COSL

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

*(Incorporated in the People's Republic of China as a joint stock limited liability company)*

**(Stock Code: 2883)**

# ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2009

**Financial Highlights**

1. Revenue increased by 47.2% to RMB17,879 million
2. Profit from operations increased by 23.1% to RMB4,468 million
3. Net profit increased by 1.1% to RMB3,135 million
4. Basic earnings per share were RMB69.75 cents
5. Proposed final dividend per share of RMB14 cents

## CONSOLIDATED INCOME STATEMENT

*Year ended 31 December 2009*

| | Notes | 2009 RMB'000 | 2008 RMB'000 |
|---|---|---|---|
| **REVENUE** | 4 | **17,878,654** | 12,142,944 |
| Other revenues | 4 | **95,099** | 48,671 |
| | | **17,973,753** | 12,191,615 |
| Depreciation of property, plant and equipment and amortisation of intangible assets | 5 | **(2,865,166)** | (1,563,534) |
| Employee compensation costs | 5 | **(2,669,618)** | (2,106,497) |
| Repair and maintenance costs | 5 | **(609,441)** | (420,257) |
| Consumption of supplies, materials, fuel, services and others | | **(3,610,001)** | (2,720,083) |
| Subcontracting expenses | | **(884,384)** | (542,226) |
| Operating lease expenses | 5 | **(589,118)** | (356,136) |
| Other operating expenses | | **(1,076,167)** | (693,870) |
| Other selling, general and administrative expenses | | **(381,870)** | (158,523) |
| Impairment of property, plant and equipment | | **(819,889)** | – |
| Total operating expenses | | **(13,505,654)** | (8,561,126) |
| **PROFIT FROM OPERATIONS** | | **4,468,099** | 3,630,489 |
| Financial income/(expenses) | | | |
| Exchange losses, net | | **(92,686)** | (91,358) |
| Finance costs | | **(786,430)** | (638,985) |
| Interest income | | **60,352** | 191,433 |
| Financial expenses, net | | **(818,764)** | (538,910) |
| Share of profits of jointly-controlled entities | | **110,264** | 215,707 |
| **PROFIT BEFORE TAX** | 5 | **3,759,599** | 3,307,286 |
| Income tax expense | 6 | **(624,282)** | (205,045) |
| **PROFIT FOR THE YEAR** | | **3,135,317** | 3,102,241 |
| Attributable to owners of the parent | | **3,135,317** | 3,102,241 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT** | | | |
| Basic and diluted | 8 | **69.75 cents** | 69.01 cents |

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**
*Year ended 31 December 2009*

| | 2009 | 2008 |
|---|---|---|
| | *RMB'000* | *RMB'000* |
| **PROFIT FOR THE YEAR** | **3,135,317** | 3,102,241 |
| **OTHER COMPREHENSIVE INCOME** | | |
| Exchange differences on translation of foreign operations | **1,789** | 10,033 |
| **OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX** | **1,789** | 10,033 |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | **3,137,106** | 3,112,274 |
| Attributable to owners of the parent | **3,137,106** | 3,112,274 |

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*31 December 2009*

| | Notes | 2009 RMB'000 | 2008 RMB'000 (Restated) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | *9* | **45,086,542** | 40,345,211 |
| Goodwill | *10* | **4,600,473** | 4,604,785 |
| Intangible assets | | **456,366** | 523,799 |
| Interests in jointly-controlled entities | | **540,924** | 620,329 |
| Available-for-sale investments | | **19,381** | 34,318 |
| Pledged time deposits | *14* | **39,081** | 78,235 |
| Total non-current assets | | **50,742,767** | 46,206,677 |
| **CURRENT ASSETS** | | | |
| Inventories | | **820,549** | 780,871 |
| Prepayments, deposits and other receivables | *11* | **755,500** | 1,505,856 |
| Accounts receivable | *12* | **3,745,547** | 2,735,025 |
| Notes receivable | *13* | **429,658** | 354,870 |
| Other current assets | | **20,583** | – |
| Pledged time deposits | *14* | **247,311** | 53,768 |
| Cash and cash equivalents | *14* | **4,014,603** | 4,563,834 |
| Total current assets | | **10,033,751** | 9,994,224 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | *15* | **4,223,972** | 3,430,891 |
| Notes payable | | **–** | 366,763 |
| Salary and bonus payables | *16* | **477,407** | 485,875 |
| Tax payable | | **86,826** | 252,460 |
| Interest-bearing bank borrowings | *18* | **283,081** | 7,778,617 |
| Total current liabilities | | **5,071,286** | 12,314,606 |
| **NET CURRENT ASSETS/(LIABILITIES)** | | **4,962,465** | (2,320,382) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **55,705,232** | 43,886,295 |

| | Notes | **2009** | 2008 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| | | | (Restated) |
| **NON-CURRENT LIABILITIES** | | | |
| Deferred tax liabilities | *17* | **1,790,789** | 1,697,132 |
| Interest-bearing bank borrowings | *18* | **28,151,040** | 16,355,446 |
| Long term bonds | *19* | **2,670,020** | 4,028,342 |
| Deferred revenue | *20* | **780,114** | 1,858,302 |
| Defined benefit obligations | | **1,381** | 5,664 |
| Derivative financial instruments | | – | 49,308 |
| Other non-current liabilities | | **6,283** | 94,257 |
| Total non-current liabilities | | **33,399,627** | 24,088,451 |
| Net assets | | **22,305,605** | 19,797,844 |
| **EQUITY** | | | |
| Equity attributable to owners of the parent | | | |
| Issued capital | *21* | **4,495,320** | 4,495,320 |
| Reserves | | **17,180,940** | 14,673,179 |
| Proposed final dividends | *7* | **629,345** | 629,345 |
| Total equity | | **22,305,605** | 19,797,844 |

## 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.

### Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2009. 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.

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 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

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

| | |
|---|---|
| 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 –Improving Disclosures about Financial Instruments* |
| HKFRS 8 | *Operating Segments* |
| HKAS 1 (Revised) | *Presentation of Financial Statements* |
| HKAS 23 (Revised) | *Borrowing Costs* |
| HKAS 32 and HKAS 1 Amendments | Amendments to HKAS 32 *Financial Instruments: Presentation* and HKAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* |
| HK(IFRIC)-Int 9 and HKAS 39 Amendments | Amendments to HK(IFRIC)-Int 9 *Reassessment of Embedded Derivatives* and HKAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives* |
| HK(IFRIC)-Int 13 | *Customer Loyalty Programmes* |
| HK(IFRIC)-Int 15 | *Agreements for the Construction of Real Estate* |
| HK(IFRIC)-Int 16 | *Hedges of a Net Investment in a Foreign Operation* |
| HK(IFRIC)-Int 18 | *Transfers of Assets from Customers (adopted from 1 July 2009)* |
| Improvements to HKFRSs (October 2008) * | Amendments to a number of HKFRSs |

* The Group adopted all the improvements to HKFRSs issued in October 2008 except for the amendments to HKFRS 5 Non-current assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary, which is effective for annual periods beginning on or after 1 July 2009.

Other than as further explained below regarding the impact of HKFRS 7 Amendments, HKFRS 8, HKAS 1 (Revised) and HKAS 23, the adoption of these new and revised HKFRSs has had no significant financial effect on these financial statements, and except for giving rise to changes to the accounting policy for the reclassification of financial assets as further described below, there have been no significant changes to the accounting policies applied in these financial statements.

The HKFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance is now required for Level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management.

HKFRS 8, which replaces HKAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segments determined in accordance with HKFRS 8 are the same as the business segments previously identified under HKAS 14. These revised disclosures, including the related revised comparative information, are shown in Note 3 to the financial statements.

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

HKAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard has had no impact on the financial position or results of operations of the Group.

Apart from the above, the HKICPA has issued Improvements to HKFRSs 2008 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. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their services and has four reportable operating segments 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.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax from continuing operations. The adjusted profit before tax from continuing operations is measured consistently with the Group's profit before tax from continuing operations except that interest income, finance costs, and exchange gains/(losses) are excluded from such measurement.

Segment assets exclude certain cash and cash equivalents (funds managed by the corporate treasury), prepayments, deposits and other receivables as these assets are managed on a group basis.

Segment liabilities exclude certain other payables, interest-bearing bank borrowings and long term bonds (funds managed by the corporate treasury) as these liabilities are managed on a group basis.

Funds managed by the CNA group treasury were included in the drilling services segment. As such, the related cash and cash equivalents, interest-bearing bank borrowings and long term bonds were included in the drilling services segment.

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.

| Year ended 31 December 2009 | Drilling services | Well services | Marine support and transportation services | Geophysical services | Total |
|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Segment revenue: | | | | | |
| Sales to external customers | **9,891,714** | **4,416,698** | **2,171,330** | **1,398,912** | **17,878,654** |
| Intersegment sales | **1,249,655** | **144,599** | **59,088** | **50,231** | **1,503,573** |
| Other revenue | **36,071** | **6,445** | **14,503** | **38,080** | **95,099** |
| | **11,177,440** | **4,567,742** | **2,244,921** | **1,487,223** | **19,477,326** |
| Reconciliation: | | | | | |
| Elimination of intersegment sales | | | | | **(1,503,573)** |
| | | | | | **17,973,753** |
| Segment results | **2,806,984** | **795,347** | **631,732** | **344,300** | **4,578,363** |
| Exchange losses, net | | | | | **(92,686)** |
| Finance costs | | | | | **(786,430)** |
| Interest income | | | | | **60,352** |
| Profit before tax | | | | | **3,759,599** |
| Assets and liabilities: | | | | | |
| Segment assets | **68,075,601** | **5,115,367** | **5,238,398** | **2,576,235** | **81,005,601** |
| Elimination of intersegment receivables | | | | | **(23,320,127)** |
| Unallocated assets | | | | | **3,091,044** |
| Total assets | | | | | **60,776,518** |
| Segment liabilities | **28,670,415** | **1,565,128** | **726,305** | **525,782** | **31,487,630** |
| Elimination of intersegment liabilities | | | | | **(23,320,127)** |
| Unallocated liabilities | | | | | **30,303,410** |
| Total liabilities | | | | | **38,470,913** |
| Other segment information: | | | | | |
| Capital expenditure | **6,062,823** | **760,092** | **924,719** | **665,704** | **8,413,338** |
| Depreciation of property, plant and equipment and amortisation of intangible assets | **1,945,678** | **406,354** | **275,096** | **238,038** | **2,865,166** |
| Provision for impairment of accounts receivable | **21,483** | **9,588** | **4,746** | **3,068** | **38,885** |
| Provision for impairment of other receivables | **2,510** | **1,120** | **555** | **358** | **4,543** |
| Provision for impairment of inventories | **591** | **264** | **131** | **84** | **1,070** |
| Impairment provision for an available-for sale investment | **15,003** | **–** | **–** | **–** | **15,003** |
| Impairment provision for property, plant and equipment | **819,889** | **–** | **–** | **–** | **819,889** |
| Share of profits of jointly-controlled entities | **59,440** | **52,087** | **(22,425)** | **21,162** | **110,264** |
| Interests in jointly-controlled entities* | **14,300** | **322,205** | **151,896** | **66,823** | **555,224** |

