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

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

INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2010

FINANCIAL HIGHLIGHTS

- 1 Revenue increased by 11.7% to RMB8,728 million
2. Profit from operations increased by 52.8% to RMB2,785 million
- 3 Profit for the period increased by 111.4% to RMB2,174 million
4. Basic earnings per share were RMB48.37 cents

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2010

		Six months ended 30 June	
		2010	2009
		(unaudited)	(unaudited)
	Notes	RMB'000	RMB'000
REVENUE	3	8,728,150	7,813,832
Other revenues	3	3,568	26,894
		<u>8,731,718</u>	<u>7,840,726</u>
Depreciation of property, plant and equipment and amortisation of intangible assets		(1,577,218)	(1,356,539)
Employee compensation costs		(1,382,778)	(1,130,250)
Repair and maintenance costs		(144,285)	(149,933)
Consumption of supplies, materials, fuel, services and others		(1,532,567)	(1,349,913)
Subcontracting expenses		(463,521)	(313,096)
Operating lease expenses		(246,664)	(227,565)
Other operating expenses		(549,201)	(443,351)
Other selling, general and administrative expenses		(50,256)	(227,304)
Impairment of property, plant and equipment		–	(819,924)
Total operating expenses		<u>(5,946,490)</u>	<u>(6,017,875)</u>
PROFIT FROM OPERATIONS		<u>2,785,228</u>	<u>1,822,851</u>
Financial income/(expenses)			
Exchange gains/(losses), net		41,266	(56,582)
Finance costs		(334,662)	(536,426)
Interest income		25,538	27,672
Financial expenses, net		<u>(267,858)</u>	<u>(565,336)</u>
Share of profits/(losses) of jointly-controlled entities		<u>80,276</u>	<u>(61,825)</u>
PROFIT BEFORE TAX		<u>2,597,646</u>	<u>1,195,690</u>
Income tax expense	4	<u>(423,408)</u>	<u>(167,309)</u>
PROFIT FOR THE PERIOD		<u>2,174,238</u>	<u>1,028,381</u>
Attributable to owners of the parent		<u>2,174,238</u>	<u>1,028,381</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	5	<u>48.37 cents</u>	<u>22.88 cents</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	Six months ended 30 June	
	2010	2009
	(unaudited)	(unaudited)
	<i>RMB'000</i>	<i>RMB'000</i>
PROFIT FOR THE PERIOD	2,174,238	1,028,381
OTHER COMPREHENSIVE INCOME, NET OF TAX		
Exchange differences on translation of foreign operations	<u>(36,403)</u>	<u>5,741</u>
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	<u>(36,403)</u>	<u>5,741</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	<u>2,137,835</u>	<u>1,034,122</u>
Attributable to owners of the parent	<u>2,137,835</u>	<u>1,034,122</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
30 June 2010

		30 June 2010 (unaudited) RMB'000	31 December 2009 (audited) RMB'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment		45,215,602	45,086,542
Goodwill		4,575,342	4,600,473
Intangible assets		435,211	456,366
Interests in jointly-controlled entities		519,314	540,924
Available-for-sale investments		100	19,381
Pledged time deposits		19,434	39,081
Other non-current assets		56,679	—
Total non-current assets		50,821,682	50,742,767
CURRENT ASSETS			
Inventories		835,161	820,549
Prepayments, deposits and other receivables		465,694	755,500
Accounts receivable		5,214,518	3,745,547
Notes receivable		500	429,658
Other current assets	8	24,220	20,583
Pledged time deposits		257,401	247,311
Cash and cash equivalents		3,718,440	3,214,603
Time deposits with maturity over three months		1,500,000	800,000
Total current assets		12,015,934	10,033,751

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(CONTINUED)**

30 June 2010

		30 June 2010 (unaudited) RMB'000	31 December 2009 (audited) RMB'000
	<i>Notes</i>		
CURRENT LIABILITIES			
Trade and other payables		4,214,739	4,223,972
Salary and bonus payables		421,198	477,407
Tax payable		186,202	86,826
Current portion of long-term bonds		593,411	—
Interest-bearing bank borrowings	7	1,172,868	283,081
Other current liabilities	8	54,760	—
Total current liabilities		6,643,178	5,071,286
NET CURRENT ASSETS		5,372,756	4,962,465
TOTAL ASSETS LESS CURRENT LIABILITIES		56,194,438	55,705,232
NON-CURRENT LIABILITIES			
Deferred tax liabilities		1,805,065	1,790,789
Interest-bearing bank borrowings	7	28,076,134	28,151,040
Bonds		1,500,000	2,670,020
Deferred revenue		960,570	780,114
Defined benefit obligations		1,374	1,381
Other non-current liabilities	9	37,200	6,283
Total non-current liabilities		32,380,343	33,399,627
Net assets		23,814,095	22,305,605
EQUITY			
Equity attributable to owners of the parent			
Issued capital		4,495,320	4,495,320
Reserves		19,318,775	17,180,940
Proposed final dividends		—	629,345
Total equity		23,814,095	22,305,605

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2010

1. CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

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

The Company and its subsidiaries (hereinafter collectively referred to as the “Group”) principally are engaged in the provision of oilfield services including drilling services, well services, marine support and transportation services, and geophysical services.

In the opinion of the directors, the ultimate holding company of the Company is China National Offshore Oil Corporation (“CNOOC”), a company established in the PRC.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2010 have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting”.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements as at 31 December 2009.

Significant accounting policies

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2009, except for the adoption of new and revised HKFRSs as of 1 January 2010, as follows:

HKFRS 2 Amendments	Amendments to HKFRS 2 <i>Share-based Payment</i> – <i>Group Cash-settled Share-based Payment Transactions</i>
HKFRS 3 (Revised)	<i>Business Combinations</i>
HKAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i>
Amendments to HKFRS 5	Amendments to HKFRS 5 <i>Non-current Assets</i>
included in Improvements to HKFRSs issued in October 2008	<i>Held for Sale and Discontinued Operations</i> – <i>Plan to Sell the Controlling Interest in a Subsidiary</i>

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

The HKFRS 2 Amendments provide guidance on how to account for cash-settled share-based payment transactions in the separate financial statements of the entity receiving the goods and services when the entity has no obligation to settle the share-based payment transactions. The amendments also incorporate guidance that was previously included in HK(IFRIC)-Int 8 Scope of HKFRS 2 and HK(IFRIC)-Int 11 HKFRS 2 – Group and Treasury Share Transactions. Application of the amendments does not have any significant implications on the Group's accounting for share-based payments.

