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COSL

中海油田服务股份有限公司
China Oilfield Services Limited

(Incorporated in the People's Republic of China as a joint stock limited liability company)
(Stock Code: 2883)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

Financial Highlights

1. Revenue increased by 34.8% to RMB12,142.9 million
2. Profit from operations increased by 28.4% to RMB3,630.5 million
3. Net profit increased by 38.6% to RMB3,102.2 million
4. Basic earnings per share were RMB69.01 Fen
5. Proposed final dividend per share of RMB14.00 Fen

CONSOLIDATED INCOME STATEMENT (AUDITED)*Year ended 31 December 2008*

		2008	2007
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
REVENUE	4	12,142,944	9,007,987
Other revenues	4	48,671	38,611
		12,191,615	9,046,598
Operating expenses			
Depreciation of property, plant and equipment and amortisation of intangible assets	5	(1,563,534)	(1,042,081)
Employee compensation costs	5	(2,106,497)	(1,643,857)
Repair and maintenance costs	5	(420,257)	(317,546)
Consumption of supplies, materials, fuel, services and others		(2,720,083)	(2,003,698)
Subcontracting expenses		(542,226)	(357,191)
Operating lease expenses	5	(356,136)	(365,706)
Other operating expenses		(693,870)	(387,108)
Other selling, general and administrative expenses		(158,523)	(102,003)
Total operating expenses		(8,561,126)	(6,219,190)
PROFIT FROM OPERATIONS		3,630,489	2,827,408
Financial income/(expenses)			
Exchange losses, net		(91,358)	(113,868)
Finance costs		(638,985)	(31,563)
Interest income		191,433	71,437
Financial expenses, net		(538,910)	(73,994)
Share of profits of jointly-controlled entities		215,707	113,153
PROFIT BEFORE TAX	5	3,307,286	2,866,567
Tax	6	(205,045)	(628,983)
PROFIT FOR THE YEAR		3,102,241	2,237,584
Attributable to:			
Equity holders of the Parent		3,102,241	2,237,584
DIVIDENDS			
Proposed final dividend	7	629,345	539,438
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	8	69.01 cents	54.24 cents

CONSOLIDATED BALANCE SHEET (AUDITED)*31 December 2008*

	<i>Notes</i>	2008 RMB'000	2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		41,855,657	11,118,005
Goodwill	<i>9</i>	3,480,541	-
Intangible assets		523,799	52,122
Interests in jointly-controlled entities		620,329	493,060
Available-for-sale investments		34,318	-
Pledged time deposits		78,235	-
Total non-current assets		46,592,879	11,663,187
CURRENT ASSETS			
Inventories		780,871	417,766
Prepayments, deposits and other receivables	<i>10</i>	1,501,434	209,611
Notes receivable	<i>11</i>	354,870	2,250
Accounts receivable	<i>12</i>	2,735,025	1,404,781
Due from the ultimate holding company		2,300	1,495
Due from other CNOOC group companies		2,122	4,363
Available-for-sale investments		-	607,338
Pledged time deposits		53,768	12,206
Cash and cash equivalents		4,563,834	8,765,988
Total current assets		9,994,224	11,425,798
CURRENT LIABILITIES			
Trade and other payables	<i>13</i>	3,759,343	2,087,098
Salary and bonus payables	<i>14</i>	485,875	397,451
Tax payable		252,460	472,146
Interest-bearing bank borrowings	<i>16</i>	7,778,617	200,000
Due to the ultimate holding company		3,248	203,248
Due to other CNOOC group companies		35,063	24,465
Total current liabilities		12,314,606	3,384,408
NET CURRENT (LIABILITIES)/ASSETS		(2,320,382)	8,041,390
TOTAL ASSETS LESS CURRENT LIABILITIES		44,272,497	19,704,577

		2008	2007
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
NON-CURRENT LIABILITIES			
Deferred tax liabilities	15	2,429,001	235,569
Interest-bearing bank borrowings	16	16,355,446	744,000
Long term bonds	17	4,028,342	1,500,000
Deferred revenue	18	1,512,635	—
Defined benefit obligations		5,664	—
Derivate financial instruments		49,308	—
Other non-current liabilities		94,257	—
Total non-current liabilities		24,474,653	2,479,569
Net assets		19,797,844	17,225,008
EQUITY			
Equity attributable to equity holders of the parent			
Issued capital	19	4,495,320	4,495,320
Reserves		14,673,179	12,190,250
Proposed final dividend	7	629,345	539,438
Total equity		19,797,844	17,225,008

NOTES TO FINANCIAL STATEMENTS

31 December 2008

1. CORPORATE INFORMATION

China Oilfield Services Limited (the “Company”) is a limited liability company incorporated in the People’s Republic of China (the “PRC”). 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 include all Hong Kong Financial Reporting Standards, 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 and derivative financial instruments, 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.

As at 31 December 2008, the current liabilities of the Group exceeded its current assets by approximately RMB2,320,382,000. The financial statements have been prepared under the going concern basis as the directors believe the Group will have adequate funds to meet its liabilities as and when they fall due after taking into account the expected cash flows from its operations and unutilized banking facilities.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2008. 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 income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

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. An acquisition of minority interests is accounted for using the entity concept method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as an equity transaction.

2.2. IMPACT OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

The Group has adopted the following new interpretations and amendments to HKFRSs for the first time for the current year's financial statements.

HKAS 39 and HKFRS 7 Amendments	Amendments to HKAS 39 <i>Financial Instruments: Recognition and Measurement</i> and HKFRS 7 <i>Financial Instruments: Disclosures-Reclassification of Financial Assets</i>
HK (IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions

The adoption of these new interpretations and amendments has had no significant effect on these financial statements.

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;
- (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, sales of well chemical materials and well workovers;
- (c) the marine support and transportation services segment is engaged in the transportation of materials, supplies and personnel to offshore facilities, moving and positioning drilling structures, the transportation of crude oil and refined products and the transportation of methanol or other petrochemical 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 net of sales surtaxes, profit and certain asset, liability and expenditure information for the Group's business segments for the year ended 31 December 2008 and 2007:

Year ended 31 December 2008	Drilling Services RMB'000	Well Services RMB'000	Marine support and transportation Services RMB'000	Geophysical Services RMB'000	Total RMB'000
Segment revenue:					
Sales (including intersegment)	6,649,523	2,866,005	1,681,031	2,180,110	13,376,669
Less: Intersegment sales	(729,605)	(133,411)	(67,153)	(303,556)	(1,233,725)
Net sales to external customers	<u>5,919,918</u>	<u>2,732,594</u>	<u>1,613,878</u>	<u>1,876,554</u>	<u>12,142,944</u>
Segment results	2,117,845	470,787	491,249	550,608	3,630,489
Exchange losses, net					(91,358)
Finance costs					(638,985)
Interest income					191,433
Share of profits of jointly- controlled entities					215,707
Profit before tax					3,307,286
Tax					(205,045)
Profit for the year					<u>3,102,241</u>
Assets and liabilities:					
Segment assets	43,421,562	3,658,323	4,284,153	1,888,107	53,252,145
Interests in jointly-controlled entities	41,161	338,946	198,067	42,155	620,329
Unallocated assets					2,714,629
Total assets					<u>56,587,103</u>
Segment liabilities	26,310,714	1,293,239	324,364	417,864	28,346,181
Unallocated liabilities					8,443,078
Total liabilities					<u>36,789,259</u>
Other segment information:					
Capital expenditure	3,754,649	1,287,256	1,291,972	503,873	6,837,750
Depreciation of property, plant and equipment and amortisation of intangible assets	912,144	262,871	193,270	195,249	1,563,534
Impairment of accounts receivable	761	351	207	47,414	48,733
Impairment of other receivables	164	101	63	71	399
Provision against inventories	1,879	867	512	595	3,853
Impairment of an available-for sale investment	106,508	—	—	—	106,508
Fair value losses on derivative instruments, net	52,984	—	—	—	52,984
Realised losses of derivative instruments	<u>151,659</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>151,659</u>

Year ended 31 December 2007	Drilling Services <i>RMB'000</i>	Well Services <i>RMB'000</i>	Marine support and transportation Services <i>RMB'000</i>	Geophysical Services <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue:					
Sales (including intersegment)	4,684,771	2,452,805	1,480,540	1,628,163	10,246,279
Less: Intersegment sales	(763,103)	(182,762)	(106,059)	(186,368)	(1,238,292)
Net sales to external customers	<u>3,921,668</u>	<u>2,270,043</u>	<u>1,374,481</u>	<u>1,441,795</u>	<u>9,007,987</u>
Segment results	1,489,371	390,601	409,453	537,983	2,827,408
Exchange losses, net					(113,868)
Finance costs					(31,563)
Interest income					71,437
Share of profits of jointly- controlled entities					<u>113,153</u>
Profit before tax					2,866,567
Tax					<u>(628,983)</u>
Profit for the year					<u>2,237,584</u>
Assets and liabilities:					
Segment assets	6,795,301	2,833,746	3,141,987	1,520,118	14,291,152
Interests in jointly-controlled entities	36,103	273,338	154,521	29,098	493,060
Unallocated assets					<u>8,304,773</u>
Total assets					<u>23,088,985</u>
Segment liabilities	1,048,207	720,512	328,934	383,663	2,481,316
Unallocated liabilities					<u>3,382,661</u>
Total liabilities					<u>5,863,977</u>
Other segment information:					
Capital expenditure	1,825,589*	651,430	411,941	576,524	3,465,484
Depreciation of property, plant and equipment and amortisation of intangible assets	514,371	194,344	199,691	133,675	1,042,081
(Reversal)/impairment of accounts receivable	(543)	(327)	(215)	3,357	2,272
Impairment of other receivables	141	82	50	52	325
Provision against inventories	<u>1,603</u>	<u>966</u>	<u>635</u>	<u>651</u>	<u>3,855</u>

* The balance included a capital contribution of US\$1.74 million (approximately RMB13.3 million), which represented the cash portion of the investment in Atlantis Deepwater.