* The interests in jointly-controlled entities included interest in Premium Drilling group and Atlantis Deepwater Limited which were classified as other current assets and other non-current liabilities amounting to RMB20.6 million and RMB6.3 million respectively.

| 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 to external customers | 5,919,918 | 2,732,594 | 1,613,878 | 1,876,554 | 12,142,944 |
| Intersegment sales | 729,605 | 133,411 | 67,153 | 303,556 | 1,233,725 |
| Other revenue | 10,538 | 19,387 | 6,006 | 12,740 | 48,671 |
| | 6,660,061 | 2,885,392 | 1,687,037 | 2,192,850 | 13,425,340 |
| Reconciliation: | | | | | |
| Elimination of intersegment sales | | | | | (1,233,725) |
| | | | | | 12,191,615 |
| Segment results | 2,178,775 | 523,482 | 556,153 | 587,786 | 3,846,196 |
| Exchange losses, net | | | | | (91,358) |
| Finance costs | | | | | (638,985) |
| Interest income | | | | | 191,433 |
| Profit before tax | | | | | 3,307,286 |
| Assets and liabilities: | | | | | |
| Segment assets | 43,332,092 | 4,228,050 | 4,543,962 | 2,213,388 | 54,317,492 |
| Elimination of intersegment receivables | | | | | (2,034,064) |
| Unallocated assets | | | | | 3,917,473 |
| Total assets | | | | | 56,200,901 |
| Segment liabilities | 27,492,436 | 1,363,824 | 537,118 | 600,665 | 29,994,043 |
| Elimination of intersegment liabilities | | | | | (2,034,064) |
| Unallocated liabilities | | | | | 8,443,078 |
| Total liabilities | | | | | 36,403,057 |
| 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 |
| Provision for impairment of accounts receivable | 761 | 351 | 207 | 47,414 | 48,733 |
| Provision for impairment of other receivables | 164 | 101 | 63 | 71 | 399 |
| Provision for impairment of inventories | 1,879 | 867 | 512 | 595 | 3,853 |
| Impairment provision for an available-for sale investment | 106,508 | – | – | – | 106,508 |
| Share of profits of jointly-controlled entities | 60,930 | 52,695 | 64,904 | 37,178 | 215,707 |
| Interests in jointly-controlled entities | 41,161 | 338,946 | 198,067 | 42,155 | 620,329 |

**Geographical Information**

The Group mainly engages in the provision of drilling services, well services, marine support and transportation services and geophysical services in offshore China. Activities outside the PRC are mainly conducted in Indonesia, Australia, Mexico, Myanmar, Norway, Vietnam, Saudi Arabia, Dubai, Libya and Tunisia.

In determining the Group's geographical information, revenues and results are attributed to the segments based on the location of the Group's customers. No further analysis of geographical information is presented for revenues as revenues generated from customers in other locations are individually less than 10% (2008: 10%), and approximately 72.1% (2008: approximately 75%) of the Group's revenues are generated from customers in Mainland China.

The following table presents revenue information for the Group's geographical segments for the years ended 31 December 2009 and 2008.

| **Year ended 31 December 2009** | **Mainland China** | **Other countries** | **Total** |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Segment revenue: | | | |
| Sales to external customers | **12,889,651** | **4,989,003** | **17,878,654** |

| Year ended 31 December 2008 | Mainland China | Other countries | Total |
|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* |
| Segment revenue: | | | |
| Sales to external customers | 9,099,541 | 3,043,403 | 12,142,944 |

A significant portion of the non-current assets are property, plant and equipment with high mobility which may have moved from Mainland China to foreign countries during the year and vice versa. As such, the necessary information is not available for the analysis of geographical segment for non-current assets.

## 4. REVENUE AND OTHER REVENUES

Revenue, which is also the Group's turnover, mainly represents the net invoiced value of offshore oilfield services rendered, net of sales surtaxes.

An analysis of revenue and other revenues is as follows:

| | **2009** | 2008 |
|---|---|---|
| Revenue: | ***RMB'000*** | *RMB'000* |
| Rendering of services* | **17,708,484** | 12,062,412 |
| Gross rental income | **170,170** | 80,532 |
| Total revenue | **17,878,654** | 12,142,944 |
| Other revenues: | | |
| Gain on disposal of scrap equipment | **168** | 2,112 |
| Insurance claims received | **52,140** | 19,895 |
| Government subsidies | **6,490** | 24,259 |
| Others | **36,301** | 2,405 |
| Total other revenues | **95,099** | 48,671 |

* Included in the balance was deferred revenue of RMB1,076,937,000 recognised during the year (Note 20).

## 5. PROFIT BEFORE TAX

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

| | **2009** | 2008 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Auditors' remuneration: | | |
| Audit | **15,570** | 10,922 |
| Non-audit | **6,262** | 11,572 |
| Employee compensation costs (including directors' remuneration): | | |
| Wages, salaries and bonuses | **2,153,116** | 1,706,715 |
| Social security costs | **398,069** | 294,281 |
| Retirement benefits and pensions | **118,986** | 106,215 |
| Share appreciation rights (Note 16) | **(553)** | (714) |
| | **2,669,618** | 2,106,497 |

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

| | **2009** | 2008 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Depreciation of property, plant and equipment and amortisation of intangible assets | **2,865,166** | 1,563,534 |
| Loss on disposal of property, plant and equipment, net | **19,017** | 53,429 |
| Lease payments under operating leases in respect of land and buildings, berths and equipment | **589,118** | 356,136 |
| Impairment of property, plant and equipment | **819,889** | – |
| Impairment of accounts receivable, net | **38,885** | 48,733 |
| Impairment of other receivables, net | **4,543** | 399 |
| Provision against inventories | **1,070** | 3,853 |
| Impairment of an available-for-sale investment | **15,003** | 106,508 |
| Repair and maintenance costs | **609,441** | 420,257 |
| Research and development costs, included in | **197,228** | 144,553 |
| Depreciation of property, plant and equipment | **15,454** | 18,143 |
| Employee compensation costs | **26,444** | 1,349 |
| Consumption of supplies, materials, fuel, services and others | **149,324** | 123,023 |
| Other operating expenses | **6,006** | 2,038 |

## 6. INCOME 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 ("CITLIR") 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 and Tianjin State Administration of Taxation (the "TSAT"), 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 2010. According to the Circular Jinguoshuihaishuijianmian [2009] Number 2, the corporate income tax rate was approved to be 15%. Consequently, the management considers 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 2009 (2008: 15%).

Certain overseas subsidiaries of the Group with permanent establishment status in the PRC are subject to deemed income tax calculated at 2.5% (2008: 2.5%) of service income generated from drilling activities in the PRC. The Group's drilling activities in Indonesia are mainly subject to a corporate income tax of 28% (2008: progressive rate ranging from 10% to 30%). The Group's drilling activities in Australia are subject to income tax of 30% (2008: 30%) based on its taxable profit generated. The Group's drilling activities in Myanmar are subject to income tax of 3% (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% (2008: 28% and 16.5%, respectively). The Group's activities in Norway are mainly subject to a corporate income tax of 28% (2008: 28%). The Group's activities in Vietnam are subject to withholding tax of 10% on income derived from the provision of drilling services (2008: 10%). The Group's drilling activities in Libya are subject to income tax of 44% based on its deemed profit or at 18% based on its gross income (2008: 44% or 18%, respectively). The Group's drilling activities in Tunisia are subject to income tax of 35% (2008: not applicable), based on its taxable income. The Group's taxes pertaining to drilling activities in Saudi Arabia are borne by the customer. The Group's drilling activities in Dubai are not subject to any income tax.

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

| | **Group** | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB'000*** | *RMB'000* |
| Hong Kong profits tax | **–** | – |
| Overseas income taxes: | | |
| Current income taxes | **116,811** | 67,928 |
| Deferred income taxes | **10,922** | 65,187 |
| PRC corporate income taxes: | | |
| Current income taxes | **412,487** | 25,671 |
| Deferred income taxes | **84,062** | 46,259 |
| Total tax charge for the year | **624,282** | 205,045 |

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:

| | **2009** | | 2008 | |
|---|---|---|---|---|
| | ***RMB'000*** | ***%*** | *RMB'000* | *%* |
| Profit before tax | **3,759,599** | | 3,307,286 | |
| Tax at the statutory tax rate of 25% (2008: 25%) | **939,900** | **25.0** | 826,822 | 25.0 |
| Tax refund/reduction as an advanced technology enterprise | | | | |
| – current year | **(310,687)** | **(8.3)** | (220,793) | (6.7) |
| – prior year | **–** | **–** | (524,005) | (15.8) |
| Income not subject to tax | **(1,008,967)** | **(26.8)** | (145,377) | (4.4) |
| Expenses not deductible for tax | **556,155** | **14.8** | 40,994 | 1.2 |
| Tax benefit for qualifying research and development expense | **(28,761)** | **(0.8)** | (14,735) | (0.4) |
| Effect of different tax rates for overseas subsidiaries | **(134,124)** | **(3.6)** | 63,165 | 1.9 |
| Unrecognised tax losses | **–** | **–** | 464,173 | 14.0 |
| Utilisation of previous unrecognised tax losses | **(475,416)** | **(12.6)** | – | – |
| Translation adjustment* | **1,057,765** | **28.1** | (311,388) | (9.4) |
| Others | **28,417** | **0.8** | 26,189 | 0.8 |
| Total tax charge at the Group's effective rate | **624,282** | **16.6** | 205,045 | 6.2 |

The share of tax attributable to jointly-controlled entities amounting to approximately RMB62,091,000 (2008: RMB58,277,000) is included in "Share of profits of jointly-controlled entities" on the face of the consolidated income statement.

* Translation adjustment includes the tax effect of differences arising from foreign exchange effects to Norwegian Krone ("NOK"), 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.

## 7. DIVIDENDS

| | **2009** | 2008 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| Proposed final dividend-RMB0.14 per ordinary share (2008: RMB0.14 per ordinary share) | **629,345** | 629,345 |

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.

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.

Pursuant to the State Administration of Taxation Circular Guoshuihan [2008] Number 897, the Company is required to withhold a 10% enterprise income tax when it distributes dividends to its non-resident enterprise shareholders out of profit earned in 2008 and beyond. In respect of all shareholders whose names appear on the Company's register of members who are not individuals, which are considered as non-resident enterprise shareholders, the Company will distribute the dividend after deducting enterprise income tax of 10%.

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

The calculation of basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the parent of approximately RMB3,135,317,000 (2008: RMB3,102,241,000), and the weighted average number of ordinary shares of 4,495,320,000 (2008: 4,495,320,000) in issue during the year.

