COSL

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

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

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2009

FINANCIAL HIGHLIGHTS

1 Revenue increased by 53.0% to RMB7,813.8 million

2. Profit from operations decreased by 4.5% to RMB1,822.9 million

3 Profit for the period decreased by 33.0% to RMB1,028.4 million

4. Basic earnings per share were RMB22.88 cents

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2009

		Six months ended 30 June	
		2009	2008
		(unaudited)	(unaudited)
	Notes	***RMB'000***	*RMB'000*
REVENUE	*3*	**7,813,832**	5,107,106
Other revenues		**26,894**	18,078
Total revenue		**7,840,726**	5,125,184
Operating Expenses			
Depreciation of property, plant and equipment and amortisation of intangible assets		**(1,356,539)**	(595,111)
Employee compensation costs		**(1,130,250)**	(815,233)
Repair and maintenance costs		**(149,933)**	(111,593)
Consumption of supplies, materials, fuel, services and others		**(1,349,913)**	(1,106,778)
Subcontracting expenses		**(313,096)**	(197,057)
Operating lease expenses		**(227,565)**	(173,095)
Other operating expenses		**(443,351)**	(168,605)
Other selling, general and administrative expenses		**(227,304)**	(48,849)
Impairment of property, plant and equipment	*6*	**(819,924)**	–
Total operating expenses		**(6,017,875)**	(3,216,321)
PROFIT FROM OPERATIONS		**1,822,851**	1,908,863
Exchange losses, net		**(56,582)**	(90,140)
Finance costs		**(536,426)**	(26,436)
Interest income		**27,672**	103,332
Share of (losses)/profits of jointly-controlled entities		**(61,825)**	102,538
PROFIT BEFORE TAX		**1,195,690**	1,998,157
Tax	*4*	**(167,309)**	(463,705)
PROFIT FOR THE PERIOD		**1,028,381**	1,534,452
EARNINGS PER SHARE – basic and diluted	*5*	**22.88 cents**	34.13 cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2009

	Notes	**30 June 2009 (unaudited) *RMB'000***	31 December 2008 (audited) *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	6	**44,065,853**	41,855,657
Goodwill		**3,479,166**	3,480,541
Intangible assets		**467,253**	523,799
Interests in jointly-controlled entities		**452,442**	620,329
Available-for-sale investments		**31,822**	34,318
Pledged deposits		**126,973**	78,235
Total non-current assets		**48,623,509**	46,592,879
CURRENT ASSETS			
Inventories		**899,420**	780,871
Prepayments, deposits and other receivables		**1,455,657**	1,505,856
Accounts receivable	7	**4,239,685**	2,735,025
Notes receivable		**–**	354,870
Pledged deposits		**44,738**	53,768
Cash and cash equivalents		**3,766,124**	4,563,834
Total current assets		**10,405,624**	9,994,224
CURRENT LIABILITIES			
Trade and other payables		**2,749,940**	3,430,891
Notes payable		**912,663**	366,763
Salary and bonus payables		**368,868**	485,875
Tax payable		**276,430**	252,460
Interest-bearing bank borrowings	9	**283,307**	7,778,617
Other current liabilities		**26,906**	–
Total current liabilities		**4,618,114**	12,314,606
NET CURRENT ASSETS/(LIABILITIES)		**5,787,510**	(2,320,382)
TOTAL ASSETS LESS CURRENT LIABILITIES		**54,411,019**	44,272,497
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**2,260,681**	2,429,001
Interest-bearing bank borrowings	9	**26,257,905**	16,355,446
Long term bonds		**4,070,864**	4,028,342
Deferred revenue		**1,520,988**	1,512,635
Defined benefit obligations		**6,210**	5,664
Derivative financial instruments		**24,933**	49,308
Other non-current liabilities	10	**66,817**	94,257
Total non-current liabilities		**34,208,398**	24,474,653
Net assets		**20,202,621**	19,797,844
EQUITY			
Equity attributable to equity holders of the Parent			
Issued capital		**4,495,320**	4,495,320
Reserves		**15,707,301**	14,673,179
Proposed final dividend		**–**	629,345
Total equity		**20,202,621**	19,797,844

1. CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

The registered office of China Oilfield Services Limited (the "Company") is located at 3-1516 Hebei Road, Haiyang New and Hi-Tech Development Zone, Tanggu, Tianjin 300451, the People's Republic of China (the "PRC").

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are 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 ultimate holding company of the Company is China National Offshore Oil Corporation ("CNOOC"), a company established in the PRC.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2009 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting".

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2008.

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2008, except for the adoption of new and revised HKFRSs effective for annual periods beginning on or after 1 January 2009, as follows:

HKFRS 1 and HKAS 27 Amendments	Amendments to HKFRS 1 First-time Adoption of HKFRSs and HKAS 27 Consolidated and Separate Financial Statements –Cost of an Investment in a Subsidiary, Jointly-Controlled Entity or Associate
HKFRS 2 Amendments	Amendments to HKFRS 2 Share-based Payment – Vesting Conditions and Cancellations
HKFRS 7 Amendments	Amendments to HKFRS 7 Financial Instruments: Disclosures
HKFRS 8	Operating Segments
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs

Further information about those changes that affects the Group is as follows:

The HKAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the income statement in the separate financial statements. The amendment is applied prospectively only. The HKFRS 1 Amendment allows a first-time adopter of HKFRSs to measure its investment in subsidiaries, associates or jointly-controlled entities using a deemed cost of either fair value or the carrying amount under the previous accounting practice in the separate financial statements. The adoption of HKAS 27 Amendment did not have any impact on the financial position or performance of the Group. As the Group is not a first-time adopter of HKFRSs, the HKFRS 1 Amendment is not applicable to the Group.

The HKFRS 7 Amendments require additional disclosure about fair value measurement and liquidity risk. Fair value measurements are to be disclosed by source of inputs using a three level hierarchy for each class of financial instrument. In addition, a reconciliation between the beginning and ending balance for Level 3 fair value measurements is now required, as well as significant transfers between Level 1 and Level 2 fair value measurements. The amendments also clarify the requirements for liquidity risk disclosures. The adoption of these amendments did not have any impact on the financial position or performance of the Group.

HKFRS 8 requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. The Group determined that the operating segments were the same as the business segments previously identified under HKAS 14 Segment Reporting. Additional disclosures about each of these segments are shown in note 3, including revised comparative information.