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. The changes introduced by HKFRS 3 (Revised) must be applied prospectively. As no business combination occurred in current period, the adoption of HKFRS 3 (Revised) did not have any impact on the Group's financial position or performance for the current period.

HKAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Other consequential amendments were made to HKAS 7 Statement of Cash Flows, HKAS 12 Income Taxes, HKAS 21 The Effects of Changes in Foreign Exchange Rates, HKAS 28 Investments in Associates and HKAS 31 Interests in Joint Ventures. The changes introduced by HKAS 27 (Revised) must be applied prospectively. As no changes in the ownership interest of a subsidiary occurred in current period, the adoption of HKAS 27 (Revised) did not have any impact on the Group's accounting of subsidiaries.

The amendments to HKFRS 5 clarify that all assets and liabilities of a subsidiary shall be classified as held for sale if an entity has a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest. The changes must be applied prospectively. As there was no sale plan involving loss of control of subsidiary in current period, the adoption of HKFRS 5 did not have any impact on the Group's financial position or performance for the current period.

Improvements to HKFRSs

Apart from the above, the HKICPA has also issued Improvements to HKFRSs which set out amendments to a number of HKFRSs primarily with a view to removing inconsistencies and clarifying wording. While the adoption of some of the amendments may result in changes in accounting policy, none of them are expected to have a material financial impact on the Group.

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.

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.

Six months ended	Drilling	Well	Marine support and transportation	Geophysical	Total
30 June 2010 (unaudited)	services	services	services	services	
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment revenue:					
Sales to external customers	4,616,346	2,181,429	1,192,772	737,603	8,728,150
Intersegment sales	605,089	116,562	24,743	–	746,394
Other revenue	72	2,535	943	18	3,568
	5,221,507	2,300,526	1,218,458	737,621	9,478,112
Reconciliation:					
Elimination of intersegment sales					(746,394)
					8,731,718
Segment profit before tax*	1,827,142	513,523	354,226	170,613	2,865,504
Reconciliation:					
Exchange gains, net					41,266
Finance costs					(334,662)
Interest income					25,538
Profit before tax					<u>2,597,646</u>

Six months ended	Marine support and transportation services				
30 June 2009 (unaudited)	Drilling services	Well services	transportation services	Geophysical services	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment revenue:					
Sales to external customers	4,602,943	1,653,229	881,294	676,366	7,813,832
Intersegment sales	469,784	57,128	60,796	33,095	620,803
Other revenue	13,000	1,001	5,895	6,998	26,894
	5,085,727	1,711,358	947,985	716,459	8,461,529
Reconciliation:					
Elimination of intersegment sales					(620,803)
					7,840,726
Segment profit before tax*	822,722	386,618	293,004	258,682	1,761,026
Reconciliation:					
Exchange losses, net					(56,582)
Finance costs					(536,426)
Interest income					27,672
Profit before tax					<u>1,195,690</u>

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

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, Libya and Middle East.

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%, and approximately 75% (six months ended 2009: approximately 76%) 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 six months ended 30 June 2010 and 2009:

Six months ended 30 June 2010 (unaudited)	Mainland China RMB'000	Other Countries RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	<u>6,526,062</u>	<u>2,202,088</u>	<u>8,728,150</u>
Six months ended 30 June 2009 (unaudited)	Mainland China RMB'000	Other Countries RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	<u>5,959,957</u>	<u>1,853,875</u>	<u>7,813,832</u>

4. 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.

On 30 October 2008, the Company was certified as an advanced technology enterprise by Tianjin Science and Technology Commission, Tianjin Ministry of Finance, Tianjin State Administration of Taxation (the "TSAT"), and Tianjin Local Taxation Bureau, which is effective for three years. Further, the Company obtained the approval from Tianjin Offshore Oil Tax Bureau of Tianjin Provincial Office of the TSAT in 2010. According to the Circular Jinguoshuihaishuijianmian [2010] 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 six months ended 30 June 2010 (six months ended 30 June 2009: 15%).

Certain overseas subsidiaries of the Group with permanent establishment status in the PRC are subject to income tax of 25% based on deemed profit calculated at 15% of gross income (six months ended 30 June 2009: 25% and 10%, respectively) generated from drilling activities in the PRC. The Group's drilling activities in Indonesia are mainly subject to a corporate income tax of 25% (six months ended 30 June 2009: 28%). The Group's drilling activities in Australia are subject to income tax of 30% (six months ended 30 June 2009: 30%) based on its taxable profit generated. The Group's drilling activities in Myanmar are subject to income tax of 3.5% (six months ended 30 June 2009: 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 of 30% or business flat tax of 17.5% (six months ended 30 June 2009: 28% and 17%, respectively). The Group's activities in Norway are mainly subject to a corporate income tax of 28% (six months ended 30 June 2009: 28%). The Group's activities in Vietnam are subject to withholding tax of 10% on income derived from the provision of drilling services (six months ended 30 June 2009: 10%). The Group's taxes pertaining to drilling activities in Libya are borne by the customer. The Group's well services in Libya are subject to income tax of 15% to 20% based on its deemed profit calculated at 15% to 20% of gross income (six months ended 30 June 2009: not applicable). The Group's taxes pertaining to drilling activities in Saudi Arabia are borne by the customer. The Group's drilling activities in Tunisia are subject to income tax of 35% (six months ended 30 June 2009: 35%). The Group's drilling activities in Iran are subject to income tax of 25% (six months ended 30 June 2009: not applicable) based on its taxable profit generated.

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

	Six months ended 30 June	
	2010	2009
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Hong Kong profits tax	—	—
Overseas income taxes:		
Current income taxes	55,750	55,588
Deferred income taxes	(24,968)	(141,821)
PRC corporate income taxes:		
Current income taxes	345,666	205,488
Deferred income taxes	46,960	48,054
Total tax charge for the period	423,408	167,309

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:

	Six months ended 30 June			
	2010		2009	
	(unaudited)		(unaudited)	
	<i>RMB'000</i>	%	<i>RMB'000</i>	%
Profit before tax	2,597,646		1,195,690	
Tax at the statutory tax rate of 25% (2009: 25%)	649,412	25.0	298,923	25.0
Tax reduction as an advanced technology enterprise				
– current period	(181,282)	(7.0)	(174,994)	(14.6)
Income not subject to tax	(24,120)	(0.9)	(16,395)	(1.4)
Non-deductible expenses	553,534	21.3	488,409	40.8
Tax benefit for qualifying research and development expense	(9,911)	(0.4)	(8,880)	(0.7)
Effect of different tax rates for overseas subsidiaries	(133,390)	(5.1)	(224,661)	(18.8)
Unrecognised tax losses	97,575	3.8	78,343	6.6
Translation adjustment*	(657,478)	(25.3)	(222,252)	(18.6)
Others	129,068	5.0	(51,184)	(4.3)
Total tax charge at the Group's effective rate	423,408	16.4	167,309	14.0

* 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.