There were no potentially diluting events for the years ended 31 December 2009 and 2008.

## 9. PROPERTY, PLANT AND EQUIPMENT

**Group**

**31 December 2009**

| | **Tankers and vessels** *RMB'000* | **Drilling rigs** *RMB'000* | **Machinery and equipment** *RMB'000* | **Motor vehicles** *RMB'000* | **Buildings** *RMB'000* | **Construction in progress** *RMB'000* | **Total** *RMB'000* |
|---|---|---|---|---|---|---|---|
| At 31 December 2008 and at 1 January 2009 (Restated): | | | | | | | |
| Cost | 6,854,488 | 23,001,543 | 6,937,370 | 70,761 | 39,089 | 15,428,951 | 52,332,202 |
| Accumulated depreciation | (3,674,125) | (5,773,760) | (2,492,421) | (40,229) | (6,456) | – | (11,986,991) |
| Net carrying amount | 3,180,363 | 17,227,783 | 4,444,949 | 30,532 | 32,633 | 15,428,951 | 40,345,211 |
| At 1 January 2009, net of accumulated depreciation | 3,180,363 | 17,227,783 | 4,444,949 | 30,532 | 32,633 | 15,428,951 | 40,345,211 |
| Additions | – | 283,420 | 644,022 | 2,156 | – | 7,478,546 | 8,408,144 |
| Depreciation provided during the year | (316,126) | (1,327,819) | (1,120,587) | (7,514) | (2,089) | – | (2,774,135) |
| Disposals/write-offs | (17,260) | (668) | (10,760) | (2,653) | (347) | – | (31,688) |
| Transfers from/(to) construction in progress ("CIP") | 1,978,119 | 4,872,259 | 1,020,722 | 8,726 | 32,018 | (7,911,844) | – |
| CIP transfers to intangible assets | – | – | – | – | – | (18,570) | (18,570) |
| Impairment | – | – | – | – | – | (819,889) | (819,889) |
| Exchange realignment | (47) | (12,321) | (168) | (2) | – | (9,993) | (22,531) |
| At 31 December 2009, net of accumulated depreciation and impairment | 4,825,049 | 21,042,654 | 4,978,178 | 31,245 | 62,215 | 14,147,201 | 45,086,542 |
| At 31 December 2009 | | | | | | | |
| Cost | 8,608,113 | 28,129,569 | 8,474,399 | 77,860 | 70,439 | 14,966,585 | 60,326,965 |
| Accumulated depreciation and impairment | (3,783,064) | (7,086,915) | (3,496,221) | (46,615) | (8,224) | (819,384) | (15,240,423) |
| Net carrying amount | 4,825,049 | 21,042,654 | 4,978,178 | 31,245 | 62,215 | 14,147,201 | 45,086,542 |

Group

31 December 2008

| | Tankers and vessels | Drilling rigs | Machinery and equipment | Motor vehicles | Buildings | Construction in progress | Total |
|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| | | *(Restated)* | | | | *(Restated)* | *(Restated)* |
| At 31 December 2007 and at 1 January 2008: | | | | | | | |
| Cost | 6,022,002 | 6,695,650 | 4,663,866 | 62,185 | 38,882 | 3,665,892 | 21,148,477 |
| Accumulated depreciation | (3,478,551) | (4,694,426) | (1,821,661) | (32,040) | (3,794) | – | (10,030,472) |
| Net carrying amount | 2,543,451 | 2,001,224 | 2,842,205 | 30,145 | 35,088 | 3,665,892 | 11,118,005 |
| At 1 January 2008, net of accumulated depreciation | 2,543,451 | 2,001,224 | 2,842,205 | 30,145 | 35,088 | 3,665,892 | 11,118,005 |
| Acquisition of a subsidiary (Note 22) | – | 11,945,825 | 7,025 | – | – | 12,235,698 | 24,188,548 |
| Additions | – | 37,765 | 1,056,548 | 9,008 | 207 | 5,466,294 | 6,569,822 |
| Depreciation provided during the year | (243,553 ) | (527,853 ) | (720,956 ) | (10,071) | (2,662 ) | – | (1,505,095) |
| Disposals/write-offs | (44,869 ) | – | (19,822 ) | (432 ) | – | – | (65,123 ) |
| Transfers from/(to) construction in progress ("CIP") | 931,223 | 3,739,340 | 1,285,055 | 2,210 | – | (5,957,828) | – |
| CIP transfers to intangible assets | – | – | – | – | – | (8,497) | (8,497) |
| CIP transfers to a jointly-controlled entity | – | – | – | – | – | (5,636) | (5,636) |
| Exchange realignment | (5,889) | 31,482 | (5,106) | (328) | – | 33,028 | 53,187 |
| At 31 December 2008, net of accumulated depreciation | 3,180,363 | 17,227,783 | 4,444,949 | 30,532 | 32,633 | 15,428,951 | 40,345,211 |
| At 31 December 2008 | | | | | | | |
| Cost | 6,854,488 | 23,001,543 | 6,937,370 | 70,761 | 39,089 | 15,428,951 | 52,332,202 |
| Accumulated depreciation | (3,674,125) | (5,773,760) | (2,492,421) | (40,229) | (6,456) | – | (11,986,991) |
| Net carrying amount | 3,180,363 | 17,227,783 | 4,444,949 | 30,532 | 32,633 | 15,428,951 | 40,345,211 |

**Impairment of property, plant and equipment**

An impairment loss of US$120,000,000 (approximately RMB819,889,000) was recognised in June 2009 when preparing the 2009 interim financial information of the Group 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. The management of the Company performed a further impairment assessment when preparing these financial statements. Based on the assessment, the management of the Company believes that no further provision for impairment loss is required. The impairment loss has been classified under the segment of drilling services in Note 3 to the financial statements. The recoverable amount was calculated based on the respective asset's 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.

## 10. GOODWILL

| Group | 2009 RMB'000 |
|---|---|
| Cost at 1 January 2009, net of accumulated impairment | **4,604,785** |
| Exchange realignment | **(4,312)** |
| Cost and carrying value at 31 December 2009 | **4,600,473** |
| Cost | **4,604,785** |
| Exchange realignment | **(4,312)** |
| Net carrying amount | **4,600,473** |

| | 2008 RMB'000 (Restated) |
|---|---|
| Cost at 1 January 2008, net of accumulated impairment | – |
| Acquisition of a subsidiary | 4,596,484 |
| Exchange realignment | 8,301 |
| Cost and carrying value at 31 December 2008 | 4,604,785 |
| Cost | 4,596,484 |
| Exchange realignment | 8,301 |
| Net carrying amount | 4,604,785 |

**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 pre-tax discount rate applied to the cash flow projections is 9.5%, and the cash flow over a 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 2009. 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.

## 11. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB'000*** | *RMB'000* |
| Prepayments | **528,233** | 1,281,549 |
| Deposits | **54,316** | 76,407 |
| Other receivables | **180,282** | 150,688 |
| | **762,831** | 1,508,644 |
| Less: Provision for impairment of other receivables | **(7,331)** | (2,788) |
| | **755,500** | 1,505,856 |

## 12. ACCOUNTS RECEIVABLE

The general credit terms of the Group range from 30 to 45 days upon the issuance of 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 receivable. All accounts receivable are non-interest-bearing.

An aged analysis of the accounts receivable as at the end of the reporting period, based on the invoiced date, is as follows:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB'000*** | *RMB'000* |
| Outstanding balances aged: | | |
| Within one year | **3,815,901** | 2,777,864 |
| One to two years | **13,700** | 7,751 |
| Two to three years | **5,697** | 278 |
| Over three years | **2,440** | 2,441 |
| | **3,837,738** | 2,788,334 |
| Less: Provision for impairment of accounts receivable | **(92,191)** | (53,309) |
| | **3,745,547** | 2,735,025 |

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

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB'000*** | *RMB'000* |
| At 1 January | **53,309** | 4,798 |
| Impairment losses recognised | **88,211** | 49,215 |
| Impairment losses reversed | **(49,326)** | (482) |
| Exchange realignment | **(3)** | (222) |
| At 31 December | **92,191** | 53,309 |

The provision for impairment of accounts receivable as at 31 December 2009 mainly represents provision against individually impaired receivables with an aggregate carrying amount of approximately RMB181,881,000 (2008: RMB58,451,000). The Group does not hold any collateral or other credit enhancements over these balances.

As at 31 December 2008 and 2009, 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 Company's accounts receivable at 31 December 2009 was an amount due from its subsidiaries of approximately RMB1,113,885,000 (2008: RMB1,498,958,000) which is unsecured, non-interest-bearing and repayable on similar credit terms to those offered to the major customers of the Group.

## 13. NOTES RECEIVABLE

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB'000*** | *RMB'000* |
| Trade acceptances | **427,108** | 338,270 |
| Banker's acceptances | **2,550** | 16,600 |
| | **429,658** | 354,870 |

## 14. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB'000*** | *RMB'000* |
| Cash and balances with banks | **2,959,033** | 3,885,093 |
| Deposit with CNOOC Finance Corporation Ltd. ("CNOOC Finance") | **541,962** | 539,821 |
| Time deposits at banks | **800,000** | 270,923 |
| Cash and balances with banks and financial institutions | **4,300,995** | 4,695,837 |
| Less: | | |
| Pledged time deposits – current | **(247,311)** | (53,768) |
| Pledged time deposits – non-current | **(39,081)** | (78,235) |
| Cash and cash equivalents | **4,014,603** | 4,563,834 |

At the end of the reporting period, the cash and bank balances and time deposits at banks of the Group denominated in RMB amounted to approximately RMB1,863,224,000 (2008: RMB2,651,255,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorised to conduct foreign exchange business.

As at 31 December 2009, included in the time deposits at banks of the Group were non-pledged time deposits with original maturity of more than three months when acquired of approximately RMB800,000,000 (2008: RMB268,346,000).

Cash at banks earns interest based on daily bank deposit rates. Time deposits are made for varying periods of between seven days and three months depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates.

## 15. TRADE AND OTHER PAYABLES

An aging analysis of the trade and other payables as at the end of the reporting period is as follows:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB'000*** | ***RMB'000*** |
| Outstanding balances aged: | | |
| Within one year | **3,635,281** | 3,128,752 |
| One to two years | **475,749** | 288,836 |
| Two to three years | **87,226** | 2,847 |
| Over three years | **25,716** | 10,456 |
| | **4,223,972** | 3,430,891 |

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 2009, included in trade and other payables was a balance for a research and development subsidy of approximately RMB44.21million (2008: RMB54.18 million).

