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 2010

Financial Highlights

1. Revenue decreased by 1.8% to RMB17,561 million
2. Profit from operations increased by 16.4% to RMB5,200 million
3. Net profit increased by 31.7% to RMB4,128 million
4. Basic earnings per share were RMB91.84 cents
5. Proposed final dividend per share of RMB18 cents

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2010

	Note	2010 RMB'000	2009 RMB'000
REVENUE	4	**17,560,985**	17,878,654
Other revenues	4	**88,633**	95,099
		17,649,618	17,973,753
Depreciation of property, plant and equipment and amortisation of intangible assets	5	**(3,122,338)**	(2,865,166)
Employee compensation costs	5	**(2,938,103)**	(2,669,618)
Repair and maintenance costs	5	**(437,722)**	(609,441)
Consumption of supplies, materials, fuel, services and others		**(3,277,048)**	(3,610,001)
Subcontracting expenses		**(1,143,711)**	(884,384)
Operating lease expenses	5	**(379,690)**	(589,118)
Other operating expenses		**(936,679)**	(1,076,167)
Other selling, general and administrative expenses		**(41,860)**	(381,870)
Impairment of property, plant and equipment	5	**(172,401)**	(819,889)
Total operating expenses		**(12,449,552)**	(13,505,654)
PROFIT FROM OPERATIONS		**5,200,066**	4,468,099
Financial income/(expenses)			
Exchange gains/(losses), net		**87,584**	(92,686)
Finance costs		**(674,152)**	(786,430)
Interest income		**76,900**	60,352
Financial expenses, net		**(509,668)**	(818,764)
Share of profits of jointly-controlled entities		**143,839**	110,264
PROFIT BEFORE TAX	5	**4,834,237**	3,759,599
Income tax expense	6	**(706,239)**	(624,282)
PROFIT FOR THE YEAR		**4,127,998**	3,135,317
Attributable to:			
Owners of the parent		**4,128,494**	3,135,317
Non-controlling interests		**(496)**	–
		4,127,998	3,135,317
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	8	**91.84 cents**	69.75 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2010

	2010	2009
	RMB'000	*RMB'000*
PROFIT FOR THE YEAR	**4,127,998**	3,135,317
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	**(215,199)**	1,789
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(215,199)**	1,789
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**3,912,799**	3,137,106
Attributable to:		
Owners of the parent	**3,913,317**	3,137,106
Non-controlling interests	**(518)**	–
	3,912,799	3,137,106

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2010

	Note	**2010** *RMB'000*	2009 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**46,371,109**	45,086,542
Goodwill	*9*	**4,462,018**	4,600,473
Other intangible assets		**407,897**	456,366
Investments in jointly-controlled entities		**487,785**	540,924
Available-for-sale investments		**100**	19,381
Pledged time deposits		**–**	39,081
Defined benefit assets		**6,265**	–
Other non-current assets		**28,120**	–
Total non-current assets		**51,763,294**	50,742,767
CURRENT ASSETS			
Inventories		**815,540**	820,549
Prepayments, deposits and other receivables		**388,791**	755,500
Accounts receivable		**3,460,752**	3,745,547
Notes receivable		**693,191**	429,658
Other current assets		**41,127**	20,583
Pledged deposits		**87,533**	247,311
Time deposits with original maturity over three months		**400,000**	800,000
Cash and cash equivalents		**5,847,164**	3,214,603
Total current assets		**11,734,098**	10,033,751
CURRENT LIABILITIES			
Trade and other payables		**4,435,823**	4,223,972
Salary and bonus payables		**781,375**	477,407
Tax payable		**124,028**	86,826
Interest-bearing bank borrowings	*10*	**650,721**	283,081
Current portion of long term bonds	*11*	**573,729**	–
Other current liabilities		**76,074**	–
Total current liabilities		**6,641,750**	5,071,286
NET CURRENT ASSETS		**5,092,348**	4,962,465
TOTAL ASSETS LESS CURRENT LIABILITIES		**56,855,642**	55,705,232

	Note	**2010**	2009
	Note	***RMB'000***	*RMB'000*
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*6*	**1,716,052**	1,790,789
Interest-bearing bank borrowings	*10*	**27,090,539**	28,151,040
Long term bonds	*11*	**1,500,000**	2,670,020
Deferred revenue		**922,523**	780,114
Defined benefit obligations		**–**	1,381
Other non-current liabilities		**36,603**	6,283
Total non-current liabilities		**31,265,717**	33,399,627
Net assets		**25,589,925**	22,305,605
EQUITY			
Equity attributable to owners of the parent			
Issued capital	*12*	**4,495,320**	4,495,320
Reserves		**20,285,099**	17,180,940
Proposed final dividend	*7*	**809,158**	629,345
		25,589,577	22,305,605
Non-controlling interests		**348**	–
Total equity		**25,589,925**	22,305,605