5. 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 period attributable to ordinary equity holders of the parent of approximately RMB2,174,238,000 (six months ended 30 June 2009: RMB1,028,381,000), and the weighted average number of ordinary shares of 4,495,320,000 (six months ended 30 June 2009: 4,495,320,000) in issue during the period.

There were no potentially diluting events for the periods ended 30 June 2010 and 2009.

6. 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.

At 30 June 2010, the fair value of the share appreciation rights was measured at HK\$1.99 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 74.12% and a risk-free interest rate of 0.72%. 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 RMB0.1 million for the period ended 30 June 2010 (six months ended 30 June 2009: the increase of the share appreciation rights of RMB1.1 million), and was recorded in salary and bonus payables and general and administrative expenses.

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

7. INTEREST-BEARING BANK BORROWINGS

Current:

	30 June 2010 (unaudited) RMB'000	31 December 2009 (audited) RMB'000
Current portion of long-term loan	1,172,868	283,081

Non-current:

	Contractual interest rate (%)	Year of maturity	30 June 2010 (unaudited) RMB'000	31 December 2009 (audited) RMB'000
Bank loans-unsecured	i	2013	344,000	544,000
Bank loans-unsecured	ii	2017	356,000	356,000
Bank loans-unsecured	LIBOR+170pts	2020	5,346,768	5,462,560
Bank loans-unsecured	iii	2015	450,000	450,000
Bank loans-unsecured	LIBOR+138pts	2017	11,386,673	10,777,455
Bank loans-unsecured	LIBOR+90pts	2017	5,432,720	5,369,024
Bank loans-unsecured	LIBOR+90pts	2017	4,074,540	4,096,920
Headquarter entrusted loan – unsecured	3.71%	2011	800,000	800,000
Headquarter entrusted loan – unsecured	iv	2012	1,000,000	500,000
Bank loans – secured	3.20%	2011	58,301	78,162
			29,249,002	28,434,121
Less: current portion of long-term loan			(1,172,868)	(283,081)
			28,076,134	28,151,040

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.

8. OTHER CURRENT (LIABILITIES)/ASSETS

	30 June 2010 (unaudited) RMB'000	31 December 2009 (audited) RMB'000
Negative interest in a jointly-controlled entity *	(93,726)	(94,241)
Due to a jointly-controlled entity	(20,880)	(32,354)
Due from a jointly-controlled entity	96,050	147,178
Current portion of deferred revenue	(36,204)	—
	<u>(54,760)</u>	<u>20,583</u>
Current portion of deferred cost	<u>24,220</u>	<u>—</u>

- * The negative interest in Premium Drilling was recognized since the management of the Company is of the opinion that the Group has an obligation towards Premium Drilling which was established to manage the operations of some of the Group's jack-up drilling rigs. In 2009, the shareholders of Premium Drilling had terminated their management agreements and subsequent to the termination, the liquidation process has commenced for Premium Drilling Inc. and Premium Drilling (Cayman) Ltd.. The current period balance was recorded as other current liabilities by the Group.

9. OTHER NON-CURRENT LIABILITIES

	30 June 2010 (unaudited) RMB'000	31 December 2009 (audited) RMB'000
Negative interest in a jointly-controlled entity*	37,203	36,399
Due from a jointly-controlled entity	(3)	(30,116)
	<u>37,200</u>	<u>6,283</u>

- * The negative interest in Atlantis Deepwater Orient Ltd. ("ADOL") was recognised as other non-current liabilities since the management of the Company is of the opinion that the Group has an obligation towards ADOL.

10. DIVIDENDS PAID AND PROPOSED

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

Dividends on ordinary shares paid during the six-months period:

	Six months ended 30 June	
	2010	2009
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Final dividend for 2009: RMB0.14 per ordinary share (2008: RMB0.14 per ordinary share)	629,345	629,345

The board of directors of the Company did not propose the interim dividend for the six months ended 30 June 2010 (six months ended 30 June 2009: Nil).

11. MATERIAL LITIGATIONS AND POTENTIAL DISPUTES

- (a) In 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. Certain minority shareholders owning an aggregate of 8.8% in OFRD disagreed with the price paid per share. In 2009, an appraisal where the redemption price for the shares was set at a price higher than the acquisition price was made by a Norwegian court. The Group has filed a petition for a second appraisal by a higher court and a higher court process was held in May 2010. According to the higher court decision made in August 2010, the redemption price was NOK34.5 (the redemption price from the previous lower court decision: NOK56). The directors are of the opinion that the final outcome of these items will not have significant adverse effect on the financial position of the Group.
- (b) In 2009, certain subsidiaries of the Group received notification from the local tax authorities requesting information on the valuation basis used by the company for the transfer of certain contracts and options to entities within the Group, and indicating its intent to consider additional assessment. If the basis indicated by the tax authorities is adopted, the tax liability relating to the transfers could increase substantially for those companies. The above-mentioned subsidiaries have submitted the response letter to the local tax authorities regarding the above notification as at 30 June 2010, and no further requests have been received from the local tax authorities as at the report date. After giving due consideration to the circumstances, the Directors believe that tax returns were properly filed and will defend vigorously against any additional assessment by the tax authorities. Considering the uncertainties relating to the final outcome of both the final assessment amount and the timing of the cash outflows, if any, the directors have not made any provision for any amount arising from the above-mentioned tax contingency in these financial statements.

12. EVENTS AFTER THE REPORT PERIOD

Save as disclosed in note 11 above, there have been no other subsequent events that need to be disclosed in the interim condensed consolidated financial statements.