## 16. 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 a two year 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 2009 was measured at HK$2.01 per share. The fair value of the rights is calculated using the Black-Scholes model with the following assumptions: expected dividend yield of 1.71%, expected life of two years, expected volatility of 78.58% and a risk-free interest rate of 0.55%. The fair value is expensed over the period until vesting with recognition of a corresponding liability. The liability is measured at the end of the reporting period 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 RMB553,000 for the year ended 31 December 2009, and was recorded in salary and bonus payables under general and administrative expenses:

| | | **Shares granted** | **At 1 January 2009** | **Addition** | **Lapse** | **At 31 December 2009** |
|---|---|---|---|---|---|---|
| | | | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Chief Executive Officer and President | Yuan Guangyu* | 964,200 | 1,402 | 111 | (233) | 1,280 |
| President | Li Yong | 704,300 | 1,024 | 81 | (171) | 934 |
| Executive Vice President and Chief Financial Officer | Zhong Hua | 704,300 | 1,024 | 81 | (171) | 934 |
| Executive Vice President and Secretary of Board of Directors, Chief Strategy Officer | Chen Weidong | 704,300 | 1,024 | 81 | (171) | 934 |
| Senior Vice President | Li Xunke | 656,900 | 955 | 76 | (159) | 872 |
| Supervisor | Tang Daizhi** | 656,900 | 282 | – | – | 282 |
| Vice President | Xu Xiongfei | 609,100 | 885 | 71 | (149) | 807 |
| | | 5,000,000 | 6,596 | 501 | (1,054) | 6,043 |

* Mr. Yuan Guangyu resigned as Chief Executive Officer and President of the Company in 2009. According to the terms of the SAR Plan, he had completed the two years service period and all share appreciation rights granted have been fully vested.

** Mr. Tang Daizhi resigned as Supervisor of the Company in 2007. 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.

## 17. DEFERRED TAX LIABILITIES

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

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB'000*** | *RMB'000* |
| | | (Restated) |
| Balance at beginning of the year | **1,697,132** | 235,569 |
| Acquisition of a subsidiary during the year (Note 22) | **–** | 1,385,001 |
| Charged to the consolidated income statement during the year (Note 6) | **94,984** | 111,446 |
| Exchange realignment | **(1,327)** | (34,884) |
| Balance at end of year | **1,790,789** | 1,697,132 |

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

**Group**

| | Balance at 1 January 2008 | Acquisition of a subsidiary (Restated) (Note 22) | Recognised in consolidated income statement | Exchange realignment | Balance at 31 December 2008 (Restated) | Balance at 1 January 2009 | Recognised in consolidated income statement | Exchange realignment | Balance at 31 December 2009 |
|---|---|---|---|---|---|---|---|---|---|
| | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* | *RMB'000* |
| Deferred tax assets: | | | | | | | | | |
| Provision for staff bonus | (111,101) | – | (1,451) | – | (112,552) | (112,552) | (2,022) | – | (114,574) |
| Accelerated amortisation | – | – | (1,135) | – | (1,135) | (1,135) | 1,135 | – | – |
| Accrued liabilities | – | (3,334) | (194) | (6) | (3,534) | (3,534) | (72,780) | 34 | (76,280) |
| Tax loss carried forward | – | (101,545) | 73,345 | (1,100) | (29,300) | (29,300) | 12,875 | 20 | (16,405) |
| Others | – | (9,212) | (10,194) | 97 | (19,309) | (19,309) | (9,778) | 22 | (29,065) |
| Deferred tax liabilities: | | | | | | | | | |
| Accelerated depreciation | 216,345 | 350,420 | 113,237 | (38,747) | 641,255 | 641,255 | 121,864 | 3,841 | 766,960 |
| Revaluation surplus on reorganisation | 130,325 | – | (30,075) | – | 100,250 | 100,250 | (42,105) | – | 58,145 |
| Fair value adjustment arising from acquisition of a subsidiary | – | 1,140,926 | (25,884) | 4,781 | 1,119,823 | 1,119,823 | 3,855 | (5,219) | 1,118,459 |
| Others | – | 7,746 | (6,203) | 91 | 1,634 | 1,634 | 81,940 | (25) | 83,549 |
| Net deferred tax liabilities | 235,569 | 1,385,001 | 111,446 | (34,884) | 1,697,132 | 1,697,132 | 94,984 | (1,327) | 1,790,789 |

At 31 December 2009, there was no significant unrecognised deferred tax liability (2008: Nil) for taxes that would be deducted from the unremitted earnings or cash of certain of the Group's subsidiaries or jointly-controlled entities should such amounts be remitted.

The Group has tax losses arising in Norway of approximately RMB3,476,354,000 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.

## 18. INTEREST-BEARING BANK BORROWINGS

**Group**

Current:

| | Contractual interest rate *(%)* | Year of maturity | **31 December 2009** ***RMB'000*** | 31 December 2008 *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 | | | **283,081** | 943,020 |
| | | | **283,081** | 7,778,617 |

Non-current:

| | Contractual interest rate *(%)* | Year of maturity | **31 December 2009** ***RMB'000*** | 31 December 2008 *RMB'000* |
|---|---|---|---|---|
| Bank loans-unsecured (a) | i | 2013 | **544,000** | 744,000 |
| Bank loans-unsecured (b) | ii | 2017 | **356,000** | 400,000 |
| Bank loans-unsecured (c) | LIBOR+170pts | 2020 | **5,462,560** | 5,467,680 |
| Bank loans-unsecured (d) | iii | 2015 | **450,000** | – |
| Bank loans-unsecured (e) | LIBOR+138pts | 2017 | **10,777,455** | – |
| Bank loans-unsecured (f) | LIBOR+90pts | 2017 | **5,369,024** | – |
| Bank loans-unsecured (f) | LIBOR+90pts | 2017 | **4,096,920** | – |
| Headquarter entrusted loan-unsecured (g) | 3.71% | 2011 | **800,000** | – |
| Headquarter entrusted loan-unsecured (g) | iv | 2012 | **500,000** | – |
| Syndicated bank loan-secured | LIBOR+170pts | 2010 | **–** | 3,189,503 |
| Bank loans-secured | LIBOR+162.5 pts | 2010 | **–** | 6,725,859 |
| Bank loans-secured | LIBOR+162.5 pts | 2019 | **–** | 654,071 |
| Bank loans-secured (h) | 3.20% | 2011 | **78,162** | 117,353 |
| | | | **28,434,121** | 17,298,466 |
| Less: current portion of long term loan | | | **(283,081)** | (943,020) |
| | | | **28,151,040** | 16,355,446 |

i Market interest rate of 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 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 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.

(a) The Group borrowed a RMB denominated bank loan 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.

(b) The Group borrowed a RMB400 million loan which 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.

(c) The Group borrowed a US$800 million loan of which the repayment will start on 2 September 2011, with installments amounting to US$42.1 million bi-annually.

(d) The Group borrowed a RMB450 million loan of which the repayment will start on 7 April 2011, with installments amounting to RMB90 million annually.

(e) The Group borrowed a US$1,580 million loan of which the repayment will start on 14 May 2012 over eleven instalments, paid bi-annually.

(f) The Group borrowed a US$800 million loan and a US$600 million loan which will be repaid on 24 May 2017 and 21 May 2017, respectively.

(g) The Group obtained entrusted loan facilities amounting to RMB2 billion and RMB1 billion which will be repaid on 10 June 2011 and 29 June 2012, respectively.

(h) The loan is dominated in United States dollars and is to be repaid in semi-annual installments beginning six months after the loan drawdown date.

| | **Group** | |
|---|---|---|
| | **2009** | 2008 |
| | ***RMB'000*** | *RMB'000* |
| Bank borrowings repayable: | | |
| Within one year, inclusive | **283,081** | 7,778,617 |
| In the second year | **1,460,548** | 9,619,692 |
| In the third to fifth year | **7,753,175** | 2,486,814 |
| Beyond five years | **18,937,317** | 4,248,940 |
| | **28,434,121** | 24,134,063 |

As at 31 December 2009, the carrying amount of the long term bank borrowings approximate their fair values of approximately RMB28,056,182,000 (2008: RMB17,298,466,000), which was the present value of the loans' future cash flows discounted by the prevailing market interest rates quoted by the respective banks.

| **Security** | **31 December 2009** | 31 December 2008 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Drilling rigs pledged | – | 13,531,780 |
| Construction in progress pledged | – | 12,789,664 |
| Total | – | 26,321,444 |

One of the Group's bank loan is secured by a pledged time deposit amounting to RMB78 million. The assets pledged for securities as at 31 December 2008 are mainly pertaining to bank loans which were fully repaid in 2009.

## 19. LONG TERM BONDS

**Group**

| | Year of maturity | **31 December 2009** | 31 December 2008 |
|---|---|---|---|
| | | ***RMB'000*** | *RMB'000* |
| Corporate bonds (a) | 2022 | **1,500,000** | 1,500,000 |
| Senior unsecured US$ bonds (b) | 2011 | **561,979** | 675,949 |
| Second security priority US$ bonds (c) | 2011 | **608,041** | 1,366,649 |
| Senior unsecured NOK bonds (d) | 2010 | – | 485,744 |
| | | **2,670,020** | 4,028,342 |

(a) On 18 May 2007, the Group issued 15-year corporate bonds, with a nominal value of RMB100.00 per bond, amounting to RMB1,500 million. 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.

(b) COSL Drilling Europe AS issued the bonds in February 2006, with a book value of US$100 million. The bonds 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. During the year, part of the bonds were redeemed by the Group.

(c) COSL Drilling Semi AS (formerly known as "Offrig Drilling ASA") issued the bonds in April 2006, with 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 bonds. The bonds carry a fixed coupon rate of 9.75% and have a five year bullet maturity. During the year, part of the bonds were redeemed by the Group. The bond is secured by construction in progress amounting to RMB4,674 million.

(d) COSL Drilling Europe AS issued the bonds in July 2007, with a book value of NOK 500 million, and an interest rate of NIBOR+2.25%. The bullet maturity is three years. The bonds were fully redeemed during the year.

## 20. DEFERRED REVENUE

| | 2009 | 2008 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | | (Restated) |
| Balance at beginning of the year | **1,858,302** | – |
| Acquisition of subsidiary during the year (Note 22) | **–** | 1,864,771 |
| Credited to the consolidated income statement during the year | **(1,076,937)** | (10,100) |
| Exchange realignment | **(1,251)** | 3,631 |
| Balance at end of year | **780,114** | 1,858,302 |

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 is amortised according to the related contract period. Included in the amount credited to income during the year is an amount of RMB1,073,098,000 (2008: Nil) arising from the cancellation of a contract during the year.

## 21. ISSUED CAPITAL

| | 2009 | 2008 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| 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 |
| | **4,495,320** | 4,495,320 |

There were no movements in the Company's issued ordinary share capital during the year.

The Company does not have any share option scheme but has a share appreciation rights plan for senior officers (Note 16).