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 Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for available-for-sale investments and derivative financial instruments, which has 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

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. 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 intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained, and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instance from the previous basis of consolidation:

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

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 (Revised)	*First-time Adoption of Hong Kong Financial Reporting Standards*
HKFRS 1 Amendments	Amendments to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards – Additional Exemptions for First-time Adopters*
HKFRS 2 Amendments	Amendments to HKFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
HKFRS 3 (Revised)	*Business Combinations*
HKAS 27 (Revised)	*Consolidated and Separate Financial Statements*
HKAS 39 Amendment	Amendment to *HKAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
HK(IFRIC)-Int 17	*Distributions of Non-cash Assets to Owners*
HKFRS 5 Amendments and included *in Improvements to HKFRSs* issued in October 2008	Amendments to HKFRS 5 *Non-current Assets Held for Sale Discontinued Operations – Plan to sell the controlling interest in a subsidiary*
Improvements to HKFRSs 2009	Amendments to a number of HKFRSs issued in May 2009
HK Interpretation 4 Amendment	Amendment to HK Interpretation 4 *Leases – Determination of the Length of Lease Term in respect of Hong Kong Land Leases*
HK Interpretation 5	Presentation of Financial Statements – *Classification by the Borrower of Term Loan that Contains a Repayment on Demand Clause*

Other than as further explained below regarding the impact of HKFRS 3 (Revised), HKAS 27 (Revised), and Improvements to HKFRSs 2009, the adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these new and revised HKFRSs are as follows:

(a) HKFRS 3 (Revised) *Business Combinations* and HKAS 27 (Revised) *Consolidated and Separate Financial Statements*

HKFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

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. Consequential amendments were made to various standards, including, but not limited 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 these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(b) Improvements to HKFRSs 2009

Improvements to HKFRSs 2009 issued in May 2009 sets out amendments to a number of HKFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments result in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

HKAS 7 *Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

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, pledged deposits, time deposits with original maturity over three months 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 COSL Norwegian AS 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 2010				
	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	**9,327,014**	**4,326,967**	**2,346,021**	**1,560,983**	**17,560,985**
Intersegment sales	**776,234**	**433,702**	**158,389**	**82,753**	**1,451,078**
	10,103,248	**4,760,669**	**2,504,410**	**1,643,736**	**19,012,063**
Reconciliation:					
Elimination of intersegment sales					**(1,451,078)**
Revenue					**17,560,985**
Segment results	**3,591,213**	**864,601**	**522,835**	**365,256**	**5,343,905**
Reconciliation:					
Exchange gains, net					**87,584**
Finance costs					**(674,152)**
Interest income					**76,900**
Profit before tax					**4,834,237**
Segment assets	**68,434,240**	**4,507,059**	**5,442,414**	**3,110,591**	**81,494,304**
Reconciliation:					
Elimination of intersegment assets					**(23,618,177)**
Unallocated assets					**5,621,265**
Total assets					**63,497,392**
Segment liabilities	**28,586,258**	**1,598,582**	**680,612**	**783,236**	**31,648,688**
Reconciliation:					
Elimination of intersegment liabilities					**(23,618,177)**
Unallocated liabilities					**29,876,956**
Total liabilities					**37,907,467**
Other segment information:					
Capital expenditure	**3,328,131**	**295,062**	**1,016,092**	**837,174**	**5,476,459**
Depreciation of property, plant and equipment and amortisation of intangible assets	**2,053,539**	**475,877**	**328,215**	**264,707**	**3,122,338**
Provision for impairment of accounts receivable	**188,742**	**1,884**	**1,023**	**684**	**192,333**
Provision for impairment of other receivables	**(133)**	**(63)**	**34,462**	**(23)**	**34,243**
Provision for impairment of inventories	**334**	**155**	**84**	**56**	**629**
Impairment provision for an available–for sale investment	**18,291**	**–**	**–**	**–**	**18,291**
Impairment provision for property, plant and equipment	**145,699**	**–**	**26,702**	**–**	**172,401**
Share of profits of jointly-controlled entities	**85,896**	**50,706**	**(18,758)**	**25,995**	**143,839**
Investments in jointly-controlled entities*	**(112,677)**	**320,659**	**86,111**	**81,015**	**375,108**

* The investments in jointly-controlled entities included investments in Premium Drilling and Atlantis Deepwater Limited which were classified as other current liabilities and other non-current liabilities amounting to RMB76.1 million and RMB36.6 million, respectively.

	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
	11,141,369	4,561,297	2,230,418	1,449,143	19,382,227
Reconciliation:					
Elimination of intersegment sales					(1,503,573)
Revenue					17,878,654
Segment results	2,806,984	795,347	631,732	344,300	4,578,363
Reconciliation:					
Exchange losses, net					(92,686)
Finance costs					(786,430)
Interest income					60,352
Profit before tax					3,759,599
Segment assets	68,075,601	5,115,367	5,238,398	2,576,235	81,005,601
Reconciliation:					
Elimination of intersegment assets					(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
Reconciliation:					
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 investments	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
Investments in jointly-controlled entities*	14,300	322,205	151,896	66,823	555,224

* The investments in jointly-controlled entities included investments in Premium Drilling 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.

