

In addition, we obtained a contract for four module rigs of 7000 meters from PEMEX in Mexico, which has a domestic rig production rate of 92%, setting many domestic records. The commencement of the project enabled us to enter the traditional market dominated by the European and American oil service companies, and to acquire a certain share in the Gulf of Mexico market, which has a rich deposit of oil and gas.

As our drilling business expanded overseas, our cementing business also made great advancement in the overseas market, reaching to the Philippines, Indonesia, Myanmar and Papua New Guinea markets. The cementing business, as a relatively more competitive segment of the Company's well services business, will gradually help bring the Company's other competitive businesses to the overseas market.

FINANCIAL REVIEW

Turnover

The Company's turnover for 2006 was RMB6,364.8 million, representing an increase of RMB1,576.0 million or 32.9% from RMB4,788.8 million last year. The increase was driven by the expansion into overseas markets, rise in our service prices and use of new equipment. Meanwhile, turnovers from our four business segments grew at different rates.

Turnover from drilling services reached RMB3,100.4 million in 2006, representing an increase of RMB894.7 million or 40.6% from RMB2,205.7 million in 2005. The increase in turnover was mainly attributable to a rise in the day rate of drilling rigs and the commencement of operation of COSL941.

Turnover from well services reached RMB1,352.2 million in 2006, representing an increase of RMB186.9 million or 16.0% from RMB1,165.3 million for last year. The increase in turnover was mainly attributable to an expansion into overseas markets and an increase in operation volume.

Turnover from marine support and transportation services reached RMB1,042.8 million in 2006, representing an increase of RMB175.1 million or 20.2% from RMB867.7 million for the same period last year. The increase in turnover was mainly attributable to a rise in our service fees and volume of shipping of chemicals.

Turnover from geophysical services reached RMB869.5 million in 2006, representing an increase of RMB319.5 million or 58.1% from RMB550.0 million for last year. The increase in turnover was mainly attributable to a rise in the volume of overseas 2D seismic data collection, the commencement of operation of COSL718 and renovation of Binhai 512.

Other Revenues

In 2006, other revenues totaled RMB31.3 million, representing an increase of 142.6% over the RMB12.9 million for the same period last year. The increase was mainly derived from a rise in insurance compensation.

Operating Expenses

For the year ended 31 December 2006, operating expenses totaled RMB5,003.9 million, representing an increase of RMB1,052.5 million, or 26.6%, over RMB3,951.4 million for the same period last year. Of the increase, depreciation charges were RMB900.2 million, up by 19.1%. Labour costs amounted to RMB936.9 million, up by 12.4%. Repair and maintenance costs were RMB356.5 million, up by 25.0%. Costs relating to consumption of materials and other services amounted to RMB1,934.8 million, up by 34.6%. Sub-contracting costs were RMB206.3 million, down by 20.5%. Operating lease expenses amounted to RMB313.4 million, up by 46.9%. Other sales and management fees amounted to RMB81.2 million, up by 31.6%. Other operating expenses totaled RMB274.4 million, up by 160.6%.

Costs relating to consumption of materials and other services recorded a relatively greater increase, because the rise in operation volume drove the consumption of materials up. Rise in the prices of raw materials also led to the increase. The increase of depreciation charges was mainly due to the commencement of operation of the new drilling rig COSL941, surveying vessel COSL709 and renovation of geophysical vessel COSL718. The rise in labour costs was mainly attributable to an increase in the number of equipment operators and staff members as a result of the use of new equipment and expansion into overseas markets. Operating lease expenses also recorded an increase, as the number of leasing days for drilling rigs, chemical tankers and seismic data collection standby vessel increased along with our business needs. Other operating expenses increased sharply, mainly because of the reversal of RMB59.7 million of provision for doubtful debt in the last year and increased other operating expenses for additional overseas markets. Meanwhile, sub-contracting costs were reduced by the completion of the Nanbao construction project.

In 2006, operating expenses incurred in our drilling services amounted to RMB2,262.9 million, representing an increase of RMB558.1 million, or 32.7%, from RMB1,704.8 million for the same period last year. Of the expenses, depreciation charges were RMB399.1 million, up by 23.4%. Labour costs amounted to RMB433.9 million, up by 19.4%. Repair and maintenance costs were RMB229.3 million, up by 23.9%. Costs relating to consumption of materials and other services amounted to RMB864.6 million, up by 49.9%. Sub-contracting costs were RMB5.6 million, down by 94.8%. Operating lease expenses amounted to RMB137.3 million, up by 30.3%. Other sales and management fees amounted to RMB41.2 million, up by 34.3%. Other operating expenses totaled RMB151.9 million, up by 1,097.5%.