(b) Geographical segments

The Group mainly engages in the provision of drilling services, well services, marine support and transportation services and geophysical services in offshore China. Any activities outside the PRC are mainly conducted in Indonesia, Australia, Mexico, Myanmar, Norway and Vietnam.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the Group's customers, and assets are attributed to the segments based on the location of the Group's assets. No further analysis of geographical segment information is presented for revenues as over 74.9% of the Group's revenues are generated from customers in Mainland China, and revenues generated from customers in other locations are individually less than 10%.

The following table presents revenue information for the Group's geographical segments for the years ended 31 December 2008 and 2007.

Year ended 31 December 2008	Mainland China <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue:			
Sales to external customers	9,099,541	3,043,403	12,142,944
	<u> </u>	<u> </u>	<u> </u>
Year ended 31 December 2007	Mainland China <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue:			
Sales to external customers	7,363,011	1,644,976	9,007,987
	<u> </u>	<u> </u>	<u> </u>

4. REVENUE AND OTHER REVENUES

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

An analysis of revenue and other revenues are as follows:

Revenue:

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Rendering of services	12,062,412	9,007,987
Gross rental income	80,532	—
	<u> </u>	<u> </u>
Total revenue	12,142,944	9,007,987
	<u> </u>	<u> </u>
Other revenues:		
	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Gain on disposal of scrap materials	2,112	1,804
Insurance claims received	19,895	4,491
Government subsidies	24,259	31,150
Others	2,405	1,166
	<u> </u>	<u> </u>
Total other revenues	48,671	38,611
	<u> </u>	<u> </u>

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Auditors' remuneration:		
Audit	10,922	6,399
Non-audit	11,572	2,422
Employee compensation costs (including directors' remuneration):		
Wages, salaries and bonuses	1,706,715	1,258,807
Social security costs	294,281	294,955
Retirement benefits and pensions	106,215	82,785
Share appreciation rights (note 14)	(714)	7,310
	2,106,497	1,643,857
Depreciation of property, plant and equipment and amortisation of intangible assets	1,563,534	1,042,081
Loss on disposal of property, plant and equipment, net	53,429	18,868
Lease payments under operating leases in respect of land and buildings, berths and equipment	356,136	365,706
Impairment of accounts receivable, net	48,733	2,272
Impairment of other receivables, net	399	325
Provision against inventories	3,853	3,855
Impairment of an available-for-sale investment	106,508	-
Repair and maintenance costs	420,257	317,546
Research and development costs, included in	144,553	275,247
Depreciation of property, plant and equipment	18,143	13,731
Employee compensation costs	1,349	33,348
Consumption of supplies, materials, fuel, services and others	123,023	186,015
Other operating expenses	2,038	42,153

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.

The new PRC Corporate Income Tax ("CIT") Law (the "new CIT Law") effective from 1 January 2008 introduces the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%.

In addition, the new detailed Implementation Rules of the Corporate Income Tax Law (CITLIR) were approved on 28 November 2007 and are effective from 1 January 2008 onwards.

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 2007 was reduced from 33% to 15%. As a result, a tax refund of approximately RMB524 million (2007: RMB272 million) relating to fiscal year 2007 has been recorded by the Company.

The State Administration of Taxation Circular Guoshuifa [2008] Number 17 confirms that enterprises which had been recognised as advanced technology enterprises prior to 1 January 2008 should pay provisional CIT at the rate of 25% pending a re-recognition process under the New CIT Law.

On 30 October 2008, the Company was certified as an advanced technology enterprise by the Science and Technology Commission, the Ministry of Finance and the State Administration of Taxation (“SAT”), which is effective for three years. Further, the Company obtained the approval from the Tianjin Offshore Oil Tax Bureau (“TOOTB”) of the Tianjin Provincial Office of SAT in 2009. According to the Circular Jinguoshuihaishuijianmian [2009] Number 2, the corporate income tax rate was approved to be 15%.

As such, the management consider it is appropriate to use the rate of 15% to accrue for the income tax liability of the Company for the year ended 31 December 2008.

The Company’s drilling activities in Indonesia are mainly subject to a deemed profit withholding tax of 4.5% based on its gross service income generated from its drilling activities in Indonesia, and a further branch corporate income tax of 10% on the remaining deemed profit for the year. The Group’s drilling activities in Australia are subject to income tax of 33% based on its taxable profit generated. The Group’s drilling activities in Mexico are subject to an income tax rate of 28%. The Group’s drilling activities in Myanmar are subject to income tax of 3% based on its gross service income generated from its drilling activities in Myanmar. The Group’s activities in the United Kingdom are mainly subject to a corporate income tax of 30%, based on its taxable profit generated. The Group’s activities in Norway are mainly subject to a corporate income tax of 28%, based on its taxable profit. The Group’s activities in Vietnam are subject to withholding tax of 10% on income derived from the provision of drilling services and a further corporate income tax of 18%. The Group’s drilling activities in Libya are subject to income tax of 44% based on its deemed profit (16% of gross income). The Group’s taxes pertaining to drilling activities in Saudi Arabia are borne by the customer.

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

	Group	
	2008	2007
	RMB’000	RMB’000
Hong Kong profits tax	–	–
Overseas income taxes:		
Current income taxes	67,928	43,338
PRC corporate income taxes:		
Current income taxes	770,469	971,141
Tax refund/reduction as an advanced technology enterprise		
– current year	(220,793)	–
– prior year	(524,005)	(272,309)
Deferred income taxes (note 15)	111,446	(113,187)
Total tax charge for the year	205,045	628,983

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for 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:

	2008		2007	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Profit before tax	3,307,286		2,866,567	
Tax at the statutory tax rate of 25% (2007: 33%)	826,822	25.0	945,967	33.0
Tax refund/reduction as an advanced technology enterprise				
– current year	(220,793)	(6.7)	–	–
– prior year	(524,005)	(15.8)	(272,309)	(9.5)
Income not subject to tax	(145,377)	(4.4)	(28,704)	(1.0)
Tax benefit for qualifying research and development expense	(14,735)	(0.3)	(10,346)	(0.4)
Effect of different tax rates for overseas subsidiaries	63,165	1.9	70,003	2.4
Unrecognised tax losses	464,173	14.0	–	–
Translation adjustment*	(311,388)	(9.4)	–	–
Change in PRC statutory tax rate	–	–	(85,631)	(3.0)
Expenses not deductible for tax and others	67,183	2.0	10,003	0.3
Total tax charge at the Group's effective rate	205,045	6.3	628,983	21.8

The share of tax attributable to jointly-controlled entities amounting to approximately RMB58,277,000 (2007: RMB25,740,000) is included in “Share of profits of jointly-controlled entities” on the face of the consolidated income statement.

* Translation adjustment includes tax effect of differences arising from foreign exchange effects to Norwegian Krone, which is the basis for taxation of some group companies. The translation adjustments mainly relates to the differences between the taxable income under the Norwegian Krone tax basis and the US dollar functional currency income statement.

7. DIVIDENDS

	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Proposed final dividend – RMB14.00 Fen per ordinary share (2007: RMB12.00 Fen per ordinary share)	629,345	539,438

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) 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 accounting principles generally accepted in PRC 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 PARENT

The calculation of basic earnings per share amounts is based on the net profit attributable to equity holders of the Parent for the year ended 31 December 2008 of approximately RMB3,102,241,000 (2007: RMB2,237,584,000) and the weighted average 4,495,320,000 shares (2007: 4,128,196,712 shares) in issue during the year.

There were no potentially diluting events for the years ended 31 December 2008 and 2007.

9. GOODWILL

	Group <i>RMB'000</i>
Cost at 1 January 2008, net of accumulated impairment	—
Acquisition of a subsidiary	3,472,241
Impairment during the year	—
Exchange realignment	8,300
Cost and carrying value at 31 December 2008	3,480,541
At 31 December 2008	
Cost	3,480,541
Accumulated impairment	—
Net carrying amount	3,480,541

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the Drilling services cash-generating unit, which is reportable in the drilling segment, for impairment testing.

The recoverable amount of the cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The post-tax discount rate applied to the cash flow projections is 8.5%, and the cash flow over five-year period is extrapolated using a constant growth rate.

Key assumptions were used in the value in use calculation of the cash-generating unit for 31 December 2008. The following describes the key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill.

Discount rates – The discount rates used reflect specific risks relating to the relevant unit.

The values assigned to key assumptions which includes rig utilisation rate, day rate and projected expenses are consistent with external information sources and historical trends.

10. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2008	2007
	RMB'000	RMB'000
Prepayments	1,281,549	48,641
Deposits	76,407	59,022
Other receivables	146,266	104,337
	<u>1,504,222</u>	<u>212,000</u>
Less: Provision for impairment of other receivables	(2,788)	(2,389)
	<u><u>1,501,434</u></u>	<u><u>209,611</u></u>

11. NOTES RECEIVABLE

	Group	
	2008	2007
	RMB'000	RMB'000
Trade acceptances	338,270	–
Banker's acceptances	16,600	2,250
	<u>354,870</u>	<u>2,250</u>

Included in the Group's notes receivable at 31 December 2008 was an amount due from CNOOC Limited Group of RMB338,270,000 (2007:Nil).