Geographical Information

The Group mainly engages in the provision of drilling services, well services, marine support and transportation services and geophysical services in Mainland China. Activities outside Mainland China are mainly conducted in Indonesia, Australia, Mexico, Myanmar, Norway, Vietnam, Dubai, and certain counties in the Middle-East, such as Libya and other countries.

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% (2009: less than 10%), and approximately 75.4% (2009: approximately 72.1%) 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 2010 and 2009.

	Year ended 31 December 2010		
	Mainland China	**Others**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Segment revenue:			
Sales to external customers	13,248,896	4,312,089	17,560,985

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

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:

	2010	2009
Revenue:	***RMB'000***	*RMB'000*
Rendering of services*	**17,392,185**	17,708,484
Gross rental income	**168,800**	170,170
Total revenue	**17,560,985**	17,878,654
Other revenues:		
Gain on disposal of scrap equipment	**8,227**	168
Insurance claims received	**30,378**	52,140
Government grants	**11,801**	6,490
Others	**38,227**	36,301
Total other revenues	**88,633**	95,099

* Included in the amount was deferred revenue of RMB43,679,000 (2009: RMB1,076,937,000) recognised during the year.

5. PROFIT BEFORE TAX

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

	2010	2009
	RMB'000	*RMB'000*
Auditors' remuneration:		
Audit	**14,480**	15,570
Non-audit	**3,958**	6,262
Employee compensation costs (including directors' remuneration):		
Wages, salaries and bonuses	**2,485,019**	2,153,116
Social security costs	**293,716**	398,069
Retirement benefits and pensions	**157,678**	118,986
Share appreciation rights	**1,690**	(553)
	2,938,103	2,669,618

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

	2010	2009
	RMB'000	*RMB'000*
Depreciation of property, plant and equipment and amortisation of intangible assets	**3,122,338**	2,865,166
Loss on disposal of property, plant and equipment, net	**25,643**	19,017
Lease payments under operating leases in respect of land and buildings, berths and equipment	**379,690**	589,118
Impairment of property, plant and equipment	**172,401**	819,889
Impairment of accounts receivable, net	**192,333**	38,885
Impairment of other receivables, net	**34,243**	4,543
Provision against inventories	**629**	1,070
Impairment of an available-for-sale investment	**18,291**	15,003
Repair and maintenance costs	**437,722**	609,441
Research and development costs, included in:	**173,812**	197,228
Depreciation of property, plant and equipment	**11,890**	15,454
Employee compensation costs	**21,629**	26,444
Consumption of supplies, materials, fuel, services and others	**135,830**	149,324
Other operating expenses	**4,463**	6,006

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 profits tax in Hong Kong as it does not have assessable profits 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%.

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 commenced 1 January 2008. Further, the Company obtained the approval of tax deduction and exemption registration report from Tianjin Offshore Oil Tax Bureau of Tianjin Provincial Office of the TSAT in 2009. According to the approval, the corporate income tax rate was approved to be 15% for the year 2009 and 2010. 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 2010 (2009: 15%).

Certain overseas subsidiaries of the Group with permanent establishment status in the PRC are subject to deemed income tax calculated at 3.75% (2009: 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 25 % (2009: 28%). The Group's drilling activities in Australia are subject to income tax of 30% (2009: 30%) based on its taxable profit generated. The Group's drilling activities in Myanmar are subject to income tax of 3.5% (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 rate of 30% or business flat tax of 17.5% (2009: 28% and 17%, respectively). The Group's activities in

Norway are mainly subject to a corporate income tax of 28% (2009: 28%). The Group's activities in Vietnam are subject to withholding tax of 10 % on income derived from the provision of drilling services (2009: 10%). The Group's taxes pertaining to drilling activities in Libya and Saudi Arabia are borne by the customer. The Group's drilling activities in Dubai are not subject to any income tax. The Group's taxes pertaining to drilling activities in Iran are borne by the customer.