13. COMPARATIVE AMOUNTS

Certain comparative figures have been reclassified to conform with the current period's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY REVIEW

In the first half of 2010, the global economy recovered at a slow pace. However, affected by unstable factors such as the European sovereignty debt crisis, the recovery were still fragile and still remained uncertain. The international crude oil (WTI) price was unstable at high level. In the first half of 2010, the average oil price reached US\$78.3/barrel, and once surging to as high as US\$86.6/barrel. According to the latest forecast of International Energy Agency (IEA), the demand for crude oil will increase to 85.82 million barrels/day in 2010. The oilfield service industry is still revolving near the bottom and the operation workload has started to recover slowly. The situation of oversupply in the global drilling rigs market became increasingly prominent. The utilization rate of deep water drilling rigs maintained at about 92%, which decreased as compared to 96% of the same period of last year. The utilization rate of jack-up drilling rigs was around 72%, which slightly increased as compared with 70% at the beginning of the year. The day rate of global drilling rigs also decreased significantly due to fierce competition. Due to the continuation of the Chinese government's active and effective fiscal stimulus policy and economic fine tuning measures, as well as the increased capital expenditure of oil companies in offshore exploration activities, the offshore exploration and production in the first half of 2010 increased as compared with the same period of last year, but competition of the oilfield service industry in China continues to accelerate.

BUSINESS REVIEW

Drilling Services Segment

Through active expansion of the domestic and overseas markets in the first half of 2010, the Group has maintained a relatively high utilization rate for drilling rigs. The average calendar day utilization rate of drilling rigs reached 94.6%. Drilling services segment has recognized revenue of RMB4,616.3 million, representing an increase of RMB13.4 million or 0.3%, compared with RMB4,602.9 million in the same period of last year.

As of 30 June 2010, the Group operated and managed a total of 27 drilling rigs (of which 23 were jack-up drilling rigs, 4 were semi-submersible drilling rigs (1 managed)), 2 accommodation rigs, 4 module rigs and 6 land drilling rigs. Among the 27 drilling rigs, 13 were operating in Bohai Bay, 2 in East China Sea, 1 in Yellow Sea, 4 in South China Sea, and 7 in overseas such as Persian Gulf, Australia and other countries and areas.

In the first half of 2010, the operating days of jack-up drilling rigs were 3,935 days. The operating days of semi-submersible drilling rigs were 477 days. The accumulated operating days were 4,412 days, representing an increase of 401 days compared with 4,011 days of the same period of last year. The details are as follows:

	For the six months ended 30 June			
	2010	2009	Increase/ (Decrease)	Increase/ (Decrease)
Operating days (day)	4,412	4,011	401	10.0%
Jack-up drilling rigs	3,935	3,471	464	13.4%
Semi-submersible drilling rigs	477	540	(63)	(11.7%)
Available day utilization rate	100.0%	96.7%	3.3%	
Jack-up drilling rigs	100.0%	96.3%	3.7%	
Semi-submersible drilling rigs	100.0%	100.0%	0.0%	
Calendar day utilization rate	94.6%	96.3%	(1.7%)	
Jack-up drilling rigs	95.4%	95.8%	(0.4%)	
Semi-submersible drilling rigs	87.8%	99.4%	(11.6%)	

The main reasons for the increase by 464 days in operating days of jack-up drilling rigs compared with the same period of last year were, firstly, 2 jack-up drilling rigs, which were delivered in the end of 2009, commenced operation in the current period, which increased the operating days by 322 days. Secondly, the operation days of COSL Drilling Europe AS (“CDE”) increased by 314 days, due to the increase of operation rate and 1 more drilling rig in operation as compared with the same period of last year. Thirdly, the increase in the number of days of repair and maintenance of the jack-up drilling rigs for the period had resulted in the decrease of operating days of 172 days.

The operation of semi-submersible drilling rigs decreased by 63 days compared with the same period of last year mainly due to the increase in the number of days of repair and maintenance.

Due to the increase in the number of days of repair and maintenance of the drilling rigs, the average calendar day utilization rate of the drilling rigs was 94.6%, representing a decrease of 1.7% as compared with the same period of last year, of which the utilization rates of jack-up drilling rigs and semi-submersible drilling rigs were 95.4% and 87.8%, respectively.

In addition, the 4 module rigs for Mexican clients operated for 717 days in the first half of 2010 and the calendar day utilization rate reached 99.0%. The 5 land drilling rigs in Libya and a land drilling rig in China brought a total of 1,062 operating days, and the calendar day utilization rate reached 97.8%.

The day rate of the drilling rigs of the Group for the first half of 2010 is as follows:

	For the six months ended 30 June			
	2010	2009	Increase/ (Decrease)	Increase/ (Decrease)
Average day rate (ten thousand US\$/day)				
Jack-up drilling rigs	11.0	12.6	(1.6)	(12.7%)
Semi-submersible drilling rigs	19.3	18.8	0.5	2.7%
Average	<u>12.0</u>	<u>13.5</u>	<u>(1.5)</u>	<u>(11.1%)</u>

Note: US\$/RMB exchange rate is 1:6.7909 on 30 June 2010, and 1:6.8319 on 30 June 2009, respectively.

Well Services Segment

During the first half of 2010, the well services segment of the Group continued to provide services in logging, drilling fluids, directional drilling, cementing, well workover and well completion areas, and more efforts were put into research and development to enhance the technical level gradually and increase the technical competency of the segment. In the first half of 2010, the Group's self-developed logging-while-drilling system succeeded in downhole testing for the first time, achieving the real-time measurement of logging-while-drilling parameters such as directional parameter, natural gamma ray, electromagnetic wave resistivity, etc.. Logging service was provided in Africa for the first time and succeeded in logging operations such as electrical imaging and rotary sidewall coring system. The nitrogen foam water control project, after a year of research and preparation, commenced operation successfully in South China Sea and obtained customers compliment.

In the first half of 2010, despite the fierce competition in the well services market, the well services segment continued to develop domestic and overseas new markets. The operation of mud, cementing, while-drilling, open-hole wireline logging, cased hole service, directional project and well workover has been increased. Meanwhile, the new business, EPS (Environmental Protection Services), has gradually become profitable. In the first half of 2010, revenue of well services segment reached RMB2,181.4 million, representing an increase of RMB528.2 million or 31.9% compared with RMB1,653.2 million of the same period of last year. It was the segment with highest growth in income among the four business segments.