HKAS 1 (Revised) separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognized income and expense recognized directly in equity, either in one single statement, or in two linked statements. The Group has elected to present two statements.

Based on management's assessment, the adoption of these changes did not have any significant impact on the Group's accounting policies, financial positions or performance for the period.

Apart from the above, the HKICPA has also issued Improvements to HKFRSs which set out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. While the adoption of some of the amendments may result in changes in accounting policy, none of them are expected to have a material financial impact on the Group. The Group has also considered all other HK(IFRIC)s issued and they are unlikely to have any financial impact on the Group.

3. SEGMENT INFORMATION

For management purposes, 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 fluid, directional drilling, cementing and well completion, the sale of well 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, the moving and positioning of drilling structures and 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.

Group financing (including finance costs and finance revenue) and income taxes are managed on a group basis and are not allocated to operating segments.

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.

Business Segments

The following tables present the revenue net of sales surtaxes and profit information for the Group's business segments for the six months ended 30 June 2009 and 2008:

Six months ended 30 June 2009 (unaudited)	**Drilling services** *RMB'000*	**Well services** *RMB'000*	**Marine support and transportation services** *RMB'000*	**Geophysical services** *RMB'000*	**Total** *RMB'000*
Revenue					
Sales (including intersegment)	5,072,727	1,710,357	942,090	709,461	8,434,635
Less: Intersegment sales	(469,784)	(57,128)	(60,796)	(33,095)	(620, 803)
Total sales to external customers	4,602,943	1,653,229	881,294	676,366	7,813,832
Profit before tax*	822,722	386,618	293,004	258,682	1,761,026
Exchange losses, net					(56,582)
Finance costs					(536,426)
Interest income					27,672
30 June 2009 (unaudited)					
Assets:					
Segment assets	45,270,626	3,860,801	4,788,623	2,211,214	56,131,264
Interests in jointly-controlled entities	–	251,650	157,219	43,573	452,442
Unallocated assets					2,445,427
Total assets					59,029,133
Liabilities:					
Segment liabilities	34,669,116	1,266,181	268,660	309,346	36,513,303
Unallocated liabilities					2,313,209
Total liabilities					38,826,512

* The profit before tax for each business segment does not include the unallocated exchange losses, finance costs and interest income as shown in the table above.

Six months ended 30 June 2008 (unaudited)	Drilling services RMB'000	Well services RMB'000	Marine support and transportation services RMB'000	Geophysical services RMB'000	Total RMB'000
Revenue					
Sales (including intersegment)	2,625,260	1,148,712	850,846	1,221,400	5,846,218
Less: Intersegment sales	(413,392)	(27,306)	(54,551)	(243,863)	(739,112)
Total sales to external customers	2,211,868	1,121,406	796,295	977,537	5,107,106
Profit before tax*	922,732	310,107	321,101	457,461	2,011,401
Exchange losses, net					(90,140)
Finance costs					(26,436)
Interest income					103,332
31 December 2008 (audited)					
Assets:					
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					56,587,103
Liabilities:					
Segment liabilities	26,310,714	1,293,239	324,364	417,864	28,346,181
Unallocated liabilities					8,443,078
Total liabilities					36,789,259

* The profit before tax for each business segment does not include the unallocated exchange losses, finance costs and interest income as shown in the table above.

4. 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 Corporate Income Tax ("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 were approved on 28 November 2007 and are effective from 1 January 2008 onwards.

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 Tianjin Science and Technology Commission, Tianjin Ministry of Finance, Tianjin State Administration of Taxation (the "TSAT") and Tianjin Local Taxation Bureau, which is effective for three years. Further, the Company obtained the approval from Tianjin Offshore Oil Tax Bureau of Tianjin Provincial Office of the TSAT in 2009. According to the Circular Jinguoshuihaishuijianmian [2009] Number 2, the corporate income tax rate was approved to be 15%.

As such, the management considers it is appropriate to use the rate of 15% to accrue for the income tax liability of the Company for the six months ended 30 June 2009 (six months ended 30 June 2008: 25%).

The Group's drilling activities in Indonesia are mainly subject to a deemed profit withholding tax of 4.2% (six months ended 30 June 2008: 4.5%) based on its gross service income generated from its drilling activities in Indonesia, and a further branch corporate income tax of 10% (six months ended 30 June 2008: 10%) on the remaining deemed profit for the year. The Group's drilling activities in Australia are subject to income tax of 30% (six months ended 30 June 2008: 30 %) based on its taxable profit generated. The Group's drilling activities in Myanmar are subject to income tax of 3% (six months ended 30 June 2008: 3%) based on its gross service income generated from its drilling activities in Myanmar. The Group's drilling activities in Mexico are subject to the higher of income tax rate of 28% or business flat tax of 17% (six months ended 30 June 2008: 28% and 16.5%, respectively). The Group's activities in Norway are mainly subject to corporate income tax of 28% (six months ended 30 June 2008: not applicable), 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(six months ended 30 June 2008: not applicable). The Group's drilling activities in Libya are subject to income tax of 44% based on its deemed profit or at 16% based on gross income (six months ended 30 June 2008: not applicable). The Group's drilling activities in Tunisia are subject to income tax of 35% (six months ended 30 June 2008: not applicable), based on its taxable 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:

	Six months ended 30 June	
	2009	2008
	(unaudited)	(unaudited)
	RMB'000	*RMB'000*
Hong Kong profits tax	**–**	–
Overseas income tax:		
Current income tax	**55,588**	34,590
Deferred income tax	**(141,821)**	–
PRC corporate income tax:		
Current income tax	**205,488**	371,066
Deferred income tax	**48,054**	58,049
Total tax charge for the period	**167,309**	463,705

A reconciliation of the tax expense applicable to profit before tax using the statutory rate for Mainland China where the Company and the majority of 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:

	Six months ended 30 June			
	2009		2008	
	(unaudited)		(unaudited)	
	RMB'000	***%***	*RMB'000*	*%*
Profit before tax	**1,195,690**		1,998,157	
Tax at the statutory tax rate of 25% (2008: 25%)	**298,923**	**25.0**	499,539	25.0
Tax reduction as an advanced technology enterprise-current year	**(174,994)**	**(14.6)**	–	–
Income not subject to tax	**(182,007)**	**(15.2)**	(24,435)	(1.2)
Tax benefit for qualifying research and development expense	**(8,880)**	**(0.7)**	–	–
Effect of different tax rates for overseas subsidiaries	**71,024**	**5.9**	(14,937)	(0.8)
Unrecognised tax losses	**311,216**	**26.0**	–	–
Translation adjustment*	**(222,252)**	**(18.6)**	–	–
Others	**74,279**	**6.2**	3,538	0.2
Total tax charge at the Group's effective rate	**167,309**	**14.0**	463,705	23.2

* 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 adjustment mainly relates to differences between the taxable income under the Norwegian Krone tax basis and the US dollar functional currency income statement of such group companies.

5. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company for the six months ended 30 June 2009 of approximately RMB1,028,381,000 (six months ended 30 June 2008: RMB1,534,452,000) and the 4,495,320,000 (six months ended 30 June 2008: 4,495,320,000) shares in issue during the period.

There were no potentially diluting events for the six months ended 30 June 2008 and 2009.

6. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired seismic vessels, machines and equipment, motor vehicles and construction in progress with an aggregate cost amounting to approximately RMB4,346 million (six months ended 30 June 2008: RMB2,324 million). Vessels, machines and equipment with a net carrying amount of RMB4 million (six months ended 30 June 2008: RMB5 million) were disposed of in 2009, resulting in a loss on disposal of RMB2 million (six months ended 30 June 2008: RMB0.25 million) recorded in the Group's interim condensed consolidated financial statements for the six months ended 30 June 2009 as other operating expenses.

Out of the total interest expenses for the current period of RMB756.2 million (six months ended 30 June 2008: RMB57.7 million), an amount of approximately RMB172.1 million (six months ended 30 June 2008: RMB31.3 million) was included in the current period additions in respect of interest capitalised in property, plant and equipment.

Impairment of property, plant and equipment

Impairment loss of approximately RMB819.9 million was recognised to reduce the carrying amount of certain semi-submersible rigs under construction to their respective recoverable amounts, primarily arising from the adverse change of economic environment since late 2008 and the delay in the delivery of the semi-submersible rigs under construction. This impairment loss has been classified under the segment of drilling services in note 3 of the segment information. The recoverable amount was calculated based on the respective assets' value in use and was determined at the cash generating unit level. In determining the value in use for the cash generating unit, cash flows were discounted at a rate of 9.5% on a pre-tax basis.

7. ACCOUNTS RECEIVABLE

The general credit terms of the Group range from 30 to 45 days upon the issuance of the invoices.

An aged analysis of accounts receivable based on the invoiced date as at the statement of financial position date is as follows:

	30 June 2009 (unaudited)	31 December 2008 (audited)
	RMB'000	*RMB'000*
Outstanding balances aged:		
Within one year	**4,268,546**	2,777,864
Within one to two years	**21,767**	7,751
Within two to three years	**131**	278
Over three years	**2,440**	2,441
	4,292,884	2,788,334
Less: Provision for impairment of accounts receivable	**(53,199)**	(53,309)
	4,239,685	2,735,025

8. 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 5 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 (president), three executive vice presidents, and three other non-executive vice presidents. The share appreciation rights will become vested upon completion of a 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. No share appreciation rights were exercised during the period.

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

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.

As at 30 June 2009, the fair value of the share appreciation rights granted was measured at HK$1.94 per share. The fair value of the rights is calculated using the Black-Scholes model with the following assumptions: expected dividend yield of 1.26%, expected life of two years, expected volatility of 85.17% and risk-free interest rate of 2.46%. The fair value is expensed over the period until vesting with the recognition of a corresponding liability. The liability is measured at each statement of financial position date up to and including the settlement date with changes in fair value recognised in profit or loss.

Share appreciation rights expenses amounting to approximately RMB1.1 million for the period ended 30 June 2009 (six months ended 30 June 2008: RMB1.0 million) were recorded in salary and bonus payables and in general and administrative expenses.

The assumptions on which the valuation model is based represent the subjective estimation made by the directors.

9. INTEREST-BEARING BANK BORROWINGS

Current:

	Contractual interest rate (%)	Maturity	**30 June 2009 (unaudited)** ***RMB'000***	31 December 2008 (audited) *RMB'000*
Syndicated bank loan-secured	LIBOR+170pts	2009	**-**	6,359,459
Bank loans-secured	LIBOR+225pts	2009	**-**	476,138
			-	6,835,597
Current portion of long term loan			**283,307**	943,020
			283,307	7,778,617

Non-current:

	Contractual interest rate (%)	Maturity	**30 June 2009 (unaudited)** ***RMB'000***	31 December 2008 (audited) *RMB'000*
Bank loans – unsecured	i	2013	**544,000**	744,000
Bank loans – unsecured	ii	2017	**400,000**	400,000
Bank loans – unsecured	LIBOR+170pts	2020	**5,413,553**	5,467,680
Bank loans – unsecured	iii	2015	**450,000**	-
Bank loans – unsecured	LIBOR+138pts	2017	**7,981,351**	-
Bank loans – unsecured	LIBOR+90pts	2017	**5,465,520**	-
Bank loans – unsecured	LIBOR+90pts	2017	**4,099,140**	-
Entrusted loans – unsecured	3.71%	2011	**800,000**	-
Entrusted loans – unsecured	iv	2011	**200,000**	-
Syndicated bank loan-secured	LIBOR+170pts	2010	**-**	3,189,503
Syndicated bank loan-secured	LIBOR+162.5pts	2010	**-**	6,725,859
Commercial facility loan – secured	LIBOR+162.5pts	2019	**1,089,893**	654,071
Bank loans – secured	3.20%	2011	**97,755**	117,353
			26,541,212	17,298,466
Less: current portion of long term loan			**(283,307)**	(943,020)
			26,257,905	16,355,446

i The market interest rate of a similar loan type quoted by the People's Bank of China.

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

iii 3.51% for the first quarter and thereafter the market interest rate of a similar loan type quoted by the People's Bank of China.

iv 3.66% for the first quarter and thereafter the interest rate as determined by the loan entrustor.