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

	2010	2009
	RMB'000	*RMB'000*
Hong Kong profits tax	**–**	–
Overseas income taxes:		
Current	**75,703**	116,811
Deferred	**(124,524)**	10,922
PRC corporate income taxes:		
Current	**662,913**	412,487
Deferred	**92,147**	84,062
Total tax charge for the year	**706,239**	624,282

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

	2010		2009	
	RMB'000	*%*	*RMB'000*	*%*
Profit before tax	**4,834,237**		3,759,599	
Tax at the statutory tax rate of 25% (2009: 25%)	**1,208,559**	**25.0**	939,900	25.0
Tax reduction as an advanced technology enterprise	**(373,874)**	**(7.7)**	(310,687)	(8.3)
Income not subject to tax	**(32,856)**	**(0.7)**	(1,008,967)	(26.8)
Expense not deductible for tax	**91,934**	**1.9**	556,155	14.8
Tax benefit for qualifying research and development expense	**(16,741)**	**(0.3)**	(28,761)	(0.8)
Effect of different tax rates for overseas subsidiaries	**(313,222)**	**(6.5)**	(134,124)	(3.6)
Unrecognised tax losses	**51,538**	**1.1**	–	–
Utilisation of previous unrecognised tax losses	**–**	**–**	(475,416)	(12.6)
Deductible translation adjustment*	**(61,393)**	**(1.3)**	1,057,765	28.1
Adjustment in respect of current tax of previous periods	**58,172**	**1.2**	(66,909)	(1.8)
Others	**94,122**	**1.9**	95,326	2.5
Total tax charge at the Group's effective rate	**706,239**	**14.6**	624,282	16.5

* Deductible 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.

The share of tax attributable to jointly-controlled entities amounting to approximately RMB66,586,000 (2009: RMB62,091,000) is included in "Share of profits of jointly-controlled entities" in the consolidated income statement.

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

	2010	2009
	RMB'000	*RMB'000*
Balance at beginning of the year	**1,790,789**	1,697,132
Charged to the income statement during the year	**(32,377)**	94,984
Exchange realignment	**(42,360)**	(1,327)
Balance at end of the year	**1,716,052**	1,790,789

7. DIVIDENDS

	2010	2009
	RMB'000	*RMB'000*
Proposed final dividend – RMB0.18 per ordinary share (2009: RMB0.14 per ordinary share)	**809,158**	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 RMB4,128,494,000 (2009: RMB3,135,317,000), and the weighted average number of ordinary shares of 4,495,320,000 (2009: 4,495,320,000) in issue during the year.

There were no potentially diluting events for the years ended 31 December 2010 and 2009.

9. GOODWILL

Goodwill was generated in the acquisition of COSL Drilling Europe AS ("CDE") on 28 September 2008.

	2010
	RMB'000
Cost at 1 January 2010, net of accumulated impairment	**4,600,473**
Exchange realignment	**(138,455)**
Cost and net carrying value at 31 December 2010	**4,462,018**
Cost	**4,600,473**
Exchange realignment	**(138,455)**
Net carrying amount	**4,462,018**

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

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 Drilling Services 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% (2009: 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 Drilling Services cash-generating unit for 31 December 2010. 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 are before tax and reflect specific risks relating to the relevant unit.

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

10. INTEREST-BEARING BANK BORROWINGS

Current:

	31 December 2010	31 December 2009
	RMB'000	*RMB'000*
Current portion of long term bank loan	**650,721**	283,081

Non-current:

	Contractual interest rate	**Year of maturity**	**31 December 2010**	31 December 2009
	(%)		***RMB'000***	*RMB'000*
Export-Import Bank of China-unsecured	i	2013	**344,000**	544,000
Export-Import Bank of China-unsecured	ii	2017	**312,000**	356,000
Export-Import Bank of China-unsecured	LIBOR+170pts	2020	**5,219,623**	5,369,024
Export-Import Bank of China-unsecured	iii	2015	**450,000**	450,000
Bank of China-unsecured	LIBOR+138pts	2017	**11,105,952**	10,777,455
Bank of China-unsecured	LIBOR+90pts	2017	**5,298,160**	5,462,560
Industrial and Commercial Bank of China-unsecured	LIBOR+90pts	2017	**3,973,620**	4,096,920
Headquarter entrusted loan-unsecured	3.71%	2011	**–**	800,000
Headquarter entrusted loan-unsecured	iv	2012	**1,000,000**	500,000
Eksportfinans-secured	3.20%	2011	**37,905**	78,162
			27,741,260	28,434,121
Less: current portion of long term bank loan			**(650,721)**	(283,081)
			27,090,539	28,151,040

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

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

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

iv Floating interest rate, with commission of the entrusted loan at 0.15%

	2010	2009
	RMB'000	*RMB'000*
Bank borrowings repayable:		
Within one year, inclusive	**650,721**	283,081
In the second year	**2,712,806**	1,460,548
In the third to fifth year	**9,258,165**	7,753,175
Beyond five years	**15,119,568**	18,937,317
	27,741,260	28,434,121

The Eksportfinans loan is secured by a pledged time deposit amounting to RMB38 million as at 31 December 2010 (31 December 2009: RMB78 million). There were no other assets pledged for any of the above bank borrowings as at 31 December 2010 (31 December 2009: nil).