12. 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 the CNOOC Group and the 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 based on the invoiced date as at the balance sheet date is as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
Outstanding balances aged:		
Within one year	2,777,864	1,399,706
One to two years	7,751	7,323
Two to three years	278	–
Over three years	2,441	2,550
	<u>2,788,334</u>	<u>1,409,579</u>
Less: Provision for impairment of accounts receivable	<u>(53,309)</u>	<u>(4,798)</u>
	<u>2,735,025</u>	<u>1,404,781</u>

The movements in provision for impairment of accounts receivables are as follows:

	Group	
	2008	2007
	RMB'000	RMB'000
At 1 January	4,798	2,645
Impairment losses recognised	49,215	4,059
Impairment losses reversed	(482)	(1,787)
Exchange realignment	(222)	(119)
	<u>53,309</u>	<u>4,798</u>
At 31 December	<u>53,309</u>	<u>4,798</u>

Included in the above provision for impairment of accounts receivable is a provision for impaired accounts receivable of approximately RMB53,309,000 (2007: RMB4,798,000) against total carrying amounts of approximately RMB58,451,000 (2007: RMB9,873,000). The Group does not hold any collateral or other credit enhancements over these balances.

As at 31 December 2007 and 2008, the Group does not have any significant accounts receivable past due but not impaired. Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral or other credit enhancements over these balances.

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”), which arose from the ordinary course of business are repayable on similar credit terms to those offered to independent third party customers:

	2008 RMB'000	Group 2007 RMB'000
Due from CNOOC Limited Group	1,236,113	822,816
Due from CNOOC Group	197,786	102,371
	<u>1,433,899</u>	<u>925,187</u>

Included in the Company's accounts receivable at 31 December 2008 was an amount due from its subsidiaries of RMB1,498,958,000 (2007: RMB903,829,000) which is unsecured, non-interest-bearing and repayable on similar credit terms to those offered to the major customers of the Group.

13. TRADE AND OTHER PAYABLES

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

	2008 RMB'000	Group 2007 RMB'000
Outstanding balances aged:		
Within one year	3,460,452	2,030,967
One to two years	288,836	45,628
Two to three years	2,847	4,608
Over three years	7,208	5,895
	<u>3,759,343</u>	<u>2,087,098</u>

Trade and other payables are non-interest-bearing. Trade and other payables are normally settled on terms ranging from one month to two years. As at 31 December 2008, included in the trade and other payables was a balance for a research and development subsidy of approximately RMB54.18 million (2007: RMB58.72 million).

14. SHARE APPRECIATION RIGHTS PLAN

On 22 November 2006, the share appreciation rights plan for senior officers (the "SAR Plan") was approved by the shareholders in an extraordinary general meeting. A total of five million share appreciation rights with an exercise price of HK\$4.09 per share were awarded under the SAR Plan to seven senior officers, including the chief executive officer (general manager), three executive vice general managers, and three other non-executive vice general managers. The share appreciation rights will become vested upon completion of two years service period, and the senior officers can exercise their rights in four equal batches, beginning year 3 (first exercisable date: the first trading day after 22 November 2008), 4, 5 and 6 from the approval date of the SAR Plan.

The SAR Plan further provides that if the gain from exercising the share appreciation rights exceeds HK\$0.99 per share in any one year, the excess gain should be calculated using the following percentage:

- (1) between HK\$0.99 and HK\$1.50, at 50%;

- (2) between HK\$1.51 and HK\$2.00, at 30%;
- (3) between HK\$2.01 and HK\$3.00, at 20%; and
- (4) HK\$3.01 or above, at 15%.

The grant of the share appreciation rights was completed and became effective on 6 June 2007 when all the entitled senior officers agreed and signed individual performance contracts with the Company.

The fair value of the share appreciation rights granted as at 31 December 2008 was measured at HK\$1.67 per share. The fair value of the rights is calculated using the Black-Scholes model with the following assumptions: expected dividend yield of 1.96%, expected life of two years, expected volatility of 93.34% and a risk-free interest rate of 4.48%. The fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is measured at each balance sheet date up to and including the settlement date with changes in fair value recognised in profit or loss.

The decrease of the share appreciation rights liability amounted to approximately RMB714,000 for the year ended 31 December 2008, and was recorded in salary and bonus payables under general and administrative expenses:

			At 1 January 2008 <i>RMB'000</i>	Addition <i>RMB'000</i>	Decrease <i>RMB'000</i>	At 31 December 2008 <i>RMB'000</i>
Shares granted						
Chief Executive Officer	Yuan Guangyu	964,200	1,560	—	(158)	1,402
Executive Vice President	Li Yong	704,300	1,140	—	(116)	1,024
Executive Vice President	Zhong Hua	704,300	1,140	—	(116)	1,024
Executive Vice President	Chen Weidong	704,300	1,140	—	(116)	1,024
Vice President	Li Xunke	656,900	1,063	—	(108)	955
Supervisor	Tang Daizhi*	656,900	282	—	—	282
Vice President	Xu Xiongfei	609,100	985	—	(100)	885
		<u>5,000,000</u>	<u>7,310</u>	<u>—</u>	<u>(714)</u>	<u>6,596</u>

* During 2007, Mr. Tang Daizhi resigned as a supervisor of the Company and joined CNOOC. According to the terms of the SAR Plan, he was entitled to his benefits up to the date of his resignation.

The assumptions of the valuation model are based on the subjective estimation of the directors.

15. DEFERRED TAX LIABILITIES

The movements of deferred tax liabilities during the year are as follows:

	Group
	2008
	RMB'000
	2007
	RMB'000
Balance at beginning of the year	235,569
Acquisition of a subsidiary during the year (note 20)	2,116,871
Charged/credited to the consolidated income statement during the year (note 6)	111,446
Exchange realignment	(34,885)
Balance at end of year	2,429,001

The principal components of the provision for deferred tax are as follows:

Group

	Recognised in		Included:	Recognised in		Recognised in		Recognised in	
	Balance at	consolidated	Change	Balance at	Balance at	Acquisition	consolidated	Exchange	Balance at
	1 January	income	in PRC	31 December	1 January	of a	income	realignment	31 December
	2007	statement	statutory	2007	2008	subsidiary	statement		2008
	RMB'000	RMB'000	tax rate	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Deferred tax assets:									
Provision for staff bonus	(111,568)	467	13,122	(111,101)	(111,101)	–	(1,451)	–	(112,552)
Accelerated amortisation	–	–	–	–	–	–	(1,135)	–	(1,135)
Accrued liabilities	–	–	–	–	–	(3,334)	(194)	(6)	(3,534)
Tax loss carried forward	–	–	–	–	–	(101,545)	73,345	(1,100)	(29,300)
Others	–	–	–	–	–	(9,212)	(10,194)	97	(19,309)
Deferred tax liabilities:									
Accelerated depreciation	248,596	(32,251)	(57,049)	216,345	216,345	350,420	113,237	(38,747)	641,255
Revaluation surplus on reorganisation	211,728	(81,403)	(41,704)	130,325	130,325	–	(30,075)	–	100,250
Fair value adjustment arising from acquisition of a subsidiary	–	–	–	–	–	1,872,796	(25,884)	4,780	1,851,692
Others	–	–	–	–	–	7,746	(6,203)	91	1,634
Net deferred tax liabilities	348,756	(113,187)	(85,631)	235,569	235,569	2,116,871	111,446	(34,885)	2,429,001

At 31 December 2008, there was no significant unrecognised deferred tax liability (2007: Nil) for taxes that would be deducted from the unremitted earnings of certain of the Group's subsidiaries or jointly-controlled entities as the Group has no asset to additional tax should such amounts be remitted.

The Group has tax losses arising in Norway of approximately RMB2,120,745,000 (2007:Nil) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

16. INTEREST-BEARING BANK BORROWINGS

Current:

Bank	Effective interest rate (%)	Maturity	31 December 2008 RMB'000	31 December 2007 RMB'000
Syndicated bank loan – secured (a)	LIBOR+170pts	2009	6,359,459	–
Bank Loans – secured (b)	LIBOR+225pts	2009	476,138	–
			6,835,597	–
Current portion of long term loan			943,020	200,000
			7,778,617	200,000

Non-current:

Bank	Effective interest rate (%)	Maturity	31 December 2008 RMB'000	31 December 2007 RMB'000
Bank loans – unsecured (c)	LIBOR+170pts	2020	5,467,680	–
Bank loans – unsecured (d)	*	2013	744,000	944,000
Bank loans – unsecured (e)	**	2014	400,000	–
Syndicated bank loan – secured (a)	LIBOR+170pts	2010	3,189,503	–
Bank loans – secured (f)	3.20%	2011	117,353	–
Syndicated bank loans – secured (g)	LIBOR+162.5 pts	2010	6,725,859	–
Commercial facility loan – secured (h)	LIBOR+162.5 pts	2018	654,071	–
			17,298,466	944,000
Less: current portion of long term loan			(943,020)	(200,000)
			16,355,446	744,000

* Market interest rate of similar loan type quoted by the People's Bank of China.

** 4.86% for the first quarter and thereafter the market interest rate of similar loan type quoted by the People's Bank of China.

- (a) The Group obtained a syndicated bank loan with a total facility of US\$1,500 million. As at 31 December 2008, the utilised bank loan amounted to approximately US\$1,400 million (equivalent to RMB9,568 million). The share of the subsidiary, COSL Drilling Europe, were pledged as the security for the borrowing.
- (b) The loan agreement was entered into by CDE relating to a revolving credit facility of up to US\$70 million. The borrowing is to be repaid by 30 March 2009. The facility is secured by the drilling rig and the available-for-sale investment of CDE.
- (c) The Company borrowed a US\$800 million loan for the purpose of funding the acquisition of a subsidiary. The repayment will start on 2 September 2011, with installments amounting to US\$42.1 million bi-annually.
- (d) The Company borrowed a RMB dominated bank loan for the purpose of financing the construction of certain modular drilling rigs. The borrowings are to be repaid from 30 June 2008 to 30 June 2013 by instalments as follows: RMB200 million on every 30 June from 2008 to 2011, RMB100 million on 30 June 2012, and RMB44 million on 30 June 2013.
- (e) The Company borrowed a RMB400 million loan for the purpose of financing the construction of boats for the workover operation in Indonesia. The borrowing should be repaid from 19 November 2009 to 19 November 2017 by installments as follows: RMB44 million on every 19 November from 2009 to 2016, RMB48 million on 19 November 2017.
- (f) The loan was granted based on a subsidiary's extensive use of Norwegian suppliers in the construction of the jack-up drilling rig, WilPower. In return, the loan carries a fixed interest rate of 3.2%. The loan is to be repaid in semi-annual installments beginning six months after the loan drawdown date. Proceeds of the loan were deposited in an account with the agent bank, which serve as a security for the loan and are classified as a loan pledge in the balance sheet.