10. OTHER NON-CURRENT LIABILITIES

	30 June 2009	31 December 2008
	(unaudited)	(audited)
	RMB'000	*RMB'000*
Negative interest in a jointly-controlled entities	**93,502**	72,406
Due to a jointly-controlled entity	**–**	93,771
Due from a jointly-controlled entity	**(26,685)**	(71,920)
	66,817	94,257

The share of net liabilities in ADOL was recognised as other non-current liabilities since the Group has a constructive obligation on behalf of ADOL. The balance as at 31 December 2008 was the share of net liabilities in PD, and the corresponding share of net liabilities in PD as at 30 June 2009 was classified as other current liabilities since the liquidation process of PD had commenced.

11. DIVIDENDS

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

The board of directors of the Company did not recommend the payment of interim dividend for the six months ended 30 June 2009 (six months ended 30 June 2008: Nil).

12. SIGNIFICANT LITIGATIONS

(A) In 2006, Awilco Offshore ASA (currently known as CDE) signed a management agreement with Polycrest AS for the operation and management of the semi-submersible drilling rigs on the Norwegian Continental Shelf.

During 2007, Awilco Offshore ASA decided that the company itself should operate and manage the semi-submersible drilling rigs. Awilco Offshore ASA and Polycrest are therefore in negotiations on how to terminate this management agreement and different alternatives are being discussed.

In accordance with HKAS37 "Provisions, Contingent Liabilities and Contingent Assets", Awilco Offshore ASA has a contingent liability to Polycrest AS in connection with Polycrest's previous planned role as manager for the Group's semi-submersible drilling units.

Due to the nature of the different solutions being discussed, it is difficult to give an expected value of this contingency.

(B) In January 2007, Awilco Offshore ASA made a compulsory acquisition of the outstanding shares in OffRig Drilling ASA ("OFRD"). The acquisition was made in accordance with the regulations of the Norwegian Public Limited Companies Act § 4-25. Some of the minority shareholders (who owned 8.8% of OFRD) disagreed with the valuation and the price paid per share. In 2009, the court entered into an appraisement where the redemption price for the shares was set at a price higher than the acquisition price. CDE has filed a petition for a second appraisement by the higher courts where the redemption consideration for the shares in COSL Drilling Semi AS as determined by Stavanger District Court is contested. The date for the second valuation proceedings before the higher court has not yet been set.

Considering the above mentioned status, no further disclosures were made as the management believes that disclosure of further details may prejudice the position of the company in the dispute.

13. EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE

Subsequent to 30 June 2009, BP Norge AS notified the Group to terminate a drilling service contract with the Group on one of its semi-submersible rigs under construction as the rig was not able to deliver on schedule. Since further arrangements following the termination with BP Norge AS are under negotiation, the outcome thereof cannot be reasonably determined as of the date of approving the financial statements.

14. COMPARATIVE AMOUNTS

The balances with related parties have been reclassified to the respective accounts, namely prepayments, deposits and other receivables and trade and other payables, based on the nature of transactions. In addition, certain comparative amounts have been reclassified to conform with the current period's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

(The financial information presented in the discussion and analysis is derived from the Company's unaudited financial statements that have been prepared in accordance with Hong Kong Financial Reporting Standards)

Industry and Business Review

In the first half of 2009, the average price of the U.S. West Texas Intermediate (WTI) was US$51.5 per barrel, representing a decrease of 48% compared with the average price in 2008. The low oil price had a significant impact on the oilfield services industry as there were pressures on lower day rates and utilization rates of equipment. As demand are driven by the impact of the government's investment, the 2009 GDP in China is expected to maintain at 8%, China's investment in energy development continues to maintain a growth trend. As the leading integrated oilfield services provider in the China offshore market, COSL concentrated on the four core strategies, namely "technology-driven, cost effectiveness, integration and internationalisation". We have achieved a significant increase in our operating income through various measures, including consolidation of the existing markets, expansion of emerging markets, reinforcement of cost control, integration of acquired production capacity and other measures. During the first half of 2009, COSL had a revenue of RMB7.81 billion, representing an increase of 53.0% from the same period last year, of which the overseas business generated a revenue of RMB1.85 billion, an increase of 45.1% from the same period last year. However, the results of the Group for the current period had dropped due to the impact of asset impairment of a subsidiary, COSL Drilling Europe AS.

Drilling Services Segment

COSL is the major supplier of China offshore drilling services and is 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 30 June 2009, the Group operated and managed a total of 24 drilling rigs (of which 21 are jack-up drilling rigs (one leased) and 3 are semi-submersible drilling rigs), 2 accommodation rigs, 4 module rigs and 6 land drilling rigs.

During the first half of 2009, based on the original market and through the integration of CDE group (in September 2008, COSL acquired Awilco Offshore ASA, a Norwegian drilling company which is known as COSL Drilling Europe AS, "CDE" after the acquisition), COSL's drilling capacity has been significantly enhanced. Compared with the first half of 2008, the Group newly added 9 jack-up drilling rigs (including 8 drilling rigs from CDE group and COSL942 which started operation in September 2008), 2 accommodation rigs and 4 land drilling rigs during the period. Due to the operation of new facilities, our revenue of the drilling services segment amounted to RMB4,602.9 million during the first half of 2009, representing an increase of RMB2,391.0 million or 108.1% compared with RMB2,211.9 million of the same period last year.

As of 30 June 2009, out of the 24 drilling rigs that the Group operated and managed (including one leased jack-up rig), 14 were located in Bohai Bay, China, 5 were located in South China Sea, 1 was located at offshore Indonesia, 1 was located at offshore Australia, 1 each were located at offshore Tunisia and offshore Saudi Arabia respectively and 1 foreign rig was managed by the Group.

During the first half of 2009, the operation days of our jack-up drilling rigs were 3,471 days, the operation days of our semi-submersible drilling rigs were 540 days and the total operation days were 4,011 days, an increase of 1,598 days from 2,413 days of the same period last year. The operation days of our jack-up drilling rigs increased by 1,604 days compared with the same period last year mainly due to the addition of 1,134 operation days contributed by the 8 drilling rigs from the acquired CDE group and the 181 operation days contributed by COSL942 which commenced operation in September 2008. In addition, the operation days increased by 289 days which was the net impact of the decrease in maintenance days for jack-up drilling rigs and the intercalary month in 2008. The operation days of the semi-submersible rigs fleet decreased by 6 days compared with the same period last year, mainly due to the 3 repair days of NH6 during the period and there were no repairs during the same period last year. In addition, 3 operation days were due to the intercalary month in 2008. Due to the decrease in maintenance for drilling rigs, the average calendar day utilization rate of the fleet in the first half of the year was 96.3%, an increase of 7.9% compared with the same period last year, of which the average calendar day utilization rate of the jack-up rigs was 95.8% and 99.4% for the semi-submersible rigs.