11. LONG TERM BONDS

	Year of maturity	**31 December 2010**	31 December 2009
		RMB'000	*RMB'000*
Corporate bonds	2022	**1,500,000**	1,500,000
Senior unsecured USD bonds	2011	**–**	561,979
Second security priority USD bonds	2011	**573,729**	608,041
		2,073,729	2,670,020
Less: current portion of long term bonds		**(573,729)**	–
		1,500,000	2,670,020

12. ISSUED CAPITAL

	2010	2009
	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.

13. CONTINGENCY

(a) In 2009 and 2010, certain subsidiaries of the Group received notifications from the local tax authorities requesting information on the valuation basis and the fair value used by the respective companies for the transfer of certain jack-up rigs' contracts and options and semi-submersible drilling rigs' contracts, respectively, to certain entities within the Group, and indicating their intent to consider additional assessment. If the valuation basis and the fair value indicated by the tax authorities are adopted, the tax liability relating to the transfers could increase substantially for those companies. The respective subsidiaries have submitted the response letter to the local tax authorities regarding the above notifications as at 30 June 2010 and 19 January 2011, respectively, 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 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 contingencies in these financial statements.

(b) In 2010, the Company received an inspection notice from Tianjin Xin Gang Customs of the People's Republic of China ("Tianjin Customs") to inspect the Company's customs duties related to the imports and exports for the past three years. As at the report date, no conclusion has been received from Tianjin Customs. 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 contingency in these financial statements.

14. EVENTS SUBSEQUENT TO THE REPORT PERIOD

The Group has been providing drilling services to onshore oilfields in Libya since 2008. From February 2011, because of social unrest, the social and economic conditions in Libya have become unstable, which have had an impact on the Group's operations in the country. In the opinion of the directors, given the current uncertainty of the situation, it is too early to reasonably assess the financial impact to the Group as at the date of approval of the financial statements. As at 31 December 2010, the assets deployed and the scale of operations in Libya are not considered to be material to the Group.

15. COMPARATIVE AMOUNTS

As further explained in note 2.2, due to the adoption of new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

16. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 March 2011.

MANAGEMENT DISCUSSION AND ANAYSIS

The financial data in the following discussion and analysis are extracted from the Group's audited financial statements prepared under HKFRS.

INDUSTRY REVIEW

In 2010, the global economy was recovering and the investments in global oil and gas exploration have increased. According to the analysis of Barclays Capital, global oil exploration and production expenditures amounted to US$439 billion in 2010, representing an increase of 11% over the previous year. The increase in upstream investment caused the whole oilfield services sector to recover slowly. According to Spears & Associate, Inc., the total global market value of oilfield services in 2010 increased by approximately 5% compared to 2009 to US$258 billion. Affected by the increase in the number of new platforms, the day rate and contract signing rate of drilling rigs both remained low. According to the statistics from ODS-data, in 2010, the comprehensive day rate of drilling rigs reduced by 10.91%, and overall global drilling rig contract signing rate reduced by 3.67% on a year-to-year basis. Oil companies maintained a high level of capital expenditure in China offshore and offshore exploration and production in China remained active.

BUSINESS REVIEW

Drilling Services Segment

COSL is the major supplier of China offshore drilling services, and is 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 2010, we operated a total of 29 drilling rigs (of which 25 are jack-up drilling rigs (one leased), and 4 are semi-submersible drilling rigs), 2 accommodation rigs, 4 module rigs and 6 land drilling rigs.

In 2010, affected by the financial crisis and the Gulf of Mexican oil spill, market demand for drilling services declined as competition intensified and prices became volatile. Facing a complex market environment, COSL continued to solidify our leading position in the off-shore drilling market in China and signed annual service contracts with major clients. Meanwhile, we strived to develop our overseas markets with new progress in a number of targets as our overseas drilling business has expanded further. The calendar day utilization rate of our drilling vessel team for the year reached 94.6% and the turnover of our drilling service operation recorded an increase of 5.8% to RMB9,327.0 million, after excluding the impact of a deferred revenue of RMB1,073.1 million recognized last year.

As of the end of 2010, we had 8 drilling vessels operating in Bohai of China, 5 in South China Sea, 1 in East China Sea, 7 in overseas countries such as Indonesia and Saudi Arabia, while 5 vessels were in maintenance waiting for order in the shipyard and will soon be mobilized to their new assignments destinations. 2 jack-up drilling rigs delivered at the end of October commenced operation at the beginning of 2011. The semi-submersible drilling rig, COSL Pioneer, is expected to commence operation in summer of 2011.

2 accommodation rigs continued to provide services for customers in the North Sea in 2010. 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 semi-submersible drilling rig, COSL Innovator, were successfully combined in 2010, symbolizing the basic completion of the main body of the rig and the start of the mechanical finishing and system inspection stages. Two 200 feet jack-up drilling rigs under construction were under inspection and expected to be completed in the second quarter of 2011.