- (g) The loan agreement was entered into with a syndicate of financial institutions. The borrowing is secured by mortgages on the Group's accommodation rigs, jack up drilling rigs and semi submersibles drilling rigs.
- (h) The loan agreement was entered into by a subsidiary of CDE, WilPromoter Pte. Ltd. (currently known as "COSLPromoter Ptd. Ltd."), relating to a loan facility of up to US\$335,600,000 for drilling rig construction. The facility is secured by a semi-surmersible drilling rig.

	Group	
	2008	2007
	RMB'000	RMB'000
Bank borrowings repayable:		
Within one year, inclusive	7,778,617	200,000
In the second year	9,619,692	200,000
In the third to fifth year	2,486,814	200,000
Beyond five years	4,248,940	344,000
	<u>24,134,063</u>	<u>944,000</u>

As at 31 December 2008, the carrying amount of the long term bank borrowings approximate their fair values of approximately RMB17,298,466,000 (2007: RMB944,300,000), which was the present value of the loans' future cash flows discounted by the prevailing market interest rates quoted by the respective banks.

	31 December	31 December
Security	2008	2007
	RMB'000	RMB'000
Drilling rigs pledged	13,531,780	—
Construction in progress pledged	12,789,664	—
Total	<u>26,321,444</u>	<u>—</u>

Certain of the Group's bank loans are secured by pledged time deposits amounting to RMB117 million, a charge over the shares of CDE and the available-for-sale investment of CDE.

17. LONG TERM BONDS

(i) Corporate bonds:

On 18 May 2007, the Group issued 15-year corporate bonds, with a nominal value of RMB100.00 per bond, amounting to RMB1,500,000,000. The bonds carry interest at a fixed coupon rate of 4.48% per annum, which is payable annually in arrears on 14 May, and the redemption or maturity date is 14 May 2022.

(ii) Senior unsecured USD bonds:

COSL Drilling Europe AS issued the bonds in February 2006, with a book value of US\$100 million. The notes are unsecured, have a five year bullet maturity and carry a fixed coupon rate of 9.75%. The bonds are flexible in that they (1) have no change of control provisions; and (2) allow for a possible demerger of the Group in connection with possible future corporate transactions, which is pre-approved by the bond holders.

(iii) Second security priority USD bonds:

COSL Drilling Semi AS (formerly known as Offrig Drilling ASA) issued the bonds in April 2006, with the book value of US\$200 million and with a second security priority mortgage in the construction contracts relating to semi-submersible rigs. The company incurred debt issuance costs of US\$4.5 million, which are capitalised and amortised as a component of interest expense over the term of the notes. The notes are shown net of issue costs in the balance sheet. The bonds carry a fixed coupon rate of 9.75% and have a five year bullet maturity.

(iv) Senior unsecured NOK bonds:

COSL Drilling Europe AS issued the bonds in July 2007, with a book value of NOK 500 million, and an interest rate of LIBOR+2.25%. The bullet maturity is three years.

As at 31 December 2008, the estimated fair value of the long term bonds using the effective interest rate totalled approximately RMB3,384 million.

18. DEFERRED REVENUE

	2008 RMB'000	2007 RMB'000
Balance at beginning of the year	—	—
Acquisition of subsidiary during the year (note 20)	1,519,104	—
Credited to the consolidated income statement during the year	(10,100)	—
Exchange alignment	3,631	—
Balance at end of year	<u>1,512,635</u>	<u>—</u>

Deferred revenue was generated in the process of the acquisition, arising from the difference of contracted day rates and market day rates of the drilling rigs owned by COSL Drilling Europe AS. The deferred revenue were amortised according to the related contract period.

19. ISSUED CAPITAL

	2008 <i>RMB'000</i>	2007 <i>RMB'000</i>
Registered, issued and fully paid:		
2,460,468,000 state legal person shares of RMB1.00 each	2,460,468	2,460,468
1,534,852,000 H shares of RMB1.00 each	1,534,852	1,534,852
500,000,000 A shares of RMB1.00 each	500,000	500,000
	<u>4,495,320</u>	<u>4,495,320</u>

In September 2007, the Company issued 500,000,000 new A shares, with a nominal value of RMB1.00 each, to the public at an issue price of RMB13.48 per share, and these A shares were listed on the Shanghai Stock Exchange (“SSE”) on 28 September 2007. After deducting the share issue expenses of approximately RMB141 million, the Company raised net proceeds of approximately RMB6,599 million. The excess of the net proceeds over the paid-up capital of RMB500 million, amounting to approximately RMB6,099 million, was credited to capital reserves.

The A shares rank *pari passu*, in all material respects, with the state legal person shares and H shares of the Company.

A summary of the transactions during the year with reference to the above movements in the Company’s issued ordinary share capital is as follows:

	Number of shares in issue <i>thousand</i>	Registered, issued and fully paid share capital <i>RMB'000</i>
At 1 January 2007	3,995,320	3,995,320
Issue of new ordinary shares, A shares	500,000	500,000
	<u>4,495,320</u>	<u>4,495,320</u>
31 December 2007	<u>4,495,320</u>	<u>4,495,320</u>
At 1 January 2008 and 31 December 2008	<u>4,495,320</u>	<u>4,495,320</u>

The Company does not have any share option scheme but has a share appreciation rights plan for senior officers (note 14).

20. BUSINESS COMBINATION

On 29 September 2008, the Group acquired a 98.8% interest in Awilco Offshore ASA (currently known as COSL Drilling Europe AS, “CDE”). On 15 October 2008, the Group acquired the rest of the interest thereby holding a 100% interest in CDE. CDE was a public limited liability company incorporated and domiciled in Norway. The principal activity of CDE is the investment in and operation of jack up drilling rigs, semi submersible drilling rigs and accommodation rigs. The purchase consideration for the acquisition was in the form of cash, amounting to approximately US\$2,333,894,927.

The fair value of identifiable assets and liabilities of CDE as of the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

		2008	2007
		recognised	Fair value
	Notes	RMB'000	Carrying amount
			RMB'000
Drilling rigs		11,884,504	5,674,581
Construction in progress		13,814,490	8,057,526
Intangible assets		253,034	-
Cash and cash equivalents		447,197	447,197
Pledged time deposits		117,073	117,073
Other assets		815,671	815,671
Interest-bearing bank borrowings		(7,760,577)	(6,720,121)
Trade and other payables		(541,664)	(541,664)
Long term bonds		(2,615,202)	(2,615,202)
Deferred tax liabilities	15	(2,116,871)	(244,075)
Deferred revenue	18	(1,519,104)	-
Other non-current liabilities		(47,848)	(47,848)
Other liabilities		(108,714)	(1,149,170)
Total net assets acquired		12,621,989	3,793,968
Goodwill on acquisition	9	3,472,241	
Satisfied by cash		<u>16,094,230</u>	
Total cash consideration including direct acquisition costs (together with acquisition of minority interest)		16,094,230	
Cash and cash balances acquired		(447,197)	
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary		<u>15,647,033</u>	

Since its acquisition, CDE contributed RMB912.7 million to the Group's revenue and a profit of RMB189.9 million to the consolidated profit for the year ended 31 December 2008.

If the combination had taken place at the beginning of the year 2008, the net profit for the Group would have been RMB3,323.9 million and the revenue would have been RMB14,664.9 million.

The purchase price allocation is still preliminary pending for the finalisation of the valuation of the assets and liabilities.

MANAGEMENT DISCUSSION & ANALYSIS

Industry Review

The world economy has experienced a deep adjustment in 2008, with economic growth turned from robust to sluggish. The United Nations published the World Economic Situation and Prospects 2009 on 16 January 2009, with a forecasted world economic growth rate of 2.5% for 2009, lower than the recent 10 year average level of 2.99%. Economy in China suffered from inflation in the first half of the year, and in the second half, exports dropped significantly under the impact of the subprime mortgage crisis. However, the basic trend of a steady and faster development of the national economy has been maintained. According to an announcement dated 22 January 2009 by the National Bureau of Statistics of China, GDP in China increased 9.0% in this year as compared with last year.

With regard to demand for energy and international oil price, according to a report of International Energy Agency, daily global demand for crude oil in 2008 was 86,200,000 barrels which increased 0.1% compared with last year. International oil price staged a roller coaster scene in 2008, rising high and falling deep, with the New York WTI crude oil price climbing from US\$99.64 per barrel at the beginning of the year to a height of US\$147.27, then falling significantly 74% to US\$38.95 at the end of the year, resulting in an annual average oil price of US\$99, representing an increase of 38% over 2007.

In 2008, the financial storm swept across the world, with world economy starting to fall, however, due to lagging effect of the industry, the impact on oilfield services industry had not surfaced yet. As the largest comprehensive oilfield services provider in China's offshore market, COSL consolidated its organic growth, and, through its wholly owned subsidiary, COSL Norwegian AS ("CNA"), completed the acquisition of Awilco Offshore ASA (currently known as COSL Drilling Europe AS, "CDE"), a Norwegian drilling company in September, thus speeding up the internationalization process of the Group. The four major businesses, namely drilling services, well services, marine support and transportation services and geophysical service, performed well in the year, with record high revenue. Overseas business experienced strong growth, with an operation area extending to 20 countries and regions.

BUSINESS REVIEW

Drilling Services Segment

We are the major supplier of China offshore drilling services, also an important participant of international drilling services, we mainly provide services such as drilling, module rigs, land drilling rigs and drilling management. As of the end of 2008, we operated and managed a total of 23 drilling rigs (of which 20 are jack-up drilling rigs (one leased, one managed), and 3 are semi-submersible drilling rigs) and 2 accommodation rigs.