Geophysical Services Segment

Seismic Services

In the first half of 2010, affected by reduced demand from oil companies and the icy condition in Bohai Bay at the beginning of the year, the operation workload of the geophysical services decreased as compared with the same period of last year. The details are as follows:

Services	For the six months ended 30 June		Increase/ (Decrease)	Increase (Decrease)
	2010	2009		
2D collection (km)	17,874	21,597	(3,723)	(17.2%)
2D processing (km)	856	4,743	(3,887)	(82.0%)
3D collection (km ²)	5,568	5,060	508	10.0%
3D processing (km ²)	2,301	2,599	(298)	(11.5%)
Submarine cable collection (km ²)	<u>185</u>	<u>—</u>	<u>185</u>	100.0%

Due to the bad weather at the beginning of the year and the transformation of a 2D geophysical collection vessel into a submarine cable's source vessel, the 2D collection volume decreased by 3,723 km as compared with the same period of last year, representing a decrease of 17.2%. As the Group actively developed overseas market in winter, when operation was not suitable to be carried out in domestic waters, the operation volume of 3D collection increased by 508 km² as compared with the same period of last year. In respect of data processing, due to the decreased demand of oil companies, the operation volume of 2D processing and 3D processing decreased by 82.0% and 11.5%, respectively, as compared to the same period of last year.

In addition, the Group added a new submarine cable collection business during the period, the operation volume in the first half of the year was 185 km², and we recognised revenue of RMB49.6 million.

Surveying Services

In the first half of 2010, the Group actively explored market for its surveying services, generating a revenue of RMB155.1 million, increased by 29.0% from RMB120.2 million for the same period of last year.

Despite lower customer demand and bad weather conditions which led to a decrease in the operation volume of data collection and processing, revenue of geophysical services segment reached RMB737.6 million in the first half year, driven by the submarine cable collection business and surveying services, representing an increase of 9.1% as compared with RMB676.4 million for the same period of last year.

Marine Support and Transportation Services Segment

In the first half of 2010, the Group fully took the advantages of its marine support and transportation services and provided high quality services, generating a revenue of RMB1,192.8 million, representing an increase of 35.3% from RMB881.3 million for the same period of last year. As of 30 June 2010, the Group owned an aggregate of 78 utility vessels, 3 oil tankers and 5 chemical carriers, while as at 30 June 2009, the Group owned an aggregate of 84 utility vessels, 3 oil tankers and 5 chemical carriers.

The operation of vessels in the first half of 2010 is as follows:

Operating days (day)	For the six months ended 30 June		Increase/ (Decrease)	Increase/ (Decrease)
	2010	2009		
Standby vessels	8,188	7,639	549	7.2%
AHTS vessels	3,118	3,509	(391)	(11.1%)
Platform supply vessels	905	865	40	4.6%
Multi-purpose vessels	687	959	(272)	(28.4%)
Workover support barges	497	222	275	123.9%
Total	<u>13,395</u>	<u>13,194</u>	<u>201</u>	1.5%

In the first half of 2010, the aggregate operating day of 78 utility vessels was 13,395 days, with an increase of 201 days compared with the same period of last year. The main reasons are as follows: firstly, an increase of 721 operating days was resulted from the four new utility vessels added after 30 June 2009. Secondly, an increase of 1,027 operating days was resulted from the full operation of 9 utility vessels which commenced operation in the first half of last year. Thirdly, a decrease of 1,597 operating days was resulted from the disposal of 10 vessels as compared to the same period of last year. Moreover, the operation day of other vessels increased by 50 days because of less maintenance during the period. Since there was a decrease in days of maintenance and non-operational navigation, the calendar day utilization rate of the Group was 95.2%, or a 3.2% increase compared with the same period of last year.

As the Group actively utilized its external resources, the total transportation volume of oil tankers increased by 69.2% to 949,000 tons from 561,000 tons of the same period of last year. The total transportation volume of chemical carriers was 888,000 tons, representing an increase of 118.7% from 406,000 tons of the same period of last year.

Integrated Project Management

In the first half of 2010, the integrated project management of the Group demonstrated its comparative advantage of long service chain and strong integrated capacity and provided customers with convenience and economic well services. In the first half of 2010, the integrated project management of the Group contributed an aggregate revenue of RMB663.2 million, representing an increase of RMB182.3 million or 37.9%, from RMB480.9 million for the same period of last year.

FINANCIAL REVIEW

1. Analysis of statement of income

1.1 Revenue

In the first half of 2010, the Group's revenue amounted to RMB8,728.1 million, representing an increase of 11.7% or RMB914.3 million from RMB7,813.8 million for the same period of last year.

The table below shows the revenue of each of the business segments during the first half of 2010:

Unit: RMB million

Business segments	For the six months ended 30 June		
	2010	2009	Change %
Drilling services	4,616.3	4,602.9	0.3%
Well services	2,181.4	1,653.2	31.9%
Marine support and transportation services	1,192.8	881.3	35.3%
Geophysical services	737.6	676.4	9.1%
Total	<u>8,728.1</u>	<u>7,813.8</u>	11.7%

1.2 Operating expenses

In the first half of 2010, the aggregate operating expenses of the Group amounted to RMB5,946.5 million, representing a decrease of RMB71.4 million or 1.2% from RMB6,017.9 million for the same period of last year.

The table below shows the operating expenses of each of the business segments during the first half of 2010:

Unit: RMB million

Business segments	For the six months ended 30 June		
	2010	2009	Change %
Drilling services	2,836.5	3,665.1	(22.6%)
Well services	1,688.4	1,322.7	27.7%
Marine support and transportation services	842.6	595.2	41.6%
Geophysical services	579.0	434.9	33.1%
Total	<u>5,946.5</u>	<u>6,017.9</u>	(1.2%)

The table below shows the breakdown of operating expenses for the Group in the first half of 2010:

Unit: RMB million

	For the six months ended 30 June		
	2010	2009	Change %
Depreciation of property, plant and equipment and amortisation of intangible assets	1,577.2	1,356.5	16.3%
Employee compensation costs	1,382.8	1,130.3	22.3%
Repair and maintenance costs	144.3	149.9	(3.8%)
Consumption of supplies, materials, fuel, services and others	1,532.6	1,349.9	13.5%
Subcontracting expenses	463.5	313.1	48.0%
Operating lease expenses	246.6	227.6	8.4%
Other selling, general and administrative expenses	50.3	227.3	(77.9%)
Other operating expenses	549.2	443.4	23.9%
Impairment of property, plant and equipment	—	819.9	(100.0%)
Total operating expenses	<u>5,946.5</u>	<u>6,017.9</u>	(1.2%)

Depreciation of property, plant and equipment and amortisation of intangible assets increased by RMB220.7 million or 16.3% compared with the same period of last year, mainly due to the addition of 2 jack-up drilling rigs, 2 land drilling rigs, 4 oilfield utility vessels and 1 submarine cable collection system. In addition, 2 jack-up drilling rigs of CDE and 9 utility vessels commenced operation in the first half of 2009 depreciated for the whole period.