2010 operation details of our jack-up and semi-submersible drilling rigs are as follows:

	2010	2009	**Increase/ (Decrease)**	**Percentage change**
Operating days (day)	**8,936**	8,155	781	9.6%
Jack-up drilling rigs	**7,933**	7,089	844	11.9%
Semi-submersible drilling rigs	**1,003**	1,066	(63)	(5.9%)
Available day utilization rate	**99.5%**	98.9%	0.6%	
Jack-up drilling rigs	**99.5%**	98.7%	0.8%	
Semi-submersible drilling rigs	**100.0%**	100.0%	0.0%	
Calendar day utilization rate	**94.6%**	95.0%	(0.4%)	
Jack-up drilling rigs	**94.9%**	94.7%	0.2%	
Semi-submersible drilling rigs	**91.6%**	97.4%	(5.8%)	

The reasons for the increase by 844 days of operation of jack-up rigs compared with last year were that, firstly, the operating days of CDE increased by 316 days (the operating days of the two drilling rigs delivered last year increased by 265 days for the year and the operating days of other rigs increased by 51 days due to enhanced efficiency). Secondly, the total operating days of the other rigs increased by 528 days mainly due to an increase of 657 days by the operation of the two new rigs and a mere reduction of 129 days for repair and maintenance of other rigs.

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

In 2010, the calendar day utilization rate of the jack-up and semi-submersible drilling vessel team decreased slightly by 0.4% compared with last year and reached 94.6% due to the increase in the number of days of repair and maintenance.

In 2010, our two accommodation rigs operated for 730 days in North Sea with available day utilization rate and calendar day utilization rate both reaching 100.0%. We continued to provide the services of 4 module rigs for the Mexican clients, which brought 1,418 days of operation for the whole year and the calendar day utilization rate reached 97.1%. The 6 land drilling equipment brought a total of 2,127 days of operation, and the calendar day utilization rate reached 97.1%.

Affected by the global economic environment and the downtum in markets of oilfield services in 2010, the average day rate for drilling rigs of the Group decreased slightly compared with last year. The details are as follows:

Average day rate (ten thousand US$/day)	**2010**	2009	**Increase/ (Decrease)**	**Percentage change**
Jack-up drilling rigs	**11.3**	12.0	(0.7)	(5.8%)
of which: CDE	**12.9**	14.1	(1.2)	(8.5%)
Semi-submersible drilling rigs	**19.4**	18.8	0.6	3.2%
Accommodation rigs	**22.1**	19.6	2.5	12.8%
Average	**12.9**	13.4	(0.5)	(3.7%)

Note: 31 December 2010 US$/RMB exchange rate: 1:6.6227, 31 December 2009 US$/RMB exchange rate: 1:6.8282.

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 oil and gas companies in China (such as CNOOC Limited 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, the Group 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 2010, we continued to enhance our research and development capabilities and promote our development results. Our self-developed logging-while-drilling system succeeded in downhole testing for the first time, achieving real-time measurement of logging-while-drilling parameters such as directional parameter, natural gamma ray, electromagnetic wave resistivity, etc.. High-end logging service was provided in Africa for the first time and succeeded in high-end 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 the South China Sea and obtained customers compliment. The Enhanced Reservior Characteristic Tester (ERCT) was fully commercialized with 6 testers delivered to Bohai and South China Sea with a successful rate of 100%. The Crossline Dipole Array Acoust Logging Tool (EXDT) operated for 25 times in over 20 wells in Bohai and South China Sea with excellent results. The High Definition Array Induction Logging successfully operated in 5 wells in South China Sea and provided services for the market in Myanmar.

As for the markets, the Group has consolidated the original markets as well as actively developed the overseas market. Our logging and cementing business have entered into the Libyan market for the first time during the year and provided relevant services to the customers. At the same time, we actively developed new service domains and provided logging services to coal gas project on land for the first time and completed the logging operation for Sino Gas & Energy, symbolizing our entrance into the operation market for coal gas project on land. In addition, the new business, EPS (Environmental Protection Services), has gradually become profitable with revenue for the year reaching RMB16.5 million.

In 2010, our well service segment focused on the principal operation and reduced low-tech business and as a result, the revenue for the year decreased slightly. The operating income for the year was RMB4,327.0 million, decreased by RMB89.7 million from RMB4,416.7 million of last year, representing a decrease of 2.0%.

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 2010, the Group owned an aggregate of 75 utility vessels of various types, 3 oil tankers, 5 chemical carriers, which were mainly operating 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 on 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, refined oil and gas product. The chemical carriers are used for carrying chemical products such as methanol.

In 2010, the marine support and transportation services segment faced intensified competition and the Group has maintained a higher calendar day utilization rate of 94.7% while guaranteeing safe operation and enhancing the quality of services. In addition, we have increased our channels through special operating technology for the marine support and transportation services and selective utilization of social resources. In 2010, the Group had 1 workover support barges joining the fleet and 2 high-powered deep water utility vessels under construction with expected completion in 2011. With the completion of the high-powered deep water utility vessels, the operating capabilities of our oilfield utility vessels in deep waters will be strengthened.