Moreover, 4 module rigs provided drilling services for clients in the Mexico Gulf, with 708 operation days during the first half of the year, and a calendar day utilization rate of 97.8%. 5 land drilling rigs operating in Libya and 1 land drilling rig operating in China brought 947 operation days, with both the calendar day utilization rate and the available day utilization rate reaching 100.0%.

During the first half of 2009, the average day rate of drilling rigs was US$135,000/day (US$/RMB conversion rate was 1:6.8319 on 30 June 2009), which represented a 15.4% increase from US$117,000/day from the same period last year (US$/RMB conversion rate was 1:6.8591 on 30 June 2008). The average day rate for jack-up rigs was US$126,000/day, which represented a 24.8% increase from US$101,000/day for the same period last year, and the average day rate for semi-submersible rigs was US$188,000/day, which represented a 9.9% increase from US$171,000/day of the same period last year.

To further enhance the service capabilities of the drilling business, the Group will continue to expand its own facilities. Currently, the Group is building three 2,500-feet semi-submersible rigs at the Shandong Yantai Raffles shipyard, four 200-feet jack-up drilling rigs at the Qingdao shipyard of the Offshore Oil Engineering Co., Ltd. and two 350-feet jack-up drilling rigs, each at the Shenzhen shipyard of the China Merchants Heavy Industry Co., Ltd. and the raffles of Dalian Shipbuilding Industry Co., Ltd. respectively.

Well Services Segment

During the first half of 2009, while the Group had continued to offer customers with logging, drilling fluids, directional drilling, cementing, well workover and well completion services. The Group had strengthened its market development with well cementing and well completion services entering the domestic onshore oilfield market, the directional drilling had expanded to overseas market and the self-developed ELIS logging equipment had completed its first full set sales.

"Technology-driven" has always been one of our four core strategies and we have strived to enhance our R&D capabilities. During the first half of the year, our Crossline Dipole Array Acoust Logging Tool (EXDT) was formally incorporated into the ELIS logging system, which enhanced the service capabilities of the ELIS system. Our self-developed Enhanced Resistivity Micro-Imager (ERMI) had succeeded in the experimetal well testing for electrical imaging tool in the Liaohe Oilfield, which closed our gap of the logging technology in high-end electronic imaging.

During the first half of 2009, driven by the addition of five drilling platforms (COSLCraft/Boss/Seeker/Confidence/Superior) in the PRC and the enhanced technology in the business chain, revenue for well services amounted to RMB1,653.2 million, an increase of RMB531.8 million or 47.4% from RMB1,121.4 million of the same period last year.

Geophysical Services Segment

During the first half of 2009, affected by factors such as decrease in surveying and development activities of oil and gas companies, our geophysical services business declined significantly. 21,597 km of 2D seismic data collections were completed, a decrease of 19.6% from the same period last year and 5,060 km^2 of 3D seismic data collections were completed, a decrease of 24.9% from the same period last year. As for data processing business, due to securing an operation contract from Devon Energy China Ltd. during the period, 4,743 km of 2D processing were completed, an increase of 44.7% from the same period last year. Affected by the decrease in operation volume in Bohai Bay, 2,599 km^2 of 3D processing were completed in the current period, a decrease of 48.1% from the same period last year. The revenue of the geophysical services in the first half of 2009 amounted to RMB676.4 million, with a decrease of 30.8% compared with the RMB977.5 million of the same period last year.

Geophysical Services

During the first half of 2009, the changes in the operating volume of geophysical services were as follows:

	For the six months ended 30 June		
Services	**2009**	**2008**	**Change %**
2D Collection (km)	21,597	26,854	(19.6%)
2D Processing (km)	4,743	3,277	44.7%
3D Collection (km^2)	5,060	6,735	(24.9%)
3D Processing (km^2)	2,599	5,011	(48.1%)

Surveying services

Revenue from surveying services in the first half of 2009 amounted to RMB120.2 million, down 5.7% from RMB127.5 million in the same period last year. This was mainly because of the decrease in development projects in Bohai Bay.

Marine Support and Transportation Services Segment

COSL possesses and operates the largest and most comprehensive offshore utility transportation fleets in China. As of 30 June 2009, the Group owned an aggregate of 84 utility vessels of various types and leased 5 supply vessels on a long-term basis. At the same time, the Group owned 3 oil tankers and 5 chemical carriers.

During the first half of 2009, with the commencement of operation of 6 utility vessels and 3 well workover support barges, revenue in the year amounted to RMB881.3 million, representing an increase of 10.7% from RMB796.3 million in the same period last year. For operation volume, our 84 working vessels operated a total of 13,194 days during the first half of the year, representing an increase of 1,341 days from the same period last year. The calendar day utilization rate was 92.0%, representing a decrease of 4.0% compared to the same period last year. In addition, we leased five platform supply vessels from the joint venture company, Eastern Marine Services Ltd. and operated accumulative 881 days during the first half of the year and the calendar day utilization rate was 97.3%, representing an increase of 2.4% compared to the same period last year.

Gross transportation volume of oil tankers for the period was 561,000 tons, a 14.5% increase from 490,000 tons in the same period last year. Transportation volume of chemical carriers was 406,000 tons, a decrease of 29.1% from 573,000 tons in the same period last year, mainly due to decreased transportation volume of leased chemical carriers.

FINANCIAL REVIEW

I. Operating results analysis

1. Revenue

During the first half of 2009, the revenue of the Group reached RMB7,813.8 million, representing an increase of RMB2,706.7 million or 53.0% from RMB5,107.1 million for the same period last year. This is mainly due to the operation of CDE group, the operation of new facilities and increase in operation volume.

The table below shows the revenue of each of the business segments during the first half of 2009:

	For the six months ended 30 June		*Unit: RMB million*
Business segments	**2009**	**2008**	**Change %**
Drilling services	4,602.9	2,211.9	108.1%
Well services	1,653.2	1,121.4	47.4%
Marine support and transportation services	881.3	796.3	10.7%
Geophysical services	676.4	977.5	(30.8%)
Total	7,813.8	5,107.1	53.0%

2. Operating expenses

During the first half of 2009, our operating expenses amounted to RMB6,017.9 million, representing an increase of RMB2,801.6 million or 87.1% from RMB3,216.3 million for the same period last year.