## 22. 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 Company has recognised a preliminary purchase price allocation immediately after its acquisition of CDE in September 2008, and in accordance with HKFRS 3 "Business Combinations", the Company has finalised the purchase price allocation during the year. A comparison of the preliminary and finalised fair value of identified assets and liabilities of CDE is presented below:

| | Notes | Carrying amount RMB'000 | Preliminary fair value recognised RMB'000 | Adjustments RMB'000 | Finalised fair value recognised RMB'000 |
|---|---|---|---|---|---|
| Property, plant and equipment | 9 | 13,732,107 | 25,698,994 | (1,510,446) | 24,188,548 |
| Intangible assets | | – | 253,034 | – | 253,034 |
| Cash and cash equivalents | | 447,197 | 447,197 | – | 447,197 |
| Pledged time deposits | | 117,073 | 117,073 | – | 117,073 |
| Other assets | | 815,671 | 815,671 | – | 815,671 |
| Interest-bearing bank borrowings | | (6,720,121) | (7,760,577) | – | (7,760,577) |
| Trade and other payables | | (541,664) | (541,664) | – | (541,664) |
| Long term bonds | | (2,615,202) | (2,615,202) | – | (2,615,202) |
| Deferred tax liabilities | 17 | (244,075) | (2,116,871) | 731,870 | (1,385,001) |
| Deferred revenue | 20 | – | (1,519,104) | (345,667) | (1,864,771) |
| Other non-current liabilities | | (47,848) | (47,848) | – | (47,848) |
| Other liabilities | | (1,149,170) | (108,714) | – | (108,714) |
| Total net assets acquired | | 3,793,968 | 12,621,989 | (1,124,243) | 11,497,746 |
| Goodwill on acquisition | 10 | | 3,472,241 | 1,124,243 | 4,596,484 |
| Satisfied by cash | | | 16,094,230 | – | 16,094,230 |

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

| | RMB'000 |
|---|---|
| Cash consideration | 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 | 15,647,033 |

If the combination had taken place at the beginning of 2008, the net profit of the Group for the year ended 31 December 2008 would have been RMB3,323.9 million and the revenue would have been RMB14,664.9 million.

The comparative figures of the consolidated financial statements were restated based on the finalised purchase price allocation in accordance with HKFRS 3, Business Combinations.

## MANAGEMENT DISCUSSION & ANALYSIS

## INDUSTRY REVIEW

In 2009, the financial crisis swept across the world, the investment in global oil and natural gas exploration experienced the first reduction in 10 years. The survey results of the International Energy Agency (IEA) showed that the 2009 investment of the top 50 oil companies in the world decreased by 14% from 2008. The reduction in upstream investment affected the whole oilfield services sector. In 2009, the total global market value reduced by 16% and the overall global drilling rig market contract signing rate reduced by 9.1%, and the average day rate of drilling rigs reduced by 28.4% on a year-to-year basis. Due to the Chinese government's active and effective fiscal stimulus policy and economic fine tuning measures, as well as the increased capital expenditure of the oil company in China offshore, the trend of offshore exploration and production in 2009 had not changed.

## BUSINESS REVIEW

### Drilling Services Segment

***COSL is the major supplier of China offshore drilling services, also an important participant of the international drilling services. We mainly provide services such as drilling, module rigs, land drilling rigs and drilling rigs management. As of the end of 2009, we operated and managed a total of 27 drilling rigs (of which 23 are jack-up drilling rigs (one leased), and 4 are semi-submersible drilling rigs (one managed)), 2 accommodation rigs, 4 module rigs and 6 land drilling rigs.***

In 2009, demand for oilfield services in the global market declined significantly. COSL sought for development in the crisis and seized favorable opportunities in domestic exploration and development. We have developed the overseas markets steadily and continued to solidify our leading position in the offshore drilling market in the PRC with increased market share. We have also proceeded with the integration of COSL Drilling Europe AS ("CDE") steadily and maintained high utilization rate on our drilling equipment. In 2009, benefited from CDE's highly effective operation and equipment usage, turnover of our drilling service operation recorded a significant increase of 67.1% to RMB9,891.8 million.

As of the end of 2009, we had 12 drilling vessels operating in Bohai of China, 5 in South China Sea, 3 in overseas countries such as Saudi Arabia and Australia, etc, while 4 vessels were being mobilized to their new assignments destinations. At the same time, we also provided management services for 1 semi-submersible drilling rig for overseas customers. Besides, 2 newly built drilling vessels were on the last stage of pre-operation preparation, and were expected to start to provide drilling services for customers at the beginning of 2010. 2 accommodation rigs continued to provide the relevant services for customers in the North Sea. As for drilling equipment, we had altogether 4 module rigs working in the Mexican waters, 5 land drilling rigs working in Libya, 1 land drilling rig working in Xinjiang of China. The Group also had three 2,500 feet semi-submersible drilling rigs and four 200 feet jack-up drilling rigs under construction. It is expected that the service capability of the drilling business will be further enhanced once the construction of these facilities are completed.

2009 operation details of our jack-up and semi-submersible drilling rigs are as follows:

| | 2009 | 2008 | Increase/ (Decrease) | Percentage change |
|---|---|---|---|---|
| **Operating days (day)** | **8,155** | **5,654** | **2,501** | **44.2%** |
| Jack-up drilling rigs | 7,089 | 4,556 | 2,533 | 55.6% |
| Semi-submersible drilling rigs | 1,066 | 1,098 | (32) | (2.9%) |
| **Available day utilization rate** | **98.9%** | **100.0%** | **(1.1%)** | |
| Jack-up drilling rigs | 98.7% | 100.0% | (1.3%) | |
| Semi-submersible drilling rigs | 100.0% | 100.0% | 0.0% | |
| **Calendar day utilization rate** | **95.0%** | **92.7%** | **2.3%** | |
| Jack-up drilling rigs | 94.7% | 91.1% | 3.6% | |
| Semi-submersible drilling rigs | 97.4% | 100.0% | (2.6%) | |

The reasons for the increase by 2,533 days operation of jack-up rigs compared with the same period last year were that, firstly, the operating days of CDE increased by 2,073 days. This is mainly because in the previous year, only the 4th quarter operation of CDE was consolidated, while this year the whole year's operation was consolidated, also CDE had 2 jack-up rigs which commenced production such that the number of its jack-up rigs increased to 8 vessels from 6 vessels of the previous year. Secondly, the reduction in the number of days of repair and maintenance of the existing jack-up rigs of the Group (excluding CDE) (15 vessels) and the increased number of days of operation of COSL942 for the whole year had contributed to the increase of operating days of 460 days.

The operation of semi-submersible drilling rigs decreased by 32 days compared with the same period last year mainly because the number of days of repair and maintenance for the year increased by 29 days, plus there were 3 calendar days less than last year.

In 2009, the calendar day utilization rate of the drilling vessel team increased by 2.3% compared with the same period last year and reached 95.0% due to the reduction in the number of days of repair and maintenance.

In 2009 we continued to provide the services of 4 module rigs for the Mexican clients, which brought 1,423 days of operation for the whole year and the calendar day utilization rate reached 97.5%. As for the land drilling rigs, driven by the good operation of the drilling rigs last year, we delivered 2 additional land drilling rigs providing services to Libya clients this year. So far, the 6 land drilling equipment owned by the Group brought a total of 2,051 days of operation, and the calendar day utilization rate and available day utilization rate both reached 100.0%.

Despite the tremendous pressure on the oilfield services sector in 2009 resulting from the global economic environment, the average day rate of drilling rigs of the Group still maintained at the same level compared with the same period last year and recorded a slight increase due to the day rate of CDE drilling rigs. The details are as follows:

| **Average day rate (ten thousand US$/day)** | **2009** | **2008** | **Increase/ (Decrease)** | **Percentage change** |
|---|---|---|---|---|
| Jack-up drilling rigs | 12.0 | 11.6 | 0.4 | 3.4% |
| Semi-submersible drilling rigs | 18.8 | 17.9 | 0.9 | 5.0% |
| Accommodation rigs | 19.6 | 16.7 | 2.9 | 17.4% |
| Average | 13.4 | 12.9 | 0.5 | 3.9% |

*Note:* 31 December 2009 US$/RMB exchange rate: 1:6.8282, 31 December 2008 US$/RMB exchange rate: 1:6.8346.

**Well Services Segment**

***We possess over 30 years of experiences in offshore well services operation and over 20 years of experiences in onshore well services operation. Also, we are the main provider of China offshore well services together with the provision of on-shore well services. Our major clients for well services include 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 continuous input in technology research and development, advanced technological facilities and an excellent management team, we provide comprehensive professional well services to clients, including (but not limited to) logging, drilling & completion fluids, directional drilling, cementing, well completion, well workover, oilfield production optimization etc.***

In 2009, the cementing and well completion services had entered into the domestic onshore oilfield market, and the directional drilling project services had entered into the overseas market. The ELIS logging equipment that we developed were sold to external customers on a full set basis for the first time. At the same time, we made some achievements in technological research and development and commercialization for well services. In 2009, the Cross Dipole Array Acoustic Tool logging equipment were officially included in the ELIS logging system, and successful offshore operation was achieved, symobolizing that the ELIS logging system had reached the international advanced standard. After connected application with the ELIS system, the ERCT (Enhanced Reservior Characteristic Tester) further enhanced the service functions of the ELIS logging system. ERMI (Enhanced Resistivity Micro-Imager) logging equipment that we developed ourselves succeeded in the experimental well testing for electrical imaging tool in Liaohe oilfield, which filled up our gap of the logging technology in high-end electronic imaging.

In 2009, through continuous exploration of new markets, increase in the proportion of technological contents of our services and the rise in operation volume due to the addition of 5 new drilling rigs in China (COSLCraft/Boss/Seeker/Confidence/Superior), the well services segment recorded a turnover of RMB4,416.7 million, increased by RMB1,684.1 million from RMB2,732.6 million of the same period last year, representing an increase of 61.6%.

**Marine Support and Transportation Services Segment**

***We possess and operate the largest and most comprehensive offshore utility transportation fleet in China. As of 31 December 2009, the Group owned an aggregate of 80 utility vessels of various types, 3 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 2009, the marine support and transportation services segment maintained the leading position in offshore China and also actively explored new business areas. At the beginning of the year, we signed a contract with customer in relation to deep water drilling marine support services, marking the start of marine support services in the deep waters. Three workover support barges commenced operation and provided services to the client. This brought an important breakthrough in the overseas market and accumulated experience for the exploration and development of overseas market in the future.

In 2009, the Group had 10 utility vessels and 3 workover support barges joining the fleet, thus the fleet structure was further improved. At the same time, 8 utility vessels were scrapped due to old age. So far, the Group has 80 owned vessels, that means 5 more compared with the end of last year, including 49 standby vessels, 19 AHTS vessels, 5 platform supply vessels, 4 multi-purpose vessels and 3 workover support barges.