The operation of the Group-owned utility vessels in 2010 was as follows:

Operating days (day)	**2010**	2009	**Increase/ (Decrease)**	**Percentage change**
Standby vessels	**16,466**	16,433	33	0.2%
AHTS vessels	**6,225**	6,787	(562)	(8.3%)
Platform supply vessels	**1,733**	1,759	(26)	(1.5%)
Multi-purpose vessels	**1,239**	1,949	(710)	(36.4%)
Workover support barges	**1,106**	774	332	42.9%
Total	**26,769**	27,702	(933)	(3.4%)

The operation days of self-owned utility fleet decreased by 933 days compared with last year mainly because there were 8 utility vessels scrapped last year and 6 utility vessels scrapped and retired for the year which decreased operation by 2,987 days; the 3 new workover support barges fully operated in current year and 1 new workover support barge commenced to operate in 2010 resulted an increase of 332 days in total; the 10 new utility vessels commenced operation in last year fully operated in current year resulted an increase of 1,745 days; the operation days of other vessels decreased by a total of 23 days.

The total transportation volume of oil tankers and chemical carriers for the year increased due to the improvement in operation rate and utilization of external resources, of which, the transportation volume of oil tankers was 2,028 thousand tonnes, representing an increase of 43.5% from 1,413 thousand tonnes from last year, and the transportation volume of chemical carriers was 1,779 thousand tonnes, representing an increase of 62.0% from 1,098 thousand tonnes from last year.

Driven by the increase in transportation volume of oil tankers and chemical carriers, the marine support and transportation services segment achieved a turnover of RMB2,346.0 million, increased by RMB174.7 million from RMB2,171.3 million from last year, representing an increase of 8.0%.

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, the Group owns 8 seismic vessels and 4 integrated marine surveying vessels.

Seismic Services

Although the global financial crisis and the icy condition in China have affected the development of the geophysical services segment in 2010, we maintained steady development in the geophysical services segment through refined management, enhanced operating efficiency, expanded deep water surveying services and etc. We also had appropriate arrangement and increased development in the market. In 2010, HYSY718 received our first 5,000 km^2 3D collection contract; HYSY718 also provided 3D collection services overseas during the non-operating period in China in winter. In addition, to enhance the operating capabilities of the geophysical services segment, we built our first large 12-cabled deep water surveying vessels in China, HYSY720, which was launched at the end of the year and will enter the installation and adjustment stages. The new vessel will effectively enhance our seismic data collection capabilities, particularly the 3D seismic data collection capabilities in deep waters.

The details of operation volume for the data collection and data processing businesses of the Group for the year are as follows:

Services	**2010**	2009	**Increase/ (Decrease)**	**Percentage change**
2D collection (km)	**24,469**	33,900	(9,431)	(27.8%)
2D processing (km)	**14,846**	22,588	(7,742)	(34.3%)
3D collection (km^2)	**13,008**	10,394	2,614	25.1%
of which: submarine cable (km^2)	**405**	–	405	100.0%
3D processing (km^2)	**7,983**	7,951	32	0.4%

The operation volume of 2D collection business reduced by 9,431 km compared with last year, which was principally attributable 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 for the 3D collection business. The operation volume of 3D collection business increased by 2,614 km^2 compared with last year, which was principally attributable to the increased market demand for the 3D collection business and the Group's active development of overseas market in winter when operation was not suitable to be carried out in domestic waters. In addition, our new submarine cable collection business for the year completed operation of 405 km^2. For the data processing business, affected by a decrease in demand, the operating volume of the 2D data processing business decreased by 34.3% compared with last year and the operating volume of the 3D data processing business was nearly the same as last year.

In 2010, driven by the submarine cable collection business, the turnover of the geophysical services of the Group amounted to RMB1,561.0 million, increased by RMB162.1 million from RMB1,398.9 million of last year, representing an increase of 11.6%.

Surveying Services

In 2010, we actively explored the markets and succeeded in the deep water surveying business. We completed the contract of deepwater surveying of Liwan obtained last year and laid a foundation for our deep water surveying business in the future. The 2010 surveying services recorded a revenue of RMB310.3 million, increased by 2.9%, compared with RMB301.6 million in last year.

Integrated Project Management

In 2010, the Group's integrated services operated in the four waters of Bohai, Yellow Sea, East China Sea and South China Sea and fully considered the customers' demand to provide integrated project management of 10 wells for external market customers such as China Geological Survey, Primeline, Shanghai Petroleum Company Limited and Singapore Petroleum Company Limited with excellent project management and higher level of technology. We demonstrated the advantage of our comprehensive service chain and developed our market. Among them, we overcame difficulties such as operating in deep waters, difficult control of well trajectory, drilling through 39 layers of coal and hard metamorphic rocks in our services for Shanghai Petroleum Company Limited, succeeded in working at the complex formation and opened up market for jack-up rig operation in 100m deep waters.