The table below shows the operating expenses of each of the business segments during the first half of 2009:

	For the six months ended 30 June		*Unit: RMB million*
Segments	**2009**	**2008**	**Change %**
Drilling services	3,665.1	1,285.9	185.0%
Well services	1,322.7	891.6	48.4%
Marine support and transportation services	595.2	503.7	18.2%
Geophysical services	434.9	535.1	(18.7%)
Total	6,017.9	3,216.3	87.1%

The table below shows the breakdown of operating expenses for the Group in the first half of 2009:

	For the six months ended 30 June		*Unit: RMB million*
	2009	**2008**	**Change %**
Depreciation of property, plant and equipment and amortization of intangible assets	1,356.5	595.1	127.9%
Employee compensation costs	1,130.3	815.2	38.7%
Repair and maintenance costs	149.9	111.6	34.3%
Consumption of supplies, materials, fuel services and others	1,349.9	1,106.8	22.0%
Subcontracting expenses	313.1	197.1	58.9%
Operating lease expenses	227.6	173.1	31.5%
Other selling, general and administrative expenses	227.3	48.8	365.8%
Other operating expenses	443.4	168.6	163.0%
Impairment of property, plant and equipment	819.9	–	N/A
Total operating expenses	6,017.9	3,216.3	87.1%

Depreciation of property, plant and equipment and amortization of intangible assets increased by RMB761.4 million or 127.9%, mainly due to the operation of new drilling rig COSL942, 4 land drilling rigs, 11 utility vessels, 3 workover support barges and logging facilities, resulting in an increase of depreciation charge of RMB276.9 million. Moreover, the newly acquired CDE group had a depreciation charge of RMB484.5 million. Employee compensation costs increased by RMB315.1 million, mainly due to the expansion of operation of COSL, which contributed to the increase by RMB98.3 million. In addition, the acquired CDE group contributed to the increase by RMB216.8 million. Repair and maintenance costs increased by RMB38.3 million or 34.3%. Consumption of supplies, materials, fuel, services and others increased by RMB243.1 million or 22.0%, mainly due to the operation of new equipments, which resulted in the increase of consumption of supplies, materials, fuel, services and others by RMB178.5 million for CDE, and RMB64.6 million for COSL. Subcontracting expenses increased by RMB116.0 million or 58.9%, mainly due to the full capacity operation of well services which led to increased subcontracting for new drilling projects. Operating lease expenses increased by RMB54.5 million or 31.5%, mainly due to the increased rental fee of the drilling rig YS935 and the increased operation volume of leased utility vessels. Impairment of property, plant and equipment increased by RMB819.9 million, mainly due to the adverse impact of the macroeconomic environment on the oilfield services market and also, the effect on the present value of future cash flows arising from the delay in the delivery of the three semi-submersible rigs under construction. Consequently, the management performed, in accordance with the requirements of the applicable accounting standard, impairment test on the assets and recognised an asset impairment loss of RMB819.9 million based on the test result. Other selling, general and administrative expenses increased by RMB178.5 million or 365.8%, mainly due to increased accrued liabilities of RMB165.4 million during the period. Other operating expenses increased by RMB274.8 million or 163.0%, mainly due to the increase in charges payable to the platform management of drilling rig NH6 amounting to RMB40.9 million, resulting from the increase of day rate since 1 September 2008. Moreover, the newly acquired CDE group had other operating expenses of RMB165.6 million.

3. Operating profit

The operating profit for the Group in the first half of 2009 amounted to RMB1,822.9 million, representing a decrease of RMB86.0 million or 4.5%, from RMB1,908.9 million for the same period last year.

The operating profit for each of the segments during the first half of 2009 is as shown in the table below:

	For the six months ended 30 June		*Unit: RMB million*
Segments	**2009**	**2008**	**Change %**
Drilling services	950.8	926.5	2.6%
Well services	331.6	240.9	37.7%
Marine support and transportation services	292.0	294.0	(0.7%)
Geophysical services	248.5	447.5	(44.5%)
Total	1,822.9	1,908.9	(4.5%)

4. **Exchange losses, net**

The net exchange loss in the first half of 2009 amounted to RMB56.6 million, representing a decrease of RMB33.5 million from RMB90.1 million for the same period last year, mainly due to the mere 0.7% appreciation of RMB against US$ in the first half of 2009 while there was a 5.8% appreciation in the first half of 2008.

5. **Finance costs**

During the first half of 2009, the finance costs of the Group was RMB536.4 million, compared with RMB26.4 million for the same period last year. The increase of RMB510.0 million was mainly due to the borrowing of US$2.2 billion for the acquisition of CDE and CDE's own borrowings which contributed to an increase of finance expenses.

6. **Interest income**

During the first half of 2009, the interest income of the Group was RMB27.7 million, compared with RMB103.3 million for the same period last year. The decrease of RMB75.6 million was mainly due to the fact that approximately RMB2,980.0 million was used as treasury funds at the end of June 2008, while approximately RMB313.3 million was used as treasury funds at the end of June 2009.

7. **Share of profits and losses from jointly-controlled entities**

During the first half of 2009, the share of losses from jointly-controlled entities amounted to RMB61.8 million, representing a decrease of RMB164.3 million compared with the profits of RMB102.5 million for the same period last year. Except for COSL-Expro Testing Services (Tianjin) Company Ltd., China Petroleum Logging-Atlas Cooperation Service Company and China Offshore Fugro Geo Solutions (Shenzhen) Company Ltd. of which the shared profits increased by RMB2.3 million, the shared profits of the other 7 jointly-controlled entities decreased by RMB166.6 million mainly due to Atlantis Deepwater Orient Ltd.'s deepwater technology research expenditure of approximately RMB108.0 million incurred during the period.