The operation of the Group's owned vessels in 2009 was as follows:

| **Operating days (day)** | **2009** | **2008** | **Increase/ (Decrease)** | **Percentage change** |
|---|---|---|---|---|
| Standby vessels | 16,433 | 13,048 | 3,385 | 25.9% |
| AHTS vessels | 6,787 | 7,186 | (399) | (5.6%) |
| Platform supply vessels | 1,759 | 1,864 | (105) | (5.6%) |
| Multi-purpose vessels | 1,949 | 1,528 | 421 | 27.6% |
| Workover support barges | 774 | – | 774 | – |
| Total | 27,702 | 23,626 | 4,076 | 17.3% |

The operation of self-owned fleet increased by 4,076 days compared with the same period of last year mainly because there were 13 new utility vessels for the year which increased operation by 2,677 days and the operation of 8 utility vessels which commenced in the second half of last year increased by 2,579 days for the year. This year there were 8 utility vessels scrapped, reducing operation by 498 days. The operation of other vessels reduced by 682 days because of increase in days of repair and non-operational navigation. Since the operation rate of new vessels was not high in 2009, the calendar day utilization rate of the Group's owned fleet was 93.4%, or a 1.4% decrease compared with the same period last year.

The total transportation volume of oil tankers and chemical carriers for the year increased due to the improvement of operation rate, of which, the transportation volume of oil tankers was 1.413 million tonnes, or an increase of 38.4% from 1.021 million tonnes from the same period of last year, the transportation volume of chemical carriers was 1.098 million tonnes, or an increase of 4.3% from 1.053 million tonnes from the same period of last year.

Driven by the improvement of operation capability of new equipment and active utilization of external resources, the marine support and transportation services segment achieved a turnover of RMB2,171.3 million, increased by RMB557.4 million from RMB1,613.9 million from the same period of last year, or an increase of 34.5%.

**Geophysical Services Segment**

***We are a major supplier of China offshore geophysical services. 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.***

In 2009, the turnover of the geophysical services of the Group amounted to RMB1,398.9 million. It is decreased by RMB477.6 million from RMB1,876.5 million of the same period last year, representing an decrease of 25.5%. The main reason was that the operation volume reduced due to market changes.

**Seismic Services**

Due to the global financial crisis, international oil prices stayed at a low level in 2009. The oil companies reduce their upstream exploration investment and the seismic data collection services under the geophysical services segment were the first which suffered. Therefore, there was a certain degree of reduction of operation volume for the data collection and data processing businesses of the Group for the year. The details are as follows:

| **Services** | **2009** | **2008** | **Increase/ (Decrease)** | **Percentage change** |
|---|---|---|---|---|
| 2D collection (km) | 33,900 | 49,448 | (15,548) | (31.4%) |
| 2D processing (km) | 22,588 | 23,402 | (814) | (3.5%) |
| 3D collection ($km^2$) | 10,394 | 13,592 | (3,198) | (23.5%) |
| 3D processing ($km^2$) | 7,951 | 8,382 | (431) | (5.1%) |

The operation volume of 2D collection business reduced by 15,548 km compared with the same period of last year, which was principally attributable to the reduction in demand in the market as well as the reduction in operation volume of BH518, NH502 by 16,693 km due to repair and upgrade enhancements. The operation volume of 3D collection business reduced by 3,198 $km^2$ compared with the same period of last year. It was principally attributable to the the fact that COSL718 was affected by the market environment and the overseas contracts were cancelled by oil companies (overseas operation were 2,302 $km^2$ for the same period of last year). Also the operation volume was reduced by 2,215 $km^2$ because of mooring for repair and maintenance. Besides, BH512 were under repair and maintenance at the beginning of the year, and it mainly carried out 2D data collection services this year such that the operation volume decreased by 559 $km^2$ compared with the same period last year.

The operation volume of data processing services did not record a large decrease thanks to the stability in the domestic market, of which 2D data processing business only decreased by 3.5% and the 3D data processing business decreased by 5.1%.

**Surveying Services**

The 2009 surveying services recorded a revenue of RMB301.6 million, increased by RMB36.2 million compared with a revenue of RMB265.4 million from the same period last year, or an increase of 13.6%. The major reason was that this year we actively explored the markets and obtained the contract of deepwater surveying of Liwan.

**Integrated Project Management**

In 2009, the Group's integrated services made a breakthrough amid the depression in the sector. The integrated services project is the first into overseas market, providing services such as drilling, logging, mud, and oil testing etc. COSL931 drilled the Lotus-1X Joint Exploration Well, and realized a revenue of RMB200 million. In 2009, the revenue of integrated project management of the Group reached RMB1.01 billion, increased by RMB320 million from the same period of last year, or an increase of 46.4%.

**Overseas Business Expansion**

In 2009, we continued to seek overseas cooperation opportunities actively while strengthening our market share in the domestic market at the same time. We maintained sustainable and steady growth momentum of overseas businesses. By the end of 2009, we had already operated over 30 overseas projects in 16 countries and regions around the world with an aggregate turnover of RMB4,989.0 million (including recognition of deferred income of RMB1,073.1 million), increased by RMB1,945.6 million from RMB3,043.4 million of the same period of last year, or an increase of 63.9%. The ratio of overseas revenue over the turnover of the Group amounted to 27.9%.

For the drilling segment, last year after we had completed the acquisition of CDE Group, our capability to provide services to overseas countries was further enhanced. This year, while we secured the smooth operation of the existing overseas projects – N6 Project operating in Australian waters, 4 module rigs operating in Mexico Gulf, 5 land drilling rigs in Libya, at the same time we signed a 3-year service contract for COSL Strike (jack-up rig) with a UAE client. The marine support and transportation services segment first entered the overseas market and provided the services of 3 workover support barges to Indonesian clients. In the well services segment, a 3-year logging services were provided by our ELIS logging system for a UAE client, whereas new operation contracts for cementing services in Indonesia were obtained. For the geophysical services segment, BH517 navigated to Indonesia to conduct 2D data collection services, while in the domain of data processing, a breakthrough was also obtained whereby we won a contract for data processing from a Congo client.

**Technology and development**

The technology-driven strategy is one of our 4 major strategies. We formulated long term technological development plan for the Group's long term and quality development. In 2009, under the guidelines of the plan, fruity results were obtained in the application of our innovative technology. Successful offshore operation of Cross Dipole Array Acoustic Tool logging equipment was achieved, symbolizing that the ELIS logging system had reached the international advanced standard. After connected application with the ELIS system, the ERCT (Enhanced Reservior Characteristic Tester) further enhanced the service functions of the ELIS logging system. Nanbao 35-2B rig applied the high temperature multi-heat current throughput technology (HTHP Multi-Element Liquid Improving Oil Recovery Technology) to thermal recovery well, substantially enhanced the recovery rate of condensate oil. The application of Nitrogen-Filled Foam Profile Conrol Technology and skill in oilfields showed initial results.

In 2009, the Group was awarded an aggregate of 51 patents, of which 15 were invention patents, and we had valid patents of 162 in total, of which 50 were invention patents.

## FINANCIAL REVIEW

### 1. Income statement analysis

#### *1.1 Revenue*

In 2009, with the challenges coming along with the global financial crisis and the downturn of oilfield services industry, the Group endeavored the integration after the acquisition of CDE. Driven by the enlarged business scale and the commencement of operation of new equipment, our revenue reached a new high, amounting to RMB17,878.7 million, representing an increase of RMB5,735.8 million or 47.2% compared with RMB12,142.9 million for the same period last year. Among that, revenue from drilling services increased by RMB3,971.9 million, mainly due to the full year operation results of the acquired CDE, highly efficient use of new equipment (COSL Confidence, COSL Strike, 2 land drilling rigs), and the operation of COSL942 and 3 land drilling rigs for the full year. Besides, the Company had a recognition of the related deferred revenue of RMB1,073.1 million due to the cancellation of the contract for 1 semi-submersible drilling rig which was under construction. Revenue from well services increased by RMB1,684.1 million, which was attributable to the increase in operation volume due to the development of new markets and the addition of drilling equipment. Benefited from the additional equipment and effective use of external resources, revenue from marine support and transportation services increased by RMB557.4 million. Revenue from geophysical services decreased by RMB477.6 million due to a drop in operation volume.

The following table presents income from various segments:

*Unit: RMB million*

| **Business segment** | **2009** | 2008 | **Change** | **Change %** |
|---|---|---|---|---|
| Drilling | 9,891.8 | 5,919.9 | 3,971.9 | 67.1% |
| Well services | 4,416.7 | 2,732.6 | 1,684.1 | 61.6% |
| Marine support and transportation | 2,171.3 | 1,613.9 | 557.4 | 34.5% |
| Geophysical | 1,398.9 | 1,876.5 | (477.6) | (25.5%) |
| Total | 17,878.7 | 12,142.9 | 5,735.8 | 47.2% |

1.2 *Other revenue*

In 2009, other revenue amounted to RMB95.1 million, compared with RMB48.7 million for the same period last year, representing an increase of 95.4%. This was mainly due to the increase in insurance compensation received of RMB32.2 million compared with the same period last year.

1.3 *Operating expenses*

In 2009, operating expenses of the Group totaled RMB13,505.7 million, representing an increase of RMB4,944.6 million or 57.8% from RMB8,561.1 million for the same period last year.

The table below shows the breakdown of operating expenses for the Group in 2009 and 2008:

*Unit: RMB million*

| | **2009** | 2008 | **Change** | **Change %** |
|---|---|---|---|---|
| Depreciation of property, plant and equipment and amortisation of intangible assets | **2,865.2** | 1,563.5 | 1,301.7 | 83.2% |
| Employee compensation costs | **2,669.6** | 2,106.5 | 563.1 | 26.7% |
| Repair and maintenance costs | **609.4** | 420.3 | 189.1 | 45.0% |
| Consumption of supplies, materials, fuel, services and others | **3,610.0** | 2,720.1 | 889.9 | 32.7% |
| Subcontracting expenses | **884.4** | 542.2 | 342.2 | 63.1% |
| Operating lease expenses | **589.1** | 356.1 | 233.0 | 65.4% |
| Other operating expenses | **1,076.2** | 693.9 | 382.3 | 55.1% |
| Other selling, general and administrative expenses | **381.9** | 158.5 | 223.4 | 140.9% |
| Impairment of property, plant and equipment | **819.9** | – | 819.9 | – |
| Total operating expenses | **13,505.7** | 8,561.1 | 4,944.6 | 57.8% |

Depreciation and amortisation increased by RMB1,301.7 million or 83.2%, due to two reasons. On one hand, there were new additions of large equipment during the year, including two jack-up drilling rigs, namely COSLCofidence and COSLStrike, 10 oilfield utility vessels, 3 workover support barges and 2 land drilling rigs. In addition, the depreciation of the equipment commencing its operation or acquired in 2008 were recognised for the full year, including COSL942 and 6 jack-up drilling rigs of CDE.

Employee compensation costs increased by RMB563.1 million or 26.7%, mainly due to recognition of the full year employee compensation costs of CDE, which resulted in an increase of RMB461.8 million. Last year, only the fourth-quarter employee compensation cost of CDE was recognized after the acquisition. Besides, the employee compensation costs increased alongside with the business growth and the addition of employees.