Costs relating to consumption of materials and other services recorded an increase, because of a rise in operation volume of well repair and the increase in purchase prices for oil and materials. Depreciation charges were higher mainly as a result of the commencement of operation of the new drilling rig COSL941 and renovation of certain vessels. Operating lease expenses increased by 30.3%, attributable to the increase in the daily leasing rate and the leasing days following the completion of the renovation of leased jack-up rig COSL935. Other operating expenses recorded a relatively greater increase, mainly because of the write-off of RMB59.7 million of provision for doubtful debt in the last year. Meanwhile, sub-contracting costs were reduced due to the completion of the Nanbao construction project.

In 2006, operating expenses incurred in our well services amounted to RMB1,182.3 million, representing an increase of RMB159.5 million, or 15.6%, from RMB1,022.8 million for the same period last year. Of the expenses, depreciation charges were RMB173.3 million, up by 39.1%. Labour costs amounted to RMB170.5 million, up by 2.2%. Repair and maintenance costs were RMB22.7 million, up by 20.9%. Costs relating to consumption of materials and other services amounted to RMB561.6 million, up by 14.0%. Sub-contracting costs were RMB136.5 million, down by 0.8%. Operating lease expenses amounted to RMB51.3 million, up by 50.8%. Other sales and management fees amounted to RMB15.9 million, up by 30.9%. Other operating expenses totaled RMB50.6 million, up by 40.2%.

Costs relating to consumption of materials and other services recorded an increase, primarily due to the increase in operation volume and the purchase prices for raw materials. The increase in depreciation charges was derived from the acquisition of equipment for directional drilling, cementing and well completion. The increase in operating lease expenses was mainly attributable to increased leasing of equipment in line with the rise in operation volume.

In 2006, operating expenses incurred in marine support and transportation services amounted to RMB827.3 million, representing an increase of RMB69.9 million, or 9.2%, from RMB757.4 million for the same period last year. Of the expenses, depreciation charges were RMB210.7 million, down by 6.0%. Labour costs amounted to RMB215.1 million, up by 2.6%. Repair and maintenance costs were RMB65.3 million, up by 6.6%. Costs relating to consumption of materials and other services amounted to RMB211.3 million, up by 19.8%. Operating lease expenses amounted to RMB73.9 million, up by 73.7%. Other sales and management fees amounted to RMB12.7 million, up by 23.3%. Other operating expenses totaled RMB38.2 million, up by 15.1%.

Costs relating to consumption of materials and other services recorded an increase, mainly because of the rise in raw material prices and replacement of components. The increase in operating lease expenses is attributable to increased leasing of chemical tanker to meet demand for chemicals transportation. Depreciation charges decreased, as a result of the completion of the depreciation of some of the vessels.

In 2006, operating expenses incurred in geophysical services amounted to RMB731.5 million, representing an increase of RMB265.1 million, or 56.8%, from the RMB466.4 million for the same period last year. Of the expenses, depreciation charges were RMB117.2 million, up by 40.2%. Labour costs amounted to RMB117.4 million, up by 25.7%. Repair and maintenance costs were RMB39.3 million, up by 94.8%. Costs relating to consumption of materials and other services amounted to RMB297.4 million, up by 55.5%. Sub-contracting costs were RMB64.2 million, up by 339.5%. Operating lease expenses amounted to RMB51.0 million, up by 61.6%. Other sales and management fees amounted to RMB11.4 million, up by 32.8%. Other operating expenses totaled RMB33.7 million, up by 44.6%.

Costs relating to consumption of materials and other services recorded an increase, mainly because of the rise in prices of raw materials like oil and the increase in the purchases of materials and transportation expenses in line with the increase in operation volume. Sub-contracting costs increased sharply with the increase in sub-contracting costs for surveying and groundwork. Depreciation charges became higher resulting from the renovation of 6-streamer rig COSL718 and 4-streamer Binhai 512. Operating lease expenses rose by 61.6%, primarily attributable to higher lease expenses for standby and positioning vessels as a result of the change in the mode of operation and increase in operation volume. The increase in repair and maintenance costs was mainly attributable to large-scale maintenance of vessels including BH512 and BH511 according to needs.

Operating Profit

In 2006, we achieved an operating profit of RMB1,392.2 million, representing an increase of RMB541.9 million, or 63.7%, compared to the RMB850.3 million in 2005. The increase in operating profit mainly benefited from the relatively greater growth in drilling, offshore utility vessel and transportation services businesses. Of the profit, drilling services recorded an operating profit of RMB849.3 million, representing an increase of RMB343.8, or 68.0%, from the RMB505.5 million for the same period last year. Well services recorded an operating profit of RMB176.9 million, representing an increase of RMB26.5 million, or 17.6%, from the RMB150.4 million for the same period last year. Marine support and transportation services recorded an operating profit of RMB215.6 million, representing an increase of RMB105.2 million, or 95.3%, from the RMB110.4 million for the same period last year. Geophysical services recorded an operating profit of RMB150.5 million, representing an increase of RMB66.4 million, or 79.0%, from the RMB84.1 million for the same period last year.