Drilling business of COSL developed strongly in 2008. Based on the original market and through the acquisition of Awilco Offshore ASA, our drilling equipment capacity has been significantly enhanced. COSL942 has started operation in September this year which significantly enhanced the drilling capability of COSL. New rigs acquired by COSL in the acquisition have operation depths of over 300 feet which is able to fulfill most drilling requirements under the predominantly complicated conditions in offshore China, and significantly improve the function and age structure of COSL's rigs with the average rig age lowered from 26 years to 19 years.

As of 31 December 2008, our drilling vessels, accommodation rigs and land drilling rigs operated in 8 countries and regions around the world. Among which, 10 drilling rigs in Bohai Gulf of China, 1 in Yellow Sea of China, 5 in South Sea of China, 1 in Vietnam, 1 in Indonesian waters, 2 in Australian waters, 1 in Saudi Arabia, 2 in North Sea, 1 in Libya; 4 module rigs in Mexican waters; 3 land drilling rigs in Libya, 1 in Xinjiang of China. In addition, we also provide drilling platform management service for clients in Iran.

As of 31 December 2008, COSL operated a total of 19 jack-up drilling rigs, with 4,556 operation days which increased by 328 days compared with last year, with a calendar day utilization rate of 91.1%; 3 semi-submersible drilling rigs had 1,098 operation days which increased 18 days compared with last year, with a calendar day utilization rate of 100%, an increase of 1.4% compared with last year; accommodation rigs had 184 operation days, with a calendar day utilization rate of 100%. Among which, the total number of days in operation for our drilling rigs before the acquisition (13 jack-up drilling rigs, 3 semi-submersible drilling rigs) was 5,164 days, representing a decrease of 144 days compared with last year, among which jack-up drilling rigs decreased 162 days, while semi-submersible drilling rigs increased 18 days. The decrease in operation days of jack-up drilling rigs was mainly due to upgrading and overhaul of COSL931 during the period to enhance its operation capacity, thus resulted in 262 maintenance days, together with 29 maintenance days for other vessels, which offset the addition of 117 operation days contributed by the newly added COSL942 and the 12 operation days added by the intercalary month. The increase in operation days of semi-submersible drilling rigs was mainly due to a decrease of 15 maintenance days for NH2 compared with last year, and the 3 operation days added by the intercalary month. In 2008, due to the increase in maintenance days for jack-up drilling rigs, the average calendar day utilization rate of owned drilling rigs dropped 4.9% to 92.1%, of which, the calendar day utilization rate of jack-up drilling rigs was 90.2% and 100% for semi-submersible drilling rigs, while their available day utilization rate remained at 100%. In addition, with the acquisition of Awilco Offshore ASA on 29 September 2008 which operated a total of 6 jack-up drilling rigs and 2 accommodation rigs brought 674 operation days in the fourth quarter after the acquisition, of which 490 days were contributed by jack-up drilling rigs, with a calendar day utilization rate of 99.4%; and 184 days from accommodation rigs, with a calendar day utilization rate of 100%.

Moreover, 4 module rigs were provided for clients in Mexico Gulf, with 1,442 operation days during the year, and a calendar day utilization rate of 98.5%; while 3 land drilling rigs in Libya and 1 land drilling rig in China brought 751 operation days, with both the calendar day utilization rate and the available day utilization rate reaching 100.0%.

The 2008 day rate of COSL had increased as compared with last year. The details are as follows:

Average day rate (ten thousand US\$/day)	2008	2007	Increase	Increase, net of exchange rate impact
Jack-up drilling rigs	11.6	7.8	47.9%	38.9%
Among which: COSL	10.5	7.8	33.5%	25.4%
Among which: CDE (inclusive of only the fourth quarter)	18.0	N/A	N/A	N/A
Semi-submersible drilling rigs	17.9	14.2	25.7%	18.0%
Accommodation rigs	16.7	N/A	N/A	N/A
Total (including CDE)	12.9	9.1	41.6%	32.9%
Total (not including CDE)	12.0	9.1	31.8%	23.7%

Note:

- As of 28 December 2007, the exchange rate for US\$ against RMB was 1:7.3046; as of 28 December 2008, the exchange rate for US\$ against RMB was 1:6.8346.

With the overseas acquisition, rise in day rates, the newly added COSL942, and the full year operation of 3 land drilling rigs and 4 module rigs in Mexico Gulf, the revenue of drilling services segment reached RMB5,919.9 million in 2008, representing an increase of 51.0% over last year.

Well Services Segment

We possess over 30 years of experiences in well services and over 20 years of experience in on-shore well services operation. Our major clients for well services includes large scale oil and gas companies in China (such as CNOOC and Petrochina etc) and oil and gas multinationals (such as BP, Shell, ConocoPhillips and Chevron etc). Through advanced technological facilities and an excellent management team, we provide comprehensive professional well services to clients, including logging, drilling & completion fluids, directional drilling, cementing, well completion, well workover, oilfield production optimization etc.

Benefited from increasing market demand for services, COSL gained new grounds in overseas markets: directional drilling project technical services won a contract to provide services for 34 geothermal wells in the Philippines; our proprietary owned logging system ELIS entered South East Asia to provide cable logging service; our land open-hole cable logging, perforation, drilling fluids and cementing services have also successfully entered Indonesia to provide services for clients.

Besides developing overseas markets, our long term R&D makes new technologies another driving force behind the business growth of the Group. During the year, FCT had a successful trial, and made COSL the fourth company in the world in possession of such technology; the experiment of thick oil thermal recovery technology in Bohai oilfields has been successful and resulted in a 300-400% growth in average daily crude oil production; the R&D of synthesis based drilling fluid (which may enhance the average machine drilling speed for more than 95% in operation) successfully opened the Indonesian market for our drilling fluids services.

Driven by new markets and new advance technologies, our well services segment achieved a revenue of RMB2,732.6 million in 2008, representing an increase of 20.4% or RMB462.6 million from RMB2,270.0 million of last year. In 2008, well services segment had the following changes in revenue:

		<i>Unit: RMB million</i>	
	2008	2007	Change %
Logging	526.2	416.5	26.3%
Directional drilling	465.3	350.8	32.6%
Drilling fluids	435.8	386.6	12.7%
Cementing	435.6	364.7	19.4%
Well workover	712.8	543.6	31.1%
Well completion and other well services	156.9	207.8	(24.5%)
Total	<u>2,732.6</u>	<u>2,270.0</u>	<u>20.4%</u>

In 2008, well services segment had the following changes in volume:

	For the 12 months ending on 31 December		
	2008	2007	Change %
Well services			
Logging (no. of jobs)	1,010	865	16.8%
Drilling fluids (no. of wells)	355	290	22.4%
Directional drilling (no. of jobs)	803	581	38.2%
Cementing (no. of wells)	450	474	(5.1%)
Well completion (no. of jobs)	556	487	14.2%
Well workover (team•day)	20,858	15,944	30.8%

Pursuant to the above two tables, well services had an aggregate operation income of RMB2,732.6 million, representing an increase of 20.4% over last year. Among which, revenue of logging business increased 26.3% over last year due to new markets in Indonesia and Burma, as well as commencement of new projects in China. Revenue of directional drilling business increased 32.6% over last year due to newly added contracts in the Philippines and the commencement of new projects in China while the revenue of drilling fluids business increased 12.7% over last year due to new markets in Indonesia and the successful development of the PetroChina drilling mud business in China. Although the business volume of cementing business dropped, the development of the Indonesian market, and the increase in higher unit price well exploration and well production business resulted in an revenue increase of 19.4% over last year. Revenue of well workover business increased 31.1% over last year due to volume growth and new project development in China while the revenue of well completion and other well services decreased 24.5% over last year due to decreased demand in overseas markets.

Marine Support and Transportation Services Segment

We possess and operate the largest and most comprehensive offshore utility transportation fleets in China. On 31 December 2008, the Group owned an aggregate of 75 utility vessels of various types, leased 5 utility vessels from the joint venture company, Eastern Marine Service Ltd. on a long-term basis, and at the same time owned 4 oil tankers, 5 chemical carriers, which were mainly operated in offshore China. The offshore utility vessels provide services for offshore oil and natural gas fields exploration, development and production, and are responsible for supplies, cargoes and crew transportation and standby services in the sea, and provide moving and positioning for drilling platforms, towing and anchoring services for offshore vessels. The oil tankers are used for transporting crude oil and refined oil and gas products. The chemical carriers are used for carrying chemical products such as methanol.

In 2008, COSL further expanded its utility vessel team, with 5 more standby vessels and 3 more multipurpose vessels which joined the team during the year whereby 2 multipurpose vessels were scrapped upon expiry. As of 31 December 2008, the Group owned 75 utility vessels (43 standby vessels, 21 AHTS vessels, 5 platform supply vessels, 6 multipurpose vessels) and maintained a dominant position in the China offshore area.

During the year, our owned utility vessels operated a total of 23,626 days, representing a decrease of 603 days or 2.5% from the same period last year. This is mainly due to the scrapping of one vessel in January and November 2008 respectively upon expiry, and new vessels joined the team later during the year (2 in September, 2 in November and 4 in December), and contributed less to the operation volume in 2008. The average available day utilization rate of owned vessels was 99.3%, representing a decrease of 0.3% compared to the same period last year. The calendar day utilization rate was 94.8%, representing a slight decrease of 0.1% compared to the same period last year. The Group leased five platform supply vessels from the joint venture company, Eastern Marine Services Ltd. on a long term basis, and operated 1,742 days during the year, representing an increase of 1,100 days compared to the same period last year. In addition, the Group proactively leased 6 external vessels to meet market demand, and operated an aggregate of 590 days.