Employee compensation costs increased by RMB252.5 million or 22.3% compared with the same period of last year, mainly due to the increase in employee head counts along with the equipment addition and increased work volume resulted from business growth.

Consumption of supplies, materials, fuel, services and others increased by RMB182.7 million or 13.5% compared with the same period of last year, mainly due to the workload increase of the Group.

Subcontracting expenses increased by RMB150.4 million or 48.0% compared with the same period of last year, mainly due to the increase in subcontracting business of well services.

Other selling, general and administrative expenses decreased by RMB177.0 million or 77.9% compared with the same period of last year, mainly due to the non-recurrence of provision for contingent compensation amounting to RMB165.4 million for litigation in the first half of 2009.

Other operating expenses increased by RMB105.8 million or 23.9% compared with the same period of last year, mainly due to the fact that the Group accrued the bad debt provision for part of the accounts receivable and other receivables amounting to RMB134.0 million in the first half of 2010.

1.3 Operating profit

The operating profit of the Group during the first half of 2010 amounted to RMB2,785.2 million, representing an increase of RMB962.3 million or 52.8% from RMB1,822.9 million for the same period of last year.

The operating profits of each of the business segments in the first half of 2010 are shown in the table below:

Unit: RMB million

Business segments	For the six months ended 30 June		
	2010	2009	Change %
Drilling services	1,779.9	950.8	87.2%
Well services	495.6	331.6	49.5%
Marine support and transportation services	351.1	292.0	20.3%
Geophysical services	158.6	248.5	(36.2%)
Total	<u>2,785.2</u>	<u>1,822.9</u>	52.8%

1.4 Financial expenses, net

In the first half of 2010, the net financial expenses of the Group was RMB267.9 million, representing a decrease of RMB297.4 million from RMB565.3 million for the same period of last year, mainly due to the refinancing and optimising of debt, which reduced the debt cost.

1.5 Share of profits/(losses) from jointly-controlled entities

In the first half of 2010, the Group's share of profits from jointly controlled entities amounted to RMB80.3 million, representing an increase of RMB142.1 million compared to a loss of RMB61.8 million for the same period of last year. This was mainly due to the decrease in share of losses of a jointly-controlled entity, Atlantis Deepwater Orient Ltd., amounting to RMB107.0 million, and the increase in share of profits amounting to RMB32.7 million of China France Bohai Geoservices Co., Ltd. as compared with the same period of last year. The aggregate share of profits of the remaining 8 jointly-controlled entities increased by RMB2.4 million as compared with the same period of last year.

1.6 Income tax expense

In the first half of 2010, the income tax expense was RMB423.4 million, representing an increase of RMB256.1 million or 153.1% from RMB167.3 million for the same period of last year. The upward adjustment resulting from the Company's 2009 tax filing and the Group's increased profit before tax, as compared with the same period of last year, caused a significant increase in income tax expense.

1.7 Profit after tax

In the first half of 2010, the profit after tax of the Group was RMB2,174.2 million, representing an increase of RMB1,145.8 million or 111.4% from RMB1,028.4 million for the same period of last year.

1.8 Basic earnings per share

In the first half of 2010, the Group's basic earnings per share was RMB48.37 cents, representing an increase of RMB25.49 cents or 111.4% as compared with RMB22.88 cents for the same period of last year.

2. Analysis of statement of financial position

As of 30 June 2010, the total assets of the Group amounted to RMB62,837.6 million, representing an increase of RMB2,061.1 million or 3.4% compared with RMB60,776.5 million at the end of 2009. The total liabilities was RMB39,023.5 million, representing an increase of RMB552.6 million or 1.4% compared with RMB38,470.9 million at the end of 2009. The shareholders' equity was RMB23,814.1 million, representing an increase of RMB1,508.5 million or 6.8% compared with RMB22,305.6 million at the end of 2009. The analysis for significant changes in accounts on the statement of financial position is as follows:

2.1 Property, plant and equipment

As of 30 June 2010, the property, plant and equipment of the Group amounted to RMB45,215.6 million, representing an increase of RMB129.1 million compared with RMB45,086.5 million as of the end of 2009. The increase was mainly due to new purchase amounting to RMB1,886.2 million, while depreciation amounting to RMB1,545.0 million, exchange realignment amounting to RMB138.1 million, and disposal amounting to RMB65.0 million offset the increase.

2.2 Available-for-sale investment

As of 30 June 2010, the available-for-sale investment of the Group was RMB0.1 million, representing a decrease of RMB19.3 million compared with RMB19.4 million as of the end of 2009. The main reason was the Group recognised the impairment losses for all the equity investment in Petrojack ASA, which withdrew its listing from stock market in March 2010.

2.3 Pledged time deposits (non-current portion)

As of 30 June 2010, the pledged time deposits of the Group was RMB19.4 million, representing a decrease of RMB19.7 million compared with RMB39.1 million as of the end of 2009. This was mainly due to the repayment of loans of RMB19.6 million to an import-export credit organisation in Norway during the period.

2.4 Prepayments, deposits and other receivables

As of 30 June 2010, the prepayments, deposits and other receivables of the Group was RMB465.7 million, representing a decrease of RMB289.8 million or 38.4% compared with RMB755.5 million as of the end of 2009. The decrease was mainly due to the transfer of prepayments for some projects to construction in progress according to the construction schedule, which resulted in a decrease of RMB283.4 million in prepayments.

2.5 Notes receivable

As of 30 June 2010, the notes receivable of the Group was RMB0.5 million, representing a decrease of RMB429.2 million compared with RMB429.7 million as of the end of the 2009. The decrease was mainly due to the receipt of cash of RMB429.2 million of notes receivable during the period.

2.6 Accounts receivable

As of 30 June 2010, the accounts receivable of the Group was RMB5,214.5 million, representing an increase of RMB1,469.0 million or 39.2% compared with RMB3,745.5 million as of the end of the 2009. The increase was mainly due to the increased revenue of the Group and the diversification of customers.