Repair and maintenance costs increased by RMB189.1 million or 45.0%, mainly due to recognition of the full year repair and maintenance costs of CDE and 72-day repair work of accommodation rigs, which resulted in an increase of RMB187.2 million in the repair and maintenance costs of CDE. Last year, only the fourth-quarter repair and maintenance costs of CDE were recognized after the acquisition and there were no material repair and maintenance.

Consumption of supplies, materials, fuel, services and others increased by RMB889.9 million or 32.7%. The addition of 2 new jack-up drilling rigs and the operation of rigs for the full year led to the increase of the operation volume of drilling services and well services segment, which resulted in an increased consumption cost of RMB895.1 million. Meanwhile, the consumption of materials in marine support and transportation services segment increased by RMB83.9 million due to the new 10 utility vessels during the year whereas the consumption of supplies and fuel in geophysical services segment decreased by RMB 89.1 million due to the decrease in operation volume resulting from the changes in external environment.

Subcontracting expenses increased by RMB342.2 million or 63.1%, mainly due to the increase in subcontract volume as a result of the business expansion of the Group and enlarged market share.

Operating lease expenses increased by RMB233.0 million or 65.4%, due to the increase in the operation volume of well services, which led to an increase in external lease of equipment, resulting in an increase of RMB141.3 million. To meet the market demand, marine support and transportation services segment actively utilize external resources and rented 14 external vessels resulting in an increase of RMB105.2 million. However, the operating lease expenses of geographical segment decreased due to the decreased revenue.

Other operating expenses increased by RMB382.3 million or 55.1%, mainly due to the related provision for default compensation.

Other selling, general and administrative expenses increased by RMB223.4 million or 140.9%, mainly due to the recognition of a provision for litigations.

Impairment of property, plant and equipment of the Group amounted to RMB819.9 million. This was primarily attributable to the fact of the adverse impact of the macroeconomic environment on the industry and the delay in the delivery of the three semi-submersible rigs under construction, the management performed an impairment test on the assets, in accordance with the requirements of the applicable accounting standard, and recognized an asset impairment loss of RMB819.9 million based on the test result.

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

*Unit: RMB million*

| **Business Segment** | **2009** | 2008 | **Change** | **Change %** |
|---|---|---|---|---|
| Drilling | **7,180.2** | 3,812.6 | 3,367.6 | 88.3% |
| Well services | **3,679.9** | 2,281.2 | 1,398.7 | 61.3% |
| Marine support and transportation | **1,531.7** | 1,128.6 | 403.1 | 35.7% |
| Geophysical | **1,113.9** | 1,338.7 | (224.8) | (16.8%) |
| Total | **13,505.7** | 8,561.1 | 4,944.6 | 57.8% |

1.4 *Operating profit*

The operating profit of the Group during the year amounted to RMB4,468.1 million, representing an increase of RMB837.6 million or 23.1% from RMB3,630.5 million for the same period last year. This was primary attributable to the fact of the acquisition of CDE and business expansion, operating profits from drilling services segment, well services segment and marine support and transportation services segment increased by RMB629.6 million, RMB272.5 million and RMB163.0 million respectively while due to the changes within the industry, the operating profit from geophysical services segment decreased by RMB227.5 million.

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

*Unit: RMB million*

| **Business Segment** | **2009** | 2008 | **Change** | **Change %** |
|---|---|---|---|---|
| Drilling | **2,747.5** | 2,117.9 | 629.6 | 29.7% |
| Well services | **743.3** | 470.8 | 272.5 | 57.9% |
| Marine support and transportation | **654.2** | 491.2 | 163.0 | 33.2% |
| Geophysical | **323.1** | 550.6 | (227.5) | (41.3%) |
| Total | **4,468.1** | 3,630.5 | 837.6 | 23.1% |

*1.5 Financial expenses*

The table below shows the breakdown of financial expenses for the Group in 2009:

*Unit: RMB million*

| | **2009** | 2008 | **Change** | **Change %** |
|---|---|---|---|---|
| Exchange loss, net | **92.8** | 91.4 | 1.4 | 1.5% |
| Finance costs | **786.4** | 638.9 | 147.5 | 23.1% |
| Interest income | **(60.4)** | (191.4) | 131.0 | (68.5%) |
| Total | **818.8** | 538.9 | 279.9 | 51.9% |

In 2009, the financial expenses was RMB818.8 million, representing an increase of RMB279.9 million or 51.9% compared with last year, mainly due to the increase in finance cost and the decrease in interest income.

Finance costs of the Group increased by RMB147.5 million, mainly due to the increase in interest expenses of approximately RMB398.7 million, which came along with the additional borrowings, primarily comprising: ① the interest expenses for the loan of US$2.2 billion during the year for the acquisition of CDE Group in September 2008 (only three months for last year); ② the Group's additional borrowing of RMB1.75 billion for its working capital and the construction of land drilling rig in Libya; and ③ the increase in interest expenses as part of the interests from the US$100 million, NOK500 million and RMB1.5 billion bonds ceased to be capitalized and was included in interest expenses following the completion of ten utility vessels and two drilling rigs during the year.

Besides, given that the Group redeemed its NOK500 million senior unsecured NOK bonds and the related cross currency interest swap contract of NOK250 million was cancelled, the realized gain in fair value increased by RMB201.0 million and the loss from changes in fair value decreased by RMB53.0 million.

Interest income decreased by RMB131.0 million, mainly due to the decrease in interest income as a result of the decrease in bank deposits which resulted from the increase in operating expenses in conjunction with the business expansion of the Group.

*1.6 Share of profits and losses from jointly-controlled entities*

In 2009, our share of profits from jointly controlled entities amounted to RMB110.3 million, representing a decrease of RMB105.4 million or 48.9% compared to RMB215.7 million for the same period last year. This was primarily attributable to the fact of the global financial crisis, the share of profits from the 10 jointly-controlled entities of the Group recorded a decrease in profit of RMB123.1 million in total, except for the share of profits from China Nanhai-Magcobar Mud Corporation Ltd. and China Offshore Fugro Geo Solutions (Shenzhen) Company

Ltd., which recorded an increase in profit of RMB17.7 million. Among those companies, the profit from Eastern Marine Services Ltd. decreased most due to a lower rental rate, resulting in a decrease of RMB62.4 million. Due to Atlantis Deepwater Orient Ltd.'s deepwater technology research expenditure, the company's losses increased by RMB24.8 million.

*1.7 Profit before tax*

The profit before tax attained by the Group was RMB3,759.6 million in 2009, representing a growth of RMB452.3 million or 13.7% compared with RMB3,307.3 million for the same period last year.

*1.8 Income tax*

The net income tax expense in 2009 was RMB624.3 million, representing an increase of RMB419.3 million from RMB205.0 million of last year. Firstly, it was attributable to widened income stream of the Group. Secondly, it was due to the fact that, the Company, as an advanced technology enterprise, received tax refund last year for 2007 in the amount of RMB524.0 million. As the Company provided for income tax at the preferential rate of 15% as an advanced technology enterprise in 2008, there were no return of preferential tax for advanced technology enterprise during the year. Meanwhile, as the Group operated in countries with low tax rates, related overseas income tax decreased by approximately RMB180.0 million.

*1.9 Profit after tax*

In 2009, the profit after tax of the Group was RMB3,135.3 million, representing an increase of RMB33.1 million or 1.1% from RMB3,102.2 million of the same period last year.

*1.10 Dividend*

For 2009, the Board proposed a final dividend of RMB0.14 per ordinary share, totaling RMB629.3 million.

## 2. Statement of financial position analysis

Subsequent to the announcement of asset impairment in the interim period, the Group completed the purchase price allocation (PPA) in respect of its acquired assets on 30 September. As such, the Group made retrospective adjustments on the accounting items in the statement of financial position at the beginning of the period. The following table sets out the change of balances of the relevant accounting items before and after the adjustments:

*Unit: RMB million*

| Accounting item | Before adjustment | After adjustment |
|---|---|---|
| Property, plant and equipment | 41,855.7 | 40,345.2 |
| Goodwill | 3,480.5 | 4,604.8 |
| Deferred tax liabilities | 2,429.0 | 1,697.1 |
| Deferred revenue | 1,512.6 | 1,858.3 |

(All data set out in the following analysis for 2008 is after adjustments)

As of 31 December 2009, the total assets of the Group amounted to RMB60,776.5 million, representing an increase of RMB4,575.6 million or 8.1% compared with RMB56,200.9 million at the end of 2008. The total liabilities was RMB38,470.9 million, representing an increase of RMB2,067.8 million or 5.7% compared with RMB36,403.1 million at the end of 2008. The shareholders' equity was RMB22,305.6 million, representing an increase of RMB2,507.8 million or 12.7 % compared with RMB19,797.8 million at the end of 2008. The analysis of reasons for significant changes in the amount of accounting items on the statement of financial position is as follows:

(*Note:* The average exchange rate of 1:6.8312 (US$ to RMB) in 2009 was applied for the changes in US$ set out in the statement of financial position analysis below)

### *2.1 Property, plant and equipment*

As of 31 December 2009, the property, plant and equipment of the Group were RMB45,086.5 million, representing an increase of RMB4,741.3 million or 11.8% compared with RMB40,345.2 million as of the beginning of the year. The increase was mainly due to the fact that the Group continued the construction projects of four jack-up drilling rigs, three semi-submersible drilling rigs, two land drilling rigs, ten oilfield utility vessels and three workover support barges during the year and purchased certain well services equipment and facilities.

### *2.2 Available-for-sale financial assets*

As of 31 December 2009, the available-for-sale financial assets of the Group were RMB19.4 million, representing a decrease of RMB14.9 million or 43.5% compared with RMB34.3 million as of the beginning of the year. The decrease was mainly due to the material decline in the market value of the investment in Petrojack ASA held by CDE, which was deemed to be impaired by the Group. An accumulated impairment amounting to RMB121.5 million was recognized, of which RMB15.0 million was recognized during the year.

*2.3 Pledged time deposits (non-current portion)*

As of 31 December 2009, the non-current portion of pledged time deposits of the Group was RMB39.1 million, representing a decrease of RMB39.1 million or 50.0% compared with RMB78.2 million as of the beginning of the year. The decrease was mainly due to the fact that the pledged deposits of RMB39.1 million was transferred to the pledged time deposits current portion.

*2.4 Prepayments, deposits and other receivables*

As of 31 December 2009, the prepayments, deposits and other receivables of the Group were RMB755.5 million, representing a decrease of RMB750.4 million or 49.8% compared with RMB1,505.9 million as of the beginning of the year. The decrease was mainly due to the transfer of prepayments to construction in progress as the construction project of the 350-feet drilling rig progressed, which resulted in a decrease of RMB753.3 million in prepayments.