In 2008, the average day rate of utility vessels increased 22.4% compared to the same period last year, to USD8,200/day. Through the increase in service prices and proactive development of leasing of external vessels, revenue in the year reached RMB1,613.9 million, representing an increase of 17.4% over RMB1,374.5 million of the same period last year.

Geophysical Services Segment

We are a major supplier of geophysical services for offshore China, at the same time we also provide services in other offshore regions, including South and North America, the Middle East, Africa and Europe. Our geophysical services are divided into two main categories: seismic services and surveying services. At present, we own 8 seismic vessels and 4 integrated marine surveying vessels.

There has been a strong demand for geophysical services in Chinese waters in 2008. The Group's 8-cable seismic vessel COSL719 joined our operation on 22 March 2008 and operated well during the year, with 3D seismic data collection covering 3,113 km². In overseas markets, COSL718 completed 2,302 km² 3D seismic data collections in South East Asia; Binhai 517 sailed to the Arctic Ocean for the first time, and completed 7,074 km 2D seismic data collections for clients. Though focused on the domestic market, data processing business won 3D data processing contracts from Australia, and completed a processing volume of 990 km².

Driven by both the operation of new facilities and the development of overseas markets, the revenue of the geophysical services for the Group in the year reached RMB1,876.6 million, with an increase of RMB434.8 million or 30.2% compared with RMB1,441.8 million of the same period last year.

During the year, the changes in the operating volume of geophysical services were as follows:

geophysical services	2008	2007	Change
2D			
Collection (km)	49,448	37,810	30.8%
Processing (km)	23,402	14,137	65.5%
3D			
Collection (km ²)	13,592	9,694	40.2%
Processing (km ²)	8,382	5,686	47.4%

In 2008, our surveying services developed steadily with 4 surveying vessels achieving an aggregate income of RMB265.4 million, representing an increase of RMB7.4 million or 2.9% over RMB258.0 million of last year.

Integrated Project Management

Integrated project management is one of our four core strategies, a unique resources allocation advantage enjoyed by the Group. In 2008, the Group achieved an integrated project management revenue of RMB692.3 million, representing 5.7% of the revenue of the Group.

Overseas Business Expansion

The Group has always been actively looking for overseas cooperation opportunities. As of the end of 2008, our businesses covered 20 countries and regions in the world. While consolidating original markets, we proactively explored and developed new markets, and achieved outstanding results. During the year, income from overseas markets increased RMB1,398.4 million or 85.0% over RMB1,645.0 million from last year to a record high of RMB3,043.4 million, representing an increase from 18.3% to 25.1% of our total revenue.

During the year, the Group completed the acquisition of Awilco Offshore ASA, a Norwegian drilling company, thus enhanced our capacity in drilling facilities, expanded our overseas market share, with our operation area extended to the North Sea, the Mediterranean, and other areas. For land drilling rigs, the Group has shipped 5 rigs to Libya, and three of them have started to provide land drilling services for clients. In Mexico Gulf, 4 module rigs operated smoothly in full for clients during the year, and accumulated 1,442 operation days. Well services also made various achievements in 2008. Directional drilling project technical services won a contract to provide services for geothermal wells in the Philippines. Our proprietary owned logging system ELIS entered South East Asia to provide cable logging service and our land open-hole cable logging, perforation, drilling fluids and cementing services have also successfully entered Indonesia to provide services. For geophysical services, COSL718 covered 2,302 km² in South East Asia in the beginning of the year while BH517 operated in Indonesia and the Arctic Ocean respectively. We also achieved breakthroughs in data processing services, developed new overseas markets, and won 3D data processing contracts from Australia. As for marine support and transportation services, three vessels have been in South East Asia to provide support services for drilling operation.

Technology and development

Technology is one of our four core strategies. We have continuously strive to enhance our R&D capabilities, so as to add momentum for the sustainable development of the Group. In 2008, we continued to increase the investment in R&D, accelerated the adaptation of technologies with various leading R&D achievements: a major progress has been made in the Research and Manufacturing of Offshore High Precision Seismic Collection Equipment, with the first domestic proprietorship offshore cable seismic collection system and depth control system; the first domestic proprietorship Drilling Chip Grinding and Pulping System has completed the site function trial, a solid step forward in domestic manufacturing of the equipment and the recovery of drilling wastes; a major breakthrough in the Manufacturing Technology of Jack-up Platform Leg Tube, closing the gap of such technology in China, and became a major assurance for supporting the development of large equipments of COSL; the Well Wall Rotating Corer has performed stably in various offshore trials, the application of such device may significantly save site operation time, reduce operation cost, and enhance rock core recovery rate. In addition, upon overcoming various technical difficulties, our proprietorship, advanced, comprehensive ELIS logging system has been awarded the 2nd Class State Science and Technology Progress Award during the year. In 2008, the Group has been granted 38 patents of which 9 are invention patents, with a cumulative total of 117 effective patents of which 34 are invention patents.

Overseas Acquisition

On 29 September 2008, COSL completed the acquisition of 98.8% equity interests in Awilco Offshore ASA (the acquisition was valued at a total of NOK12.7 billion, circa US\$2.33 billion or RMB15.9 billion). On 15 October 2008, the Group acquired the rest of the equity interest thereby holding 100% interest in Awilco Offshore ASA (now known as COSL Drilling Europe AS, "CDE"). On 30 October 2008, Oslo Børs ASA, the Oslo Stock Exchange approved the delisting of Awilco Offshore ASA from the securities exchange. Thereupon, COSL's acquisition of equity interests in Awilco Offshore ASA of Norway has been fully completed. Through the acquisition of Awilco Offshore ASA, the offshore drilling capacity and service area of COSL have been further enhanced and expanded.

The newly acquired CDE contributed an operation result to the Group for three months during the year, with an income of RMB912.7 million. In 2008, under the result of COSL's good operation and the acquisition of CDE, total revenue of the Group increased RMB3,135.0 million or 34.8% over last year; total assets of the Group increased RMB33,498.1 million or 145.1% over last year to RMB56,587.1 million.

FINANCIAL REVIEW

1. Income statement analysis

1.1 Revenue

In 2008, the Group continued with its good and fast development trend, with record high operation result and with revenue reaching RMB12,142.9 million, representing an increase of RMB3,134.9 million or 34.8% from RMB9,008.0 million for the same period last year, among which, the increase in service fees, the increase in operation volume with market development and the operation of new facilities contributed an additional income of RMB2,212.3 million for COSL. Moreover, the newly acquired CDE contributed a quarterly income of RMB912.7 million.

The following table presents income from various sectors:

Business	2008	2007	Unit: RMB million	
			Change	Change %
Drilling	5,919.9	3,921.7	1,998.2	51.0%
Well services	2,732.6	2,270.0	462.6	20.4%
Marine support and transportation	1,613.9	1,374.5	239.4	17.4%
Geophysical	1,876.5	1,441.8	434.7	30.1%
Total	12,142.9	9,008.0	3,134.9	34.8%

1.2 Other revenue

In 2008, other revenue amounted to RMB48.7 million, compared to RMB38.6 million for the same period last year, representing an increase of 26.2%. This was mainly due to the reimbursement of 2006 business tax of RMB22.4 million. Moreover, insurance compensation received increased by RMB15.4 million compared to the same period last year.

1.3 Operating expenses

As of the end of 2008, operating expenses of the Group totaled RMB8,561.1 million, representing an increase of RMB2,341.9 million or 37.7% from RMB6,219.2 million for the same period last year.

The table below shows the breakdown of operating expenses for the Group in 2008 and 2007:

	2008	2007	<i>Unit: RMB million</i>	
			Change	Change %
Depreciation	1,563.5	1,042.1	521.4	50.0%
Employee compensation costs	2,106.5	1,643.9	462.6	28.1%
Repair and maintenance costs	420.3	317.6	102.7	32.3%
Consumption of supplies, materials, fuel, services and others	2,720.1	2,003.6	716.5	35.8%
Subcontracting expenses	542.2	357.2	185.0	51.8%
Operating lease expenses	356.1	365.7	-9.6	-2.6%
Other selling, general and administrative expenses	158.5	102.0	56.5	55.4%
Other operating expenses	693.9	387.1	306.8	79.3%
Total operating expenses	8,561.1	6,219.2	2,341.9	37.7%

Depreciation charge increased by RMB521.4 million or 50.0%, due to the addition of new drilling vessel COSL942, 3 land drilling rigs, survey vessel COSL719 and the purchase of underwater cable and LWD and other facilities, resulting in an increase of depreciation charge of RMB327.0 million. Moreover, the 8 drilling vessels of the newly acquired CDE had a depreciation charge of RMB194.1 million.

Employee compensation costs increased by RMB462.6 million or 28.1%, mainly due to staff recruited by COSL with the operation of new facilities and the continuous business development of the Group. The newly acquired CDE contributed to the increase of employee compensation costs significantly.

Repair and maintenance costs increased by RMB102.7 million or 32.3%, mainly due to an increase of maintenance days of COSL drilling vessels contributing an increase of RMB77.3 million. Moreover, the newly acquired CDE had maintenance costs of RMB25.4 million.

Consumption of supplies, materials, fuel, services and others increased by RMB716.5 million or 35.8%, mainly due to the operation of COSL942, 3 land drilling rigs, survey vessel COSL719 and the full year operation of 4 module rigs in Mexico Gulf, with increased consumption of material. Moreover, the newly acquired CDE also contributed to increased consumption of material.

Subcontracting expenses increased by RMB185.0 million or 51.8%, mainly due to increased subcontracting for expansion of market share and the full capacity operation of well services.

Other selling, general and administrative expenses increased by RMB56.5 million or 55.4%, due to business expansion of COSL, with an increase in management expense of RMB19.0 million. Moreover, the newly acquired CDE contributed management expense of RMB37.5 million.