8. **Income tax expense**

The income tax expense of the Group in the first half of 2009 was RMB167.3 million, representing a decrease of RMB296.4 million or 63.9% from RMB463.7 million of the same period last year. The main reason of the decrease was that in October 2008, the Group was certified as an advanced technology enterprise by the Tianjin Science and Technology Commission, Tianjin Ministry of Finance, Tianjin State Administration of Taxation and Tianjin Local Taxation Bureau. According to the New Corporate Income Tax Law effective from 1 January 2008, the Group was subject to income tax at 15% for three consecutive years as an advanced technology enterprise, while the income tax rate of 25% was applied to calculate and pay tax instalments for the same period last year.

9. **Profit after tax**

During the first half of 2009, the profit after tax of the Group amounted to RMB1,028.4 million, representing a decrease of RMB506.1 million or 33.0% from RMB1,534.5 of the same period last year.

II. Assets and liabilities analysis

As of 30 June 2009, the total assets of the Group amounted to RMB59,029.1 million, representing an increase of RMB2,442.0 million or 4.3% compared with that at the end of 2008. The total liabilities was RMB38,826.5 million, representing an increase of RMB2,037.2 million or 5.5% compared with that at the end of 2008. The shareholders' equity was RMB20,202.6 million, representing an increase of RMB404.8 million or 2.0% compared with that at the end of 2008. An anaysis of major accounting items with material changes in amount is as follows:

1. Accounts receivable

As of 30 June 2009, accounts receivable were RMB4,239.7 million, representing an increase of RMB1,504.7 million compared with RMB2,735.0 million as of the end of 2008. The increase was mainly due to the increased revenue of the Group.

2. Property, plant and equipment

As of 30 June 2009, the property, plant and equipment was RMB44,065.9 million, representing an increase of RMB2,210.2 million compared with RMB41,855.7 million as of the end of 2008. The increase was mainly due to the new construction of one 375-feet jack-up drilling rig, one 400-feet jack-up drilling rigs, three 2,500-feet semi-submersible drilling rigs, two land drilling rigs, two 350-feet jack-up drilling rigs, four 200-feet jack-up drilling rigs, two multi-function drilling platforms (LIFTBOAT), 13 oilfield utility vessels and three workover support barges and one deepwater seismic vessel and an undersea cable. In addition, construction in progress decreased by RMB819.9 million due to the provision of impairment made during the period.

3. Interest-bearing bank borrowings (current)

As of 30 June 2009, the current portion of interest-bearing bank borrowings was RMB283.3 million, representing a decrease of RMB7,495.3 million compared with RMB7,778.6 million as of the end of 2008. The main reasons for the decrease were that in May 2009, the Group repaid in advance the short-term portion (US$933.3 million in total, or RMB6,359.5 million) of the US$1.4 billion borrowings from a bank syndicate in September 2008 for the acquisition of CDE, and in March 2009, the Group repaid in advance the short-term borrowing of CDE group, amounting to approximately RMB476.1 million from Nordea Bank Norge ASA. In addition, the CDE group repaid borrowings of RMB659.7 million which was due to Nordea Bank Norge ASA in May 2009.

4. Interest bearing bank loans (non-current)

As of 30 June 2009, the non-current portion of interest bearing bank borrowings was RMB26,257.9 million, representing an increase of RMB9,902.5 million compared with RMB16,355.4 million as of the end of 2008. The increase was mainly due to the borrowings of RMB1,000.0 million from CNOOC Finance Co., Ltd. in June 2009 for the repayment of previous borrowings and as working capital. In May 2009, US$0.8 billion (equivalent to approximately RMB5,465.5 million) and US$0.6 billion (equivalent to approximately RMB4,099.1 million) were borrowed from the Bank of China

Limited and the Industrial and Commercial Bank of China Limited respectively for the refinancing of a syndicate bank borrowings of US$1.4 billion which belonged to a subsidiary. During May to June 2009, US$1.17 billion (equivalent to approximately RMB7,981.4 million) was borrowed from the Bank of China Limited for the refinancing of CDE's Nordea Bank borrowings and as working capital. In April 2009, RMB450.0 million was borrowed from the Import and Export Bank of China for the construction of the land drilling rig in Libya.

On the other hand, the Group repaid RMB200.0 million of the borrowings from the Import and Export Bank of China in June 2009 and RMB19.6 million of the borrowings from Eksportfinans, a Norway export credit institution, in February 2009, respectively. We have also repaid RMB6,723.2 million of the borrowings from Nordea Bank and RMB3,188.2 million of the borrowings from the Bank of China through the refinancing.

III. Cash flow statement analysis

During the first half year of 2009, the Group had cash and cash equivalents of RMB3,766.1 million, representing a decrease of RMB529.4 million or 12.3% compared with RMB4,295.5 million as at the end of last year. An analysis of the cash flow statement is as follows:

1. Cash flows from operating activities

During the first half year of 2009, the Group had net cash inflow from operating activities of RMB2,209.1 million, representing an increase of RMB858.9 million or 63.6% compared with RMB1,350.2 million for the same period last year. The main reason for the increase of cash from operating activities was that the business expansion of the Group driven by the CDE group.

2. Cash flows from investing activities

During the first half year of 2009, the cash outflow from investing activities of the Group was RMB3,043.1 million, representing a decrease of RMB113.7 million or 3.6% compared with RMB3,156.8 million for the same period last year. The cash outflow from investing activities was mainly due to the capital expenditure, of which the details are shown in the IV. Capital expenditure analysis.

3. Cash flows from financing activities

During the first half year of 2009, net cash inflows from financing activities of the Group reached RMB346.3 million, representing an increase of RMB1,353.4 million compared with net outflows of RMB1,007.1 million of the same period of last year, mainly due to the refinancing conducted by the Group in the first half of 2009 by replacing original borrowings of the subsidiaries with borrowings with lower cost so as to optimize the debt structure, which resulted in the increase of cash received from borrowings amounting to RMB20,127.6 million, and the increase of cash paid for debt repayment amounting to RMB17,291.2 million during the period. In addition, due to the new borrowings derived from the acquisition of CDE group, cash paid for interest increased by RMB1,370.9 million.

IV. Capital expenditure analysis

Due to the construction of five drilling rigs owned by the CDE group in the first half of 2009, the total capital expenditure amounted to RMB4,348.2 million for the period, representing an increase of RMB2,018.6 million or 86.7% compared with RMB2,329.6 million for the same period last year.