2.7 Cash and cash equivalents

As of 30 June 2010, cash and cash equivalents of the Group was RMB3,718.4 million, representing an increase of RMB503.8 million or 15.7% compared with RMB3,214.6 million as of the end of the 2009. The details were provided in “Analysis of statement of cash flow” below.

2.8 Tax payable

As of 30 June 2010, the tax payable of the Group was RMB186.2 million, representing an increase of RMB99.4 million or 114.5% compared with RMB86.8 million as of the end of 2009. This was mainly due to the increase of income tax expense in the current period.

2.9 Interest-bearing bank borrowings

As of 30 June 2010, the current portion of interest-bearing bank borrowings of the Group was RMB1,172.9 million, representing an increase of RMB889.8 million or 314.3% compared with RMB283.1 million as of the end of 2009. This was mainly due to the long-term borrowings amounting to approximately RMB1,109.4 million of the Group would due within one year, and were reclassified to current portion. In addition, the Group repaid borrowings amounting to RMB219.6 million during the period.

As of 30 June 2010, the long-term interest-bearing bank borrowings of the Group was RMB28,076.1 million, representing a decrease of RMB74.9 million or 0.3% compared with RMB28,151.0 million as of the end of 2009. This was mainly due to new borrowing amounting to RMB1,182.7 million during the period, and the long-term borrowings amounting to RMB1,109.4 million which would due within one year were reclassified into current portion of interest-bearing bank borrowings. Moreover, exchange fluctuation reduced the borrowings by RMB144.8 million.

2.10 Bonds

As of 30 June 2010, the current portion of long-term bonds of the Group were RMB593.4 million, while there was no such item as of the end of 2009. The increase was due to one of the Group's bond amounting to RMB593.4 million would due within one year and was thus reclassified to current portion.

As of 30 June 2010, the long-term bonds of the Group were RMB1,500.0 million, representing a decrease of RMB1,170.0 million or 43.8% compared with RMB2,670.0 million as of the end of 2009. This was mainly due to the redemption by the Group of bonds amounting to RMB571.5 millions during the period. In addition, bonds amounting to RMB593.4 million which would due within one year were reclassified to the current portion of long-term bonds during the period.

3. Analysis of statement of cash flow

At the end of 2009, the Group had cash and cash equivalents amounting to RMB3,214.6 million. The net cash inflow from operating activities for the period was RMB3,099.3 million, net cash outflow used in investing activities was RMB2,013.0 million, net cash outflow used in financing activities was RMB590.4 million and the increase of RMB7.9 million in cash resulted from the foreign exchange fluctuations. As of 30 June 2010, the Group's cash and cash equivalents was RMB3,718.4 million, representing an increase of RMB503.8 million compared with the balance at the end of 2009. The detailed reasons are as follows:

3.1 Net cash flow from operating activities

In the first half of 2010, net cash inflow from operating activities of the Group reached RMB3,099.3 million, of which RMB8,020.4 million was received from the sales of goods and the provision of services, while RMB2,457.7 million was paid for the purchase of goods and receipt of services, RMB1,498.0 million was paid to or for employees, and RMB579.4 million was used to pay for various taxes. Cash outflow related to other operating activities amounted to RMB386.0 million.

3.2 Net cash flows from investing activities

In the first half of 2010, net cash outflows used in investing activities of the Group amounted to RMB2,013.0 million, of which RMB1,495.4 million was paid for the purchase of fixed assets, intangible assets and other long-term assets during the period, and RMB700.0 million was paid for purchase of other investments during the period. In addition, the investment income and interest income received during the period amounted to RMB96.7 million and RMB20.6 million, respectively, and RMB49.3 million was received from the disposal of fixed assets during the period. A total cash inflow amounted to RMB15.8 million in relation to other investment activities.

3.3 Net cash flows from financing activities

In the first half of 2010, net cash outflow used in financing activities amounted to RMB590.4 million, of which RMB1,272.7 million was received from borrowings and research funds during the period. RMB791.3 million was paid for repayment of debt, RMB630.3 million was paid for dividends distribution, and RMB429.6 million was paid for the repayment of interest. A total cash outflow amounted to RMB11.9 million in relation to other financing activities.

3.4 The net impact of foreign exchange fluctuations on cash during the period was RMB7.9 million.

4. Capital expenditure analysis

In the first half of 2010, the total capital expenditure of the Group amounted to RMB1,884.8 million, representing a decrease of RMB2,463.4 million or 56.7% compared with RMB4,348.2 million for the same period of last year.

The capital expenditure of each business segment during the first half of 2010 is shown in the table below:

Unit: RMB million

Business Segments	For the six months ended 30 June		
	2010	2009	Change%
Drilling services	873.1	3,329.6	(73.8%)
Well services	96.8	305.5	(68.3%)
Marine support and transportation services	531.2	421.9	25.9%
Geophysical services	383.7	291.2	31.8%
Total	<u>1,884.8</u>	<u>4,348.2</u>	(56.7%)

The capital expenditure of the drilling services segment was mainly used for the construction of 4 200-foot jack-up drilling rigs and 3 2,500-foot semi-submersible drilling rigs. The capital expenditure of the well services segment was mainly used for the construction and purchase of various well services equipment. The capital expenditure of the marine support and transportation services segment was mainly used for the construction of 1 workover support barge and 2 deep water AHTS vessels. The capital expenditure of the geophysical services segment was mainly used for the construction of 1 deepwater seismic vessel and 1 twelve-cable collection vessel.

OUTLOOK

Looking forward to the second half of 2010, there are still lots of uncertainties and instabilities in the global economic. The economic recovery is more complex and slower than predicted. The European sovereignty debt crisis has not yet ended, resulting in the slow down of economic recovery in Europe. The U.S. economy has not recovered completely, which will, to a certain extent, has negative impact on the global economic recovery. The operation and development environment of oilfield services industry is even more tough with fiercer market competition.

Facing a complicated situation in second half of 2010, we will continue to utilize our advantages to expand domestic and overseas markets while enhancing existing customers, and solidify the strategic cooperation relationship with customers. We will further increase our efficiency in operation management and reduce cost so as to strengthen the company's competency. We will also optimize our debt structure through various methods and ensure adequate utilization of external resources so as to improve economic efficiency. In respect of technological research and development, we will further increase our research and development capacity and enhance technology competency by adopting new organizational structure and incentive policies. The Company will have two 200-foot jack-up drilling rigs and two multi-functional support drilling rigs commencing operation, as well as the delivery of one 2,500-foot semi-submersible drilling rig in the second half of 2010, which will further strengthen our equipment capacity. We will commit to our social responsibilities as always, by promoting reduction of energy consumption and emissions, protecting the environment, intensifying the implementation of the QHSE system, so as to provide the shareholders with long-term and continuous return.