Other operating expenses increased by RMB306.8 million or 79.2%, due to active performance of social responsibilities of COSL. Donations for the earthquake area in Sichuan, payment of construction fund, and donations to Hope Primary Schools, with a total of RMB24.7 million were made. Impairment provision for accounts receivable with specific risk identified and inventories amounted to RMB53.0 million. Disposal loss of non-current assets increased by RMB34.6 million and other expenses increased by RMB9.9 million. Moreover, the newly acquired CDE had other operating expenses of RMB184.6 million.

The operating expenses for each of the segments are as shown in the table below:

Business	2008	<i>Unit: RMB million</i>	
		2007	Change %
Drilling	3,812.6	2,445.7	55.9%
Well services	2,281.2	1,889.0	20.8%
Marine support and transportation	1,128.6	971.6	16.2%
Geophysical	1,338.7	912.9	46.6%
Total	8,561.1	6,219.2	37.7%

1.4 Operating profit

Driven by the strong performance of the drilling segment, operating profit for the Group in 2008 amounted to RMB3,630.5 million, representing an increase of RMB803.1 million or 28.4% from RMB2,827.4 million for the same period last year.

The operating profits for each of the segments are as shown in the table below:

Business	2008	2007	Unit: RMB million	
			Change	Change %
Drilling	2,117.9	1,489.4	628.5	42.2%
Well services	470.8	390.5	80.3	20.6%
Marine support and transportation	491.2	409.5	81.7	20.0%
Geophysical	550.6	538.0	12.6	2.3%
Total	3,630.5	2,827.4	803.1	28.4%

1.5 Financial expenses

The table below shows the breakdown of financial expenses for the Group in 2008:

	Among which:		Unit: RMB million		
	2008	CNA	2007	Change	Change %
Exchange loss/(gain)	91.4	(56.8)	113.9	-22.5	-19.8%
Finance cost	638.9	434.0	31.5	607.4	1,924.5%
Interest income	(191.4)	(27.6)	(71.4)	-120.0	168.0%
Total	538.9	349.6	74.0	464.9	628.3%

In 2008, the financial expenses was RMB538.9 million, representing an increase of RMB464.9 million or 628.3% compared with RMB74.0 million of last year.

Exchange loss decreased by RMB22.5 million, due to the exchange gain of RMB56.8 million contributed by the combined result of CNA. Besides that, exchange loss of COSL (excluding CNA) increased by RMB34.3 million over last year. Exchange gain of CNA was derived mainly from the appreciation of US dollar against Norwegian krone, with a decrease in the carrying amount of Norwegian krone bonds of CNA group. The increase in exchange loss of COSL (excluding CNA) was mainly due to the appreciation of Renminbi against US dollar in the year, and development of overseas business of COSL, resulting in increased US dollar income from overseas.

Finance cost increased by RMB607.4 million, mainly due to interests on loans amounting to RMB 231.4 million for the acquisition of CDE, RMB171.3 million interest expense from other debts, fair value losses on derivatives instruments related to interest rate swap amounted to RMB53.0 million and realised losses of derivative instrument mainly related to forward contracts amounted to RMB151.7 million.

Interest income increased by RMB120.0 million, due to increased bank deposits held by COSL after the issuance of A shares in 2007 which contributed to the increase of RMB92.4 million compared with last year. Moreover, the newly established CNA had an interest income of RMB27.6 million on bank deposits.

1.6 Share of profits and losses from jointly-controlled entities

In 2008, our share of profits from jointly controlled entities amounted to RMB215.7 million, representing an increase of RMB102.5 million or 90.6% compared to RMB113.2 million for the same period last year. The main reason for the increase was an increase of RMB33.2 million from China France Bohai Geoservices Co., Ltd. under the impact of new equipment and new technologies; an increase of RMB80.5 million from Eastern Marine Services Ltd. for reduced maintenance and enhanced operation efficiency and an increase of RMB28.4 million from COSL-Expro Testing Services (Tianjin) Company Ltd. for increase in operation volume while other companies had a total decrease of RMB39.6 million.

1.7 Profit before tax

Driven by strong drilling services, the profit before tax attained by the Group was RMB3,307.3 million in 2008, representing a growth of RMB440.7 million or 15.4% compared to RMB2,866.6 million for the same period last year.

1.8 Income tax

The net income tax expense in 2008 was RMB205.0 million, representing a decrease of RMB424.0 million from RMB629.0 million of last year. The Company was certified as an advanced technology enterprise in 2008 and the corporate income tax rate was approved to be 15%. The lower income tax rate for 2008 contributed to the decrease of tax expenses. During the year, the Company also enjoyed an income tax refund of RMB524.0 million as an advanced technology enterprise for the year 2007, while in 2007, such income tax refund as an advanced technology enterprise for the year 2006 was RMB272.3 million.

1.9 Profit after tax

In 2008, the profit after tax of the Group was RMB3,102.2 million, representing an increase of RMB864.6 million or 38.6% from RMB2,237.6 million of the same period last year.

1.10 Dividend

For 2008, the Board proposed a final dividend of RMB14.00 per ordinary share, totaling RMB629.3 million.

The acquisition of CDE had a significant impact on the financial status of the Group as of 31 December 2008, and was well presented in the balance sheet and the cash flow statement. We discussed below the analysis for major changes in the balance sheet and the cash flow statement:

2. Balance sheet analysis

2.1 Current assets

As of 31 December 2008, current assets were RMB9,994.2 million, representing a decrease of RMB1,431.6 million or 12.5% from RMB11,425.8 million as of the end of 2007, with major changes analysed as follows:

2.1.1 Prepayments, deposits and other receivables

As of 31 December 2008, prepayments, deposits and other receivables were RMB1,501.4 million, representing an increase of RMB1,291.8 million or 616.3% compared with RMB209.6 million as of the end of 2007, mainly due to the prepayment of RMB1,232.9 million in the year (mainly related to prepayment for construction of drilling facilities which consists of two 350 feet, one 200 feet drilling vessels and AHTS vessels).

2.1.2 Notes receivable

As of 31 December 2008, notes receivable were RMB354.9 million, representing an increase of RMB352.6 million or 15,672.0% compared with RMB2.3 million as of the end of 2007, mainly due to notes receivable of RMB338.3 million from CNOOC Limited and notes receivable of RMB16.6 million from other companies.

2.1.3 Accounts receivable

As of 31 December 2008, accounts receivable were RMB2,735.0 million, representing an increase of RMB1,330.2 million or 94.7% compared with RMB1,404.8 million as of the end of 2007. The increase was mainly due to the increased revenue of COSL generated by higher revenue from overseas markets and the diversified client base caused an increase in accounts receivable of RMB791.6 million. Moreover, the newly acquired CDE had accounts receivable of RMB538.6 million.

2.1.4 Cash and cash equivalents

As of 31 December 2008, cash and cash equivalents were RMB4,563.8 million, representing a decrease of RMB4,202.2 million or 47.9% compared with RMB8,766.0 million as of the end of 2007. The details were provided in the analysis of the cash flow statement.

2.2 Non-current assets

As of 31 December 2008, non-current assets were RMB46,592.9 million, representing an increase of RMB34,929.7 million or 299.5% from RMB11,663.2 million as of the end of 2007. Significant changes in the items are analyzed as follows:

2.2.1 Properties, plants and equipments

As of 31 December 2008, properties, plants and equipments were RMB41,855.7 million, representing an increase of RMB30,737.7 million or 276.5% compared with RMB11,118.0 million as of the end of 2007, mainly due to the expansion of facilities of COSL during the year with the addition of drilling vessel COSL942, 3 land drilling rigs, survey vessel COSL719 with underwater cable, LWD and other facilities, to increase our operation capacity. Moreover, the acquisition of CDE also contributed to increase in facilities (mainly comprising of 6 jack-up drilling rigs and 2 accommodation rigs).

2.2.2 Intangible assets

As of 31 December 2008, intangible assets were RMB523.8 million, representing an increase of RMB471.7 million or 904.9% compared with RMB52.1 million as of the end of 2007, mainly due to the prepaid land lease payments of land in Tanggu District, Tianjin City and intangible assets from the acquisition of CDE.

2.2.3 Goodwill

In 2008, the goodwill amounting to RMB3,480.5 million represents the excess of the business combination cost of Awilco Offshore ASA over the net fair value of its identifiable net assets.

The purchase price allocation of the acquisition cost is still preliminary pending for the finalisation of the valuation of the assets and liabilities.

2.3 Current liabilities

As of 31 December 2008, current liabilities were RMB12,314.6 million, representing an increase of RMB8,930.2 million or 263.9% from RMB3,384.4 million as of the end of 2007. Significant changes are analyzed as follows:

2.3.1 Trade and other payables

As of 31 December 2008, trade and other payables were RMB3,759.3 million, representing an increase of RMB1,672.2 million or 80.1% compared with RMB2,087.1 million as of the end of 2007, mainly due to increase of notes payable of RMB366.8 million which were mainly notes payable to CNOOC Limited, increase of accounts payable of RMB708.9 million mainly due to increase in accounts payable amounting to RMB 503.4 million with the expansion of business and accounts payable of CDE amounting to RMB205.5 million of which payable as Yantai Raffles for rigs construction cost were RMB140.4 million. Other payables increased by RMB425.3 million mainly due to the acquisition of CDE with increased other payables. The increase of interests payable and others amounted to RMB171.2 million.

2.3.2 Interest-bearing bank borrowings (current)

As of 31 December 2008, interest-bearing bank borrowings (current) were RMB7,778.6 million, representing an increase of RMB7,578.6 million or 3,789.3% compared with RMB200.0 million as of the end of 2007. The balance mainly comprise of short term borrowings amounting to RMB6,835.6 million from the newly incorporated subsidiary CNA, current portion amounting to RMB200.0 million of the RMB944.0 million loan from the Import and Export Bank of China for the construction of module rigs in Mexico, current portion amounting to RMB44.0 million of the RMB400.0 million loan from the Import and Export Bank of China obtained in November 2008 for the undertaking of oilfield well workover support vessels services in Indonesia and the acquired CDE brought with it current portion of the long term loans amounting to US\$102.3 million (RMB699.0 million).