Financial Expenses

Financial expenses for 2006 amounted to RMB55.5 million, compared to the financial income of RMB0.05 million for the same period last year. The increase in financial expenses of RMB55.6 million consisted of the increase in the loss from currency exchange of RMB29.9 million, the increase in interest expenses of RMB36.6 million and the increase in interest income of RMB10.9 million.

Share of Profits from Jointly-Controlled Entities

Our share of profits from jointly-controlled entities amounted to RMB113.5 million in 2006, representing an increase of RMB6.9 million, or 6.5%, compared to RMB106.6 million for the same period last year. The increase was mainly attributable to the increase in profits from China Nanhai-Magcobar Mud, China-France Bohai Geoservices and China Petroleum Logging-Atlas Cooperation Service Company compared to those of the same period last year.

Profit Before Tax

Profit before tax amounted to RMB1,450.2 million in 2006, representing an increase of RMB493.3 million, or 51.6%, compared to RMB956.9 million in 2005. The increase was mainly attributable to the increase in our drilling services and marine support and transportation services.

Income Tax

In 2006, the Company had a net income tax expense of RMB322.0 million, representing an increase of RMB186.1 million, or 136.9%, compared to RMB135.9 million in 2005. We recorded tax liabilities in 2006 of RMB498.0 million, offset by a tax refund of RMB176.0 million from the tax authority attributable to the reduction in our corporate income tax rate from 33% to 15% in 2005 as a result of the approval of our status as an advanced technology enterprise in 2005.

Profit After Tax

Our profit after tax in 2006 was RMB1,128.2 million, representing an increase of RMB307.2 million, or 37.4%, compared to RMB821.0 million in 2005.

Dividends

The Company did not distribute any special interim dividend in 2006. The Board of the Company proposed to declare a year-end final dividend distribution of RMB239.7 million or RMB6.00 fen per share. The recommended date for distribution is 7 May 2007 (Monday).

Debt Servicing Ability and Funding Resources

Cash and cash equivalents amounted to RMB1,013.8 million at the opening of the year 2006. For this twelve-month period, net cash inflow from operating activities was RMB1,818.7 million, net cash outflow from investing activities was RMB1,758.3 million, net cash inflow from financing activities was RMB1,400.8 million and time deposits for more than three months decreased by RMB165.5 million. As at 31 December 2006, we had cash and cash equivalents amounting to RMB2,309.5 million.

Cash Generated from Operations

Net cash generated from operating activities amounted to RMB1,818.7 million in 2006, representing an increase of RMB557.3 million, or 44.2%, compared to RMB1,261.4 million in 2005. The increase mainly comprised a RMB542.0 million increase in operating profit, a RMB144.6 million increase in depreciation charges, an increase in salary and bonus payable of RMB52.2 million, an increase in provision for doubtful debts and inventory of RMB61.0 million, an increase in prepayment, deposit and other account receivables of RMB213.3 million, offset by a decrease in trade and other payable of RMB30.7 million; an increase in tax liabilities of RMB93.0 million, accounts receivable decreased by RMB292.9 million, loss of foreign exchange decreased by RMB29.9 million and other cash provided by operation decreased by RMB9.3 million.

Capital Expenditure

To meet domestic and foreign demand for oilfield services, the Company continued to increase its capital expenditure and enhance its operating capacity. Capital expenditure in 2006 was RMB2,715.2 million, representing an increase of RMB462.2 million, or 20.5%, from the RMB2,253.0 million for the same period last year. Capital expenditure for drilling services was RMB1,201.6 million, which was mainly spent on the construction of two 400-feet jack-up rigs, two liftboats and the drilling platform for our business in Mexico. Capital expenditure for well services was RMB522.7 million, which was mainly used on the purchase of equipment for cementing and logging. Capital expenditure for marine support and transportation services was RMB846.7 million, which was mainly spent on the construction of 18 marine support vessels, the purchase of 2 second-hand utility vessels, the purchase of 2 chemical tankers, the construction of 2 chemical tankers and the establishment of the joint venture, Eastern Marine Services Ltd., with Trico Marine Services Inc. Capital expenditure for geophysical services was RMB144.2 million, which was primarily spent on the renovation of the 6-streamer COSL718 and the modification of 1 PSV vessel into an 8-streamer geophysical vessel.