SUPPLEMENTARY 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 policies adopted by the Group as well as the internal control and financial reporting matters. The interim results for the six months ended 30 June 2010 have not been audited but have been reviewed by Ernst & Young in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. The unaudited interim financial report of the Group for the six months ended 30 June 2010 has been reviewed by the audit committee.

CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Changes in Directors

- (1) The Company convened the 2009 Annual General Meeting on 28 May 2010. Mr. Wu Mengfei, Mr. Fong Wo, Felix, and Mr. Chen Quansheng were elected as directors of the Company (in which, Mr. Wu Mengfei was selected as Non-executive Director and Mr. Fong Wo, Felix and Mr. Chen Quansheng were elected as Independent Non-executive Directors. Mr. Gordon C.K. Kwong and Mr. Simon X. Jiang retired and ceased to be Independent Non-executive Directors of the Company) by cumulative voting in the meeting, with a term of office for three years starting from the date the resolutions were passed at the Annual General Meeting.
- (2) The committees of the new Board are comprised as follows: the Audit Committee comprises of three Independent Non-executive Directors, namely Mr. Tsui Yiu Wa, Mr. Fong Wo, Felix and Mr. Chen Quansheng, with Mr. Tsui Yiu Wa being the chairman. The Remuneration Committee comprises of a Non-executive Director, namely Mr. Wu Mengfei, and three Independent Non-executive Directors, namely Mr. Tsui Yiu Wa, Mr. Fong Wo, Felix and Mr. Chen Quansheng, with Mr. Fong Wo, Felix being the chairman. The Nomination Committee comprises of Mr. Liu Jian, an Executive Director, Mr. Fong Wo, Felix and Mr. Chen Quansheng, both being Independent Non-executive Directors, with Mr. Liu Jian being the chairman.
- (3) On 3 June 2010, Mr. Tsui Yiu Wa ceased to be an Independent Non-executive Director of Greentown China Holdings Limited; on 13 July 2010, Mr. Tsui also ceased to be an Independent Non-executive Director of China Huiyuan Juice Group Limited.

2. Changes in Supervisors

- (1) The Company convened 2009 Annual General Meeting on 28 May 2010. Ms. An Xuefen was elected as the new Non-employee Representative Supervisor of the Company, with a term of office for three years, starting from the date resolutions were passed at the Annual General Meeting. Mr. Zhu Liebin ceased to be Supervisor of the Company.

- (2) On 20 July 2010, Mr. Zi Shilong was elected as the Employee Representative Supervisor of the Company. Mr. Yang Jinghong ceased to be the Employee Representative Supervisor of the Company.

3. Changes in Senior Management

- (1) In January 2010, Mr. Xiao Guoqing ceased to be Vice President of the Company due to his retirement.
- (2) In March 2010, Mr. Cao Shujie was appointed as Vice President of the Company.
- (3) In April 2010, Mr. Li Xunke ceased to be Senior Vice President of the Company due to work rearrangement.
- (4) In April 2010, Mr. Chen Weidong ceased to be Executive Vice President & CSO of the Company due to work rearrangement.
- (5) In April 2010, Mr. Yang Haijiang was appointed as the Board Secretary (Company Secretary) and Authorized Representative of the Company. Mr. Chen Weidong ceased to be the Secretary to the Board (Company Secretary) and authorized representative of the Company.

CORPORATE GOVERNANCE PRACTICES

For the six months ended 30 June 2010, the Company has complied with the Code on Corporate Governance Practices as stated in Appendix 14 of the Listing Rules, except for provision E.1.2.

Pursuant to provision E.1.2 of the Code on Corporate Governance Practices, the Chairman of the Board is required to attend the Annual General Meeting. However, Mr. Fu Chengyu, the Chairman of the Company, failed to attend the Annual General Meeting of the Company held on 28 May 2010 due to some other urgent issues that required his immediate attention. According to the Articles of Association of the Company, the deputy Chairman of the Company is required to preside the general meeting and act as the chairman of the meeting in the absence of the chairman. Therefore, Mr. Liu Jian, the Deputy Chairman of the Company, presided the annual general meeting and acted as the chairman of the meeting.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED COMPANIES

Upon specific enquiries to all Directors by the Company, all Directors have confirmed that they have, for the six months ended 30 June 2010, 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 THE COMPANY'S LISTED SECURITIES

Neither the Company nor its subsidiaries have purchased, disposed of or redeemed any of the Company's listed securities during the six months ended 30 June 2010.

MATERIAL LITIGATION AND ARBITRATION

Unit: RMB

Plaintiff (Applicant)	Respondent	Party Carrying Joint Liability	Litigation/ Arbitration	Procedure of the Litigation (Arbitration)	Amount involved in the Litigation (Arbitration)	Process of the Litigation (Arbitration)	Judgment and Effect of the Litigation (Arbitration)	Execution of the Judgment of the Litigation (Arbitration)
Former minority shareholders of AWO	CDE	Nil	Litigation	Note 1	N/A (Note 2)	Note 1	Note 1	Final judgment has not been made

Note 1: In January 2007, Awilco Offshore ASA (currently as "CDE") made a mandatory 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, a ruling that the valuation of OFRD shares was higher than the acquisition price was made by the Norwegian court. CDE has filed a petition for a second appraisalment by a higher court and the higher court process was held by the end of May 2010. According to the higher court decision made in August 2010, the redemption price was NOK34.5 (the redemption price from the previous lower court decision: NOK56).

Note 2: As the final judgment has not been made for this litigation, the Company is unable to determine the amount involved.

DISCLOSURE OF INFORMATION ON THE HKSE'S WEBSITE

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

By order of the Board
China Oilfield Services Limited
Yang Haijiang
Company Secretary

26 August 2010

As at the date of this announcement, the executive directors of the Company are Mr. Liu Jian and Mr. Li Yong; the non-executive directors of the Company are Mr. Fu Chengyu (Chairman) and Mr. Wu Mengfei; and the independent non-executive directors of the Company are Mr. Tsui Yiu Wa, Mr. Fong Wo, Felix and Mr. Chen Quansheng.