*2.5 Accounts receivables*

As of 31 December 2009, the accounts receivables of the Group were RMB3,745.5 million, representing an increase of RMB1,010.5 million or 36.9% compared with RMB2,735.0 million as of the beginning of the year. The increase was mainly due to the increased revenue of the Group and the prolonged average credit term compared with 2008.

*2.6 Pledged deposits (current portion)*

As of 31 December 2009, the current portion of the pledged deposits of the Group were RMB247.3 million, representing an increase of RMB193.5 million or 360.0% compared with RMB53.8 million as of the beginning of the year. The increase was mainly due to the increase in pledged deposits for bank guarantee of RMB 208.2 million.

*2.7 Cash and cash equivalents*

As of 31 December 2009, cash and cash equivalents of the Group were RMB4,014.6 million, representing a decrease of RMB549.2 million or 12.0% compared with RMB4,563.8 million as of the end of 2008. The details were provided in 3. Cash Flow Statement Analysis.

*2.8 Trade and other payables*

As of 31 December 2009, trade and other payables of the Group were RMB4,224.0 million, representing an increase of RMB793.1 million or 23.1% compared with RMB3,430.9 million as of the beginning of the year. The increase was mainly due to the increase in procurement following the operation commencement of various assets, which drove the trade and other payables by RMB431.6 million. Meanwhile, the accrued liability had increased due to the related provision for default compensation and litigations.

*2.9 Interest-bearing bank borrowings (current)*

As of 31 December 2009, the interest-bearing bank borrowings (current) of the Group were RMB283.1 million, representing a decrease of RMB7,495.5 million or 96.4% compared with RMB7,778.6 million as of the beginning of the year. The decrease was mainly due to the refinancing in May this year for the early repayment of the short-term portion of a syndicate bank loan of US$1.4 billion made in September 2008 for the acquisition of CDE (US$933.3 million in aggregate, equivalent to approximately RMB6,375.8 million) and the early repayment of the original short-term loan of the CDE group obtained from Nordea Bank Norge ASA of approximately RMB475.9 million in March this year. Besides, the borrowing (current portion) from Nordea Bank Norge ASA of RMB659.6 million was refinanced as long-term borrowing.

*2.10 Interest-bearing bank borrowings (non-current)*

As of 31 December 2009, the interest-bearing bank borrowings (non-current) of the Group were RMB28,151.0 million, representing an increase of RMB11,795.6 million or 72.1% compared with RMB16,355.4 million as of the beginning of the year. The increase was mainly due to the borrowings of RMB1,300.0 million from CNOOC Finance Co., Ltd. for the repayment of previous loans and as working capital. In May 2009, US$0.8 billion (equivalent to approximately RMB5,465.0 million) and US$0.6 billion (equivalent to approximately RMB4,098.7 million) were borrowed from the Bank of China Limited and the Industrial and Commercial Bank of China Limited respectively. US$1.58 billion (equivalent to approximately RMB10,793.3 million) was borrowed from the Bank of China Limited for the repayment of CDE's Citibank loans 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 for operations in Libya.

The commercial borrowing of RMB654.1 million and the syndicate bank borrowing of RMB9,255.5 million as of the beginning of the year were fully repaid during the year. Besides, RMB283.1 million was transferred from the long term portion of the interest-bearing bank borrowings to its current portion.

*2.11 Long term bonds*

As of 31 December 2009, the long term bonds of the Group were RMB2,670.0 million, representing a decrease of RMB1,358.3 million or 33.7% compared with RMB4,028.3million as of the beginning of the year. The decrease was mainly due to the full redemption of senior unsecured NOK bonds of NOK500 million (equivalent to RMB485.5 million), the partial redemption of the senior unsecured US$ bonds (equivalent to RMB115.4 million) and the partial redemption of the second security priority US$ bonds (equivalent to RMB762.4 million).

*2.12 Deferred revenue*

As of 31 December 2009, the deferred revenue of the Group was RMB780.1 million, representing a decrease of RMB1,078.2 million or 58.0% compared with RMB1,858.3 million as of the beginning of the year. The decrease was mainly due to the recognition of deferred income of RMB 1,073.1 million, which resulted from the cancellation of operation contract of a semi-submersible drilling rig during the year.

*2.13 Derivative financial instruments*

As of 31 December 2009, the Group did not have any derivative financial instruments. The derivative financial instruments as of the beginning of the year were RMB49.3 million. The decrease was mainly due to the fact that the senior unsecured NOK bonds of NOK500 million were redeemed by the Group and the related cross currency interest swap contract of NOK 250 million was cancelled.

## 3. Cash flow statement analysis

As of the beginning of 2009, we held cash and cash equivalents of RMB4,295.5 million. The net cash inflow from operating activities from the year was RMB5,604.9 million, net cash outflow from investing activities was RMB7,782.7 million, net cash inflow from financing activities was RMB1,136.8 million and the decrease of RMB39.9 million was due to the impact of foreign exchange fluctuations. As of 31 December 2009, our cash and cash equivalents were RMB3,214.6 million.

*(Note:* The average exchange rate of 1:6.8312 (US$ to RMB) in 2009 was applied for the changes in US$ set out in the cash flow statement analysis below.)

*3.1 Cash flows from operating activities*

In 2009, net cash flows from operating activities of the Group reached RMB5,604.9 million, representing an increase of RMB1,567.1 million or 38.8% compared with RMB4,037.8 million for the same period last year. The increase was mainly due to the increase in cash gained from the provision of services along with the business expansion and the inclusion of the full year operation results of CDE.

*3.2 Cash flows from investing activities*

In 2009, net cash outflows from investing activities of the Group amounted to RMB7,782.7 million, representing a decrease of RMB12,842.8 million or 62.3% compared with RMB20,625.5 million for the same period last year. The decrease was mainly due to the cash payment of RMB15,647.0 million for the acquisition of CDE by the Group in the same period last year but no such acquisition occurred during the year.

*3.3 Capital expenditure*

In 2009, the capital expenditure of the Group amounted to RMB8,413.3 million, representing an increase of RMB1,575.5 million or 23.0% compared with RMB6,837.8 million as of the same period last year.

The capital expenditure of each business segment is as follows:

*Unit: RMB million*

| **Business segment** | **2009** | 2008 | **Change** | **Change %** |
|---|---|---|---|---|
| Drilling | **6,062.8** | 3,754.6 | 2,308.2 | 61.5% |
| Well services | **760.1** | 1,287.3 | (527.2) | (41.0%) |
| Marine support and transportation | **924.7** | 1,292.0 | (367.3) | (28.4%) |
| Geophysical | **665.7** | 503.9 | 161.8 | 32.1% |
| Total | **8,413.3** | 6,837.8 | 1,575.5 | 23.0% |

The capital expenditure of RMB 6,062.8 million 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, the construction of two land drilling rigs, two 350-feet jack-up drilling rigs and four 200-feet jack-up drilling rigs. Capital expenditure for well services was RMB760.1 million, mainly used for building 2 multi-function drilling platform (LIFTBOAT) and purchasing of various well services equipments and facilities. Capital expenditure for marine support and transportation services was RMB924.7 million, mainly used for building 10 oilfield utility vessels and 3 workover support barges. Capital expenditure for geophysical services was RMB665.7 million, mainly due to the construction of a deepwater reconnaissance vessel and a submarine cable flotilla.

*3.4 Cash flows from financing activities*

In 2009, net cash inflow from financing activities amounted to RMB1,136.8 million, comprising of cash inflow of RMB23,328.6 million and cash outflow of RMB22,191.8 million.

The financing source of the Group in 2009 was mainly derived from several loans. The loan of RMB1,300.0 million from CNOOC Finance Co., Ltd. for the settlement of previous loan and as working capital. In May 2009, US$0.8 billion (equivalent to approximately RMB5,465.0 million) and US$0.6 billion (equivalent to approximately RMB4,098.7 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 loan of US$1.4 billion which belonged to a subsidiary. During the year, US$1.58 billion (equivalent to approximately RMB10,793.3 million) was borrowed from the Bank of China Limited for the refinancing of CDE's Citibank loans 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 for operation in Libya. Besides, commercial borrowings amounted to US$63.8 million (equivalent to approximately RMB 435.8 million) and short-term borrowing of RMB 700 million were used as working capital.

Cash outflow in financing activities was mainly due to the refinancing of a syndicate bank loan of US$1.4 billion amounting to RMB20,177.3 million, which belonged to a subsidiary and the refinancing of CDE's Nordea Bank loans. Meanwhile, during the year, dividend payment, repayment of interests and other payments related to financing activities amounted to RMB629.3 million, RMB1,318.4 million and RMB66.7 million in cash, respectively.

## OUTLOOK

Looking forward to 2010, the global economy will maintain a weak recovery, but a lot of uncertainties still exist. In the "World Economic Situation and Prospects 2010" published by the United Nations, it was forecast that the global economy will achieve a moderate growth rate of 2.4% in 2010. The pace of economic recovery of the world's developed economies will be slow, while the developing economies will become the major momentum of global economic growth, with China's economy in 2010 being forecast to an increase of 8.8%. The world economy will continue to strengthen its positive trend, but there remains quite a lot of instability and uncertainty, thus restraining the economic development. The business development environment faced by the oilfield services sector is still very harsh.

Faced with the complexity of 2010, COSL will continue to consolidate the domestic market, develop overseas markets to ensure a stable growth in revenue, enhance technology research and development and technological pool, develop deep water services capability as well as strengthen risk control and cost management, so as to achieve continuous healthy development. We will further enhance the service capability and take social responsibility actively, while maximizing shareholder's value and develop an all win situation for its shareholders, customers, staff 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 audited annual results of the Group for the year ended 31 December 2009 has been reviewed by the audit committee.

### Corporate Governance Practices

Throughout the 12 months ended 31 December 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. The following summarises the requirements of the Code and accounts for the deviation.

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, and Mr. Yuan Guangyu, the vice 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 their immediate attention. 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 in accordance with the Articles of Association.

### 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, throughout the year ended 31 December 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 year ended 31 December 2009.

### Material Litigation and Arbitration

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 Norwegian Public Limited Companies Act 4-25. Certain minority shareholders owning an aggregate of 8.8% in OFRD disagreed with the price paid per share. In 2009, an appraisement where the redemption price for the shares was set at a price higher than the acquisition price was made by a Norwegian court. COSL Drilling Europe AS has filed a petition for a second appraisement by a higher court and the proceedings have been set in 2010.

## DISCLOSURE OF INFORMATION ON THE HKSE'S 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.

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

30 March 2010

*As at the date of this announcement, the Directors are Mr. Fu Chengyu (Chairman and non-executive Director), Mr. Liu Jian (Vice Chairman and executive Director), Mr. Li Yong (executive Director), Mr. Wu Mengfei (non-executive Director), Mr. Gordon C. K. Kwong (independent non-executive Director), Simon X. Jiang (independent non-executive Director) and Mr. Tsui Yiu Wa (independent non-executive Director).*