2.4 Non-current liabilities

As of 31 December 2008, non-current liabilities were RMB24,474.7 million, representing an increase of RMB21,995.1 million or 887.1% from RMB2,479.6 million as of the end of 2007. Significant changes are analysed as following:

2.4.1 Deferred income tax liabilities

As of 31 December 2008, deferred income tax liabilities were RMB2,429.0 million, representing an increase of RMB2,193.4 million or 931.1% compared with RMB235.6 million as of the end of 2007, mainly due to the acquisition of CDE, with fair value adjustment of RMB12,219.9 million which give rise to deferred income tax liabilities of RMB1,872.8 million.

2.4.2 Interest bearing bank loans (non-current)

As of 31 December 2008, interest bearing bank loans (non-current) were RMB16,355.4 million, representing an increase of RMB15,611.4 million or 2,098.3% compared with RMB744.0 million as of the end of 2007. The increase was mainly due to the bank loans of US\$2,200.0 million (US\$800 million from the Import and Export Bank of China and US\$1,400 million overseas syndicate loan) for the acquisition of Awilco Offshore ASA of which US\$1,266.7 million (RMB8,657.2 million) remained as non-current borrowings. In addition, a project loan of RMB400.0 million was obtained in November from the Import and Export Bank of China for oilfield well workover support vessel services in Indonesia, of which RMB356.0 million remained as non-current borrowings. The newly acquired CDE had non-current borrowings of US\$994.7 million (RMB6,798.2 million). On the other hand, the Company has repaid RMB200.0 million for part of the loan from the Import and Export Bank of China.

2.4.3 Long term bonds

As of 31 December 2008, long term bonds were RMB4,028.3 million, representing an increase of RMB2,528.3 million or 168.6% compared with RMB1,500.0 million as of the end of 2007, mainly due to bonds payable of RMB2,528.3 acquired from CDE.

2.4.4 Deferred revenue

As of 31 December 2008, deferred revenue were RMB1,512.6 million, which arises from the acquisition of CDE of which the difference between the market day rates and the lower contract price were recognized as deferred revenue.

3. Cash flow statement analysis

As of the beginning of the year, we held cash and cash equivalents of RMB6,797.1 million. The net cash inflow from operating activities from the period was RMB4,037.8 million, net cash outflow from investing activities was RMB20,625.5 million, net cash inflow from financing activities was RMB14,239.9 million and the decrease of RMB153.8 million was due to the impact of foreign exchange fluctuations. As of 31 December 2008, our cash and cash equivalents were RMB4,295.5 million.

3.1 Cash flows from operating activities

Cash inflow from operating activities amounted to RMB4,456.8 million, which was in line with the development of the Group's business. After considering cash paid for Mainland China corporate Income Tax of RMB418.9 million and overseas income tax of RMB55.2 million, together with tax refund at current period of RMB55.1 million. In 2008, net cash inflow from operating activities amounted to RMB4,037.8 million, representing an increase of RMB1,063.9 million or 35.8% compared with RMB2,973.9 million of the same period of last year.

3.2 Cash flows from investing activities

In 2008, the net cash outflow from investing activities amounted to RMB20,625.5 million, representing an increase of RMB15,271.4 million compared with RMB5,354.1 million of the same period of last year, mainly due to the net cash outflow of RMB15,647.0 million in respect of the acquisition of CDE.

3.3 Capital expenditure

In 2008, COSL once again increased investments, continued to accelerate the speed of acquiring more facilities. Capital expenditure for the year reached RMB6,837.7 million, increased RMB3,372.3 million or 97.3% compared to RMB3,465.5 million in the same period last year.

The capital expenditure of each business segment is as follows:

Business segment	2008	2007	Unit: RMB million	
			Change	Change %
Drilling	3,754.6	1,825.6	1,929.1	105.7%
Well services	1,287.3	651.4	635.8	97.6%
Marine support and transportation	1,292.0	411.9	880.0	213.6%
Geophysical	503.9	576.5	-72.7	-12.6%
Total	6,837.7	3,465.5	3,372.3	97.3%

Of which, capital expenditure for drilling services was RMB3,754.6 million, mainly used for building two 350-foot jack-up drilling rig, one 200-foot jack-up drilling rigs, 5 land drilling rigs and the upgrading and renovation of the jack-up drilling vessel COSL931. Capital expenditure for well services was RMB1,287.3 million, mainly used for building 2 multi-function drilling platform (LIFTBOAT) and purchasing of wireless LWD equipments and facilities etc. Capital expenditure for marine support and transportation services was RMB1,292.0 million, mainly used for building 18 oilfield utility vessels and 3 well workover support barges. Capital expenditure for geophysical services was RMB503.9 million, mainly used for converting a platform supply vessel into 8-cable survey vessel and the construction of a 12-cable survey vessel.

3.4 Cash flows from financing activities

In 2008, net cash inflow from financing activities amounted to RMB14,239.9 million. The cash inflow was mainly from loan proceeds of US\$2,200 million (RMB15,036.1 million) for the acquisition of Awilco, loan proceeds of RMB400.0 million for the building of 3 barges, proceeds from drawdown of loan amounting to RMB345.7 million by CDE and a special fund of RMB55.0 million received for R&D.

The cash outflow was mainly for the repayment of debts amounting to RMB570.9 million to repay short term loans and amount due to the ultimate holding company, dividend payment of RMB539.4 million, the repayment of interests of RMB408.7 million, and other payments related to financing activities amounting to RMB77.9 million in cash.

OUTLOOK

Looking forward into 2009, the world economy has adjusted downwards under the attack of the financial storm. According to the World Economic Situation and Prospects 2009 published by the United Nations on 16 January 2009, global economic growth in 2009 will reduced drastically to 1.0%. Although the world economy are being adjusted downwards and international oil prices remained low, the demand for energy in China continued to grow. CNOOC Limited, a major client of COSL, will have an estimated capital expenditure of US\$6.8 billion in 2009, representing an increase of 19% compared with 2008.

Encountering the difficult and challenging year of 2009, COSL will continue to expand our production capacity, further enhance our service capabilities and market competitiveness. It is estimated that one 200 feet, one 350 feet, one 375 feet and one 400 feet drilling vessels will join our operation in 2009; an undersea cable team will be form for geophysical services to cover seismic collection to a depth of 500 meters; 10 utilities vessels and 3 barges will join our marine support and transportation services; two multipurpose platforms, VSP, LWD, MWD, acidizing and fracing equipments will be introduced for our well services together with the industrialization of ELIS and FCT system.

Meanwhile, we will strive for the improvement in corporate governance, build up a comprehensive risk prevention and control system. We will increase technology investments, improve the R&D system of COSL, including the promotion of joint laboratories with higher education institutions and research institutes, with timely industrialization of R&D results. We will take full advantage of our leading cost advantage, to save expenditure and increase income sources, formulate energy consumption standards for large equipments of COSL and implement measures to save water and electricity in the Company. For safe production, we will continue to intensify the QHSE system. Encountering rapid expansion in equipments and employees, dilution of staff quality, technology and expertise level, as well as increased risks, we will enhance staff training, formulate effective implementation rules, and eliminate hidden operation safety issues. In addition, we will also proactively optimize our capital structure, enhance return on capital through uses of external resources, strive to develop overseas markets on the basis of a consolidated domestic market, speed up the process of internationalization, business integration after the acquisition.

We will continue to strengthen brand establishment, strive for greater values for shareholders, actively undertake our social responsibilities, make greater contributions to the society, and achieve an all win situation among shareholders, customers, employees and business partners.

SUPPLEMENTARY INFORMATION

Audit Committee

The audit committee consists of three independent non-executive directors of the Company. The committee has reviewed the accounting principles and practices adopted by the Company, and internal control and financial reporting matters. The committee has reviewed the audited annual results of the Group for the year ended 31 December 2008.

Compliance with the Code on Corporate Governance Practices

Except for Code Provision E.1.2, the Company was in compliance with code provisions in the “Code on Corporate Governance Practices” as set out in Appendix 14 to the Listing Rules throughout the 12 months ended 31 December 2008.

Pursuant to Code Provision E.1.2, the chairman of the board should 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 3 June 2008 due to an unexpected matter that required his immediate attention. In accordance with the Articles of Association of the Company, when the Chairman of the Company failed to attend the annual general meeting of the Company, the Deputy Chairman shall convene and serve as chairman of the meeting. Therefore, Mr. Yuan Guangyu, Deputy Chairman of the Company, was elected the chairman of the meeting and convened the meeting.

Model Code for Securities Transactions by Directors of Listed Issuers

Upon specific enquiry with each and every director, the Board of Directors confirms that all the members of the Board, throughout the 12 months ended 31 December 2008, have complied with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules.

Purchase, Disposal and Redemption of Our Listed Securities

Neither we nor our subsidiaries purchased, disposed of or redeemed any of our listed securities throughout the 12 months ended 31 December 2008.

Material Litigation or Arbitration

The Group was not involved in any material litigation or arbitration throughout the 12 months ended 31 December 2008.

Information Disclosure on the Stock Exchange Website

A copy of the announcement will be found on the Company's website (www.cosl.com.cn) and the Stock Exchange's website (www.hkexnews.hk). The full annual report will be mailed to the shareholders of the Company and made available on the website of the Company and the Stock Exchange in due course.

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

Hong Kong, 1st April 2009

As at the date of this announcement, the Directors are Mr. Fu Chengyu (Chairman and non-executive Director), Mr. Yuan Guangyu (Vice Chairman and non-executive Director), Mr. Li Yong (executive Director), Mr. Wu Mengfei (non-executive Director), Mr. Andrew Y. Yan (independent non-executive Director), Mr. Gordon C. K. Kwong (independent non-executive Director) and Simon X. Jiang (independent non-executive Director).