The capital expenditure for each segment during the first half of 2009 is as shown in the table below:

	For the six months ended 30 June		*Unit: RMB million*
Segments	**2009**	**2008**	**Change %**
Drilling services	3,329.6	954.4	248.9%
Well services	305.5	455.4	(32.9%)
Marine support and transportation services	421.9	562.9	(25.0%)
Geophysical services	291.2	356.9	(18.4%)
Total	4,348.2	2,329.6	86.7%

The capital expenditure of the drilling services segment was mainly due to the construction of one 375-feet jack-up drilling rig, one 400-feet jack-up drilling rig, three 2,500-feet semi-submersible drilling rigs owned by the CDE group, the construction of two land drilling rigs, two 350-feet jack-up drilling rigs and four 200-feet jack-up drilling rigs. The capital expenditure of the well services segment was mainly due to the construction of two multi-function drilling platforms (LIFTBOAT) and the purchase of various well services equipments. The capital expenditure of the marine support and transportation services segment was mainly due to the construction of 13 oilfield utility vessels and three workover support barges. The capital expenditure of the geophysical services segment was mainly due to the construction of a deepwater seismic vessel and an undersea cable.

OUTLOOK

Looking into the second half of 2009, the oilfield services industry will be faced with higher pressures due to the lagging effect of the impact from the economic recession and lower oil price. We will continue to exert our advantage, consolidate the existing market and expand the new market. We will strengthen our sense of crisis and cost control, implement cost inspection and analysis control measures and develop our internal capabilities. We will strengthen our technology research and development to increase our production and service capacity. We will also optimize our debt structure, ensure adequate use of external resources and continue the effort for post-integration of CDE. For facilities, we expect two 350-feet drilling rigs will be completed, four utility vessels will commence operation in the second half of the year. We will undertake our social responsibilities as always, by reducing energy consumption and emissions, enhance our corporate governance and intensify the QHSE system, so as to strive for greater values for shareholders and achieve an all-win situation among shareholders, customers, employees and business partners.

OTHER INFORMATION

Audit Committee

The audit committee comprises of three independent non-executive directors of the Company. The audit committee has reviewed the accounting principles and practices adopted by the Group as well as the internal control and financial reporting matters. The interim results for the six months ended 30 June 2009 have not been audited but have been reviewed by Ernst & Young in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Hong Kong Institute of Certified Public Accountants. The unaudited interim financial report for the six months ended 30 June 2009 has been reviewed by the audit committee.

Changes in Directors, Supervisors and Senior Management

On 2 March 2009, the Board appointed Mr. Liu Jian as the CEO of the Company. Mr. Yuan Guangyu, the former CEO of the Company, ceased to serve as CEO of the Company due to changes in job responsibilities.

On 3 June 2009, the Annual General Meeting for 2008 of the Company was convened, during which Mr. Fu Chengyu, Mr. Liu Jian, Mr. Li Yong and Mr. Tsui Yiu Wa were elected as new directors of the Company (of which, Mr. Tsui Yiu Wa is an independent non-executive director and Mr Andrew Y. Yan ceased to serve as the independent non-executive director of the Company) with a term of office of three years from the date the resolutions were passed at the general meeting, and Mr. Yuan Guangyu ceased to be a director of the Company. At the meeting, Mr. Zhu Liebing and Mr. Wang Zhile were elected as new supervisors assumed by non-representatives of the employees of the supervisory committee with a term of office of three years from the date the resolutions were passed at the general meeting. Mr. Zhang Benchun and Mr. Zhang Dunjie ceased to be supervisors of the Company.

On 3 June 2009, Mr. Gordon C. K. Kwong, the independent non-executive director of the Company, ceased to serve as the independent non-executive director of Ping An Insurance (Group) Company of China Limited.

Corporate Governance Practices

For the six months ended 30 June 2009, the Company has complied with the Code on Corporate Governance Practices as stated in Appendix 14 of the Listing Rules, except for provision E.1.2. Pursuant to provision E.1.2 of the Code on Corporate Governance Practices, the chairman of the board is required to attend the annual general meeting. However, Mr. Fu Chengyu, the chairman of the Company, failed to attend the annual general meeting of the Company held on 3 June 2009 due to an unexpected matter that required his immediate attention. According to the Articles of Association of the Company, the deputy chairman of the Company is required to preside the general meeting and act as the chairman of the meeting in the absence of the chairman. When the deputy chairman failed to preside the general meeting, over half of the board of directors may elect a director of the Company to preside the general meeting and act as the chairman of the meeting. When no chairman is elected, the shareholders attending the meeting may elect one person to preside over the meeting. Therefore, the shareholders attending the meeting elected Mr. Simon X. Jiang, the independent non-executive director of the Company, to preside the general meeting and act as the chairman of the meeting.

Compliance with the Model Code for Securities Transactions by Directors of Listed Companies

Upon specific enquiry to all directors by the Company, the directors have confirmed that they have, for the six months ended 30 June 2009, 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 the Company nor its subsidiaries have purchased, disposed of or redeemed any of the Company's listed securities during the six months ended 30 June 2009.

Material Litigation and Arbitration

In January 2007, Awilco Offshore ASA ("AWO", currently COSL Drilling Europe AS ("CDE"), a wholly-owned subsidiary of the Company) made a compulsory acquisition offer of the 8.8% (4,172,359 number of shares) outstanding shares in OffRig Drilling ASA ("OFRD"), a company which it already owned a 91.2% interest. The minority shareholders who owned the 8.8% interest of OFRD disagreed with the valuation and the acquisition price of 27.50 kroner per share. In June 2007, the minority shareholders filed a claim against AWO. At the time of acquisition by the Company of AWO, the proceeding was already in progress. On 14 May 2009, the Norwegian Court ruled against CDE. CDE has filed an appeal against the ruling and proceeding is in progress. The Company is currently preparing the defense for the case.

DISCLOSURE OF INFORMATION ON THE HKSE'S WEBSITE

All information required by paragraphs 46(1) to 46(6) of Appendix 16 of the Listing Rules will be published on the HKSE's website (http://www.hkex.com.hk) and our website (http://www.cosl.com.cn) in due course.

By order of the Board
China Oilfield Services Limited
Chen Weidong
Company Secretary

28 August 2009

As at the date hereof, the executive directors of the Company are Liu Jian and Li Yong, the non-executive directors of the Company are Fu Chengyu and Wu Mengfei and the independent non-executive directors of the Company are Tsui Yiu Wa, Gordon C.K. Kwong and Simon X. Jiang.