Cash Inflow from Financing Activities

In 2006, net cash inflow from financing activities amounted to RMB1,400.8 million, comprising the issue of RMB965.0 million short-term bond, a new long-term bank loan of RMB600.0 million, partially offset by dividend payment of RMB164.2 million.

Subsequent Events

In accordance with the Company's Articles of Association, an Extraordinary General Meeting of the shareholders was convened on 31 January 2007 for the approval of the special resolution in relation to the issue of long term financing bonds with the principal amount not exceeding RMB 2 billion. The long term financing bonds will be issued to institutional investors in the PRC. The long term financing bonds are unsecured, with a term of 10 to 20 years. It is expected that the proceeds from the bonds issue will be used by the Company for building and upgrading of drilling rigs, purchase and building of chemical tankers and oilfield working vessels, upgrading of seismic vessels and building of multi-function platforms and as general working capital of the Company.

The short term debenture of total face value of RMB1 billion were repaid in full by the Company in February 2007.

In March 2007, the new Corporate Income Tax Law ("New Tax Law ") was approved by the PRC fifth meeting of the Tenth National People's Congress. The New Tax Law unifies the income tax rate to 25% for both domestic company and foreign investment enterprises ("FIEs"). Currently, the Company's income tax rate in mainland China is 33%. The New Tax Law will become effective on 1 January 2008, and the New Tax Law is not expected to have a significant impact on the Group's financial statements as at 31 December 2006.

Outlook

In the year to come, the Company will maintain its leading position in the China offshore oilfield services market, and at the same time will further strengthen our presence in the South East Asia markets, expand further into the regional markets of Mexico, Africa, the Middle East and Russia, in order to generate profits from both domestic and overseas markets. The contract for the construction and operation of 4 drilling platforms for PEMEX in Mexico that we already secured, cementing contract in Papua New Guinea and other contracts will facilitate growth in the Company's revenues from overseas business. Meanwhile, the Company will create new drive for development through corporate moves such as acquisition and joint ventures. To facilitate the Company's long-term development, we expect to invest RMB3.2 billion on capital expenditure in 2007, which is 18% more than the RMB2.7 billion in 2006. Capital expenditure in 2008-2009 is currently estimated to maintain at the same level. The capital that the Company requires does not only come from daily operation and production, we plan to make use of various financing tools, including issue of A shares long-term bonds, project loans on favorable terms. The Company will follow a prudent financial policy to further improve our capital structure and minimize capital expenditure.

SUPPLEMENTARY INFORMATION

Audit Committee

The final results have been reviewed by the audit committee of the Board which consists of three independent non-executive directors. The committee has reviewed the accounting principles and practices adopted by the Company, and has also discussed auditing, internal control and financial reporting matters including the review of audited 2006 annual results with the management.

Model Code for Securities Transactions by Directors of Listed Issuers

Upon specific enquiry to each and every director by the Company, the Board of Directors confirms that all the members of the Board, for the year under review, have complied with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules.

Closure of Register of Members

Our Register of Members will be closed from 5 May 2007 (Monday) to 6 June 2007 (Wednesday) (both days inclusive). In order to qualify for the proposed final dividend, all transfers, accompanied by the relevant share certificates must be lodged with our share registrar, Computershare Hong Kong Investor Services Limited of 46th Floor, Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on 4 May 2007 (Friday).

Purchase, Disposal and Redemption of Our Listed Securities

Neither we nor our subsidiaries purchased, disposed of or redeemed any of our listed securities during the year 2006.

Compliance with the Code on Corporate Governance Practices

The Company is committed to the establishment of good corporate governance practices and procedures including the application of the principles of a quality board, sound internal control, transparency and accountability to its Shareholders. Pursuant to Code Provision E.1.2 of the Code on Corporate Governance Practices as stated in Appendix 14 to the Listing Rules, the chairman of the board should, among other things, attend the annual general meeting of the Company. Mr. Fu Chengyu, the Chairman of the Company, failed to attend the annual general meeting of the Company held on 25 May 2006 due to an unexpected matter that required his immediate attention. Mr. Simon X. Jiang was elected the chairman of the meeting in accordance with the Articles of Association of the Company. Save as disclosed, the Company has complied strictly with the Code on Corporate Governance Practices as stated in Appendix 14 of the Listing Rules throughout the 12 months ended 31 December 2006.

On behalf of the Board
China Oilfield Services Limited
Fu Chengyu
Chairman

Hong Kong, 23 March 2007

As at the date of this announcement, the executive directors of the Company are Mr. Yuan Guangyu and Mr. Li Yong; the non-executive directors are Mr. Fu Chengyu and Mr. Wu Mengfei; the independent non-executive directors are Mr. Gordon Che Keung Kwong, Mr. Andrew Y. Yan and Mr. Simon X. Jiang.