In 2010, the revenue of integrated project management of the Group reached RMB1.32 billion, increased by RMB310 million from RMB1.01 billion for last year, representing an increase of 30.7%.

Overseas Business

In 2010, affected by the global financial crisis and excess supply of large equipment, market competition for oilfield services remained intense. The Group strengthened the development in key markets overseas and achieved overseas revenue of RMB4,312.1 million, representing 24.6% of the Group revenue in 2010. Overseas revenue for the year decreased by RMB676.9 million from RMB4,989.0 million for last year mainly due to the deferred revenue of RMB1,073.1 million recognized in last year. Excluding this impact, our overseas revenue for the year would have increased by RMB396.2 million compared with last year, or an increase of 10.1%.

We selectively focused on our overseas projects in 2010. While we secured the continuation of the existing overseas projects (N6 Project in Australia, 4 module rigs in Mexico, 5 land drilling rigs in Libya and the integrated well workover project contract in Indonesia), at the same time we obtained a number of new projects. The new semi-submersible drilling rig COSL Pioneer was awarded an operating intent of up to 5 years from a Norway national petroleum company Statoil; 2 jack-up drilling rigs received drilling services contract in Indonesia; our cementing and acidizing business received new operating contract in Indonesia; our logging and cementing business succeeded in operating in Libya for the first time. In addition, our geophysical collection vessel navigated to Myanmar, Indonesia, Papua New Guinea etc. to conduct data collection services.

FINANCIAL REVIEW

1. Consolidated Income Statement Analysis

1.1 Revenue

In 2010, the oilfield services industry faced fierce competition and challenges as a result of the global financial crisis and the Mexican Gulf oil spill. Facing the complex market environment, we based on the domestic markets, developed the overseas market and actively communicated with the customers to maintain stability in the price of services with excellent standard of services. In 2010, our revenue for the year reached RMB17,561.0 million, representing a decrease of RMB317.7 million or 1.8% compared with RMB17,878.7 million for last year. It was mainly because last year the Group had a recognition of deferred revenue of RMB1,073.1 million caused by the cancellation of contract for 1 semi-submersible drilling rig which was under construction. Excluding the impact, our revenue for the year would have increased by RMB755.4 million compared with last year, or an increase of 4.5% which was mainly due to the operation of the new large equipment in last year and for the year.

The following table presents income from each segment:

Unit: RMB million

Business segment	**2010**	2009	**Increase/ (Decrease)**	**Percentage change**
Drilling services	**9,327.0**	9,891.8	(564.8)	(5.7%)
Well services	**4,327.0**	4,416.7	(89.7)	(2.0%)
Marine support and transportation services	**2,346.0**	2,171.3	174.7	8.0%
Geophysical services	**1,561.0**	1,398.9	162.1	11.6%
Total	**17,561.0**	17,878.7	(317.7)	(1.8%)

1.2 *Operating expenses*

In 2010, operating expenses of the Group totaled RMB12,449.6 million, representing a decrease of RMB1,056.1 million or 7.8% from RMB13,505.7 million for last year.

The table below shows the breakdown of operating expenses for the Group in 2010 and 2009:

Unit: RMB million

	2010	2009	**Increase/ (Decrease)**	**Percentage change**
Depreciation of property, plant and equipment and amortisation of intangible assets	**3,122.3**	2,865.2	257.1	9.0%
Employee compensation costs	**2,938.1**	2,669.6	268.5	10.1%
Repair and maintenance costs	**437.7**	609.4	(171.7)	(28.2%)
Consumption of supplies, materials, fuel, services and others	**3,277.0**	3,610.0	(333.0)	(9.2%)
Subcontracting expenses	**1,143.7**	884.4	259.3	29.3%
Operating lease expenses	**379.7**	589.1	(209.4)	(35.5%)
Other operating expenses	**936.8**	1,076.2	(139.4)	(13.0%)
Other selling, general and administrative expenses	**41.9**	381.9	(340.0)	(89.0%)
Impairment of property, plant and equipment	**172.4**	819.9	(647.5)	(79.0%)
Total operating expenses	**12,449.6**	13,505.7	(1,056.1)	(7.8%)

Depreciation and amortisation increased by RMB257.1 million or 9.0% compared to last year, it was mainly due to new additions of large equipment, including two jack-up drilling rigs delivered in 2009 which depreciated for the whole year in 2010, and 2 liftboats which started to depreciate since 2010.

Employee compensation costs increased by RMB268.5 million or 10.1%, which was mainly due to the increase of our staff number and remuneration.

Repair and maintenance costs decreased by RMB171.7 million or 28.2%, which was mainly due to 72-day repair work of accommodation rigs in last year while no repair work in this year.

Consumption of supplies, materials, fuel, services and others decreased by RMB333.0 million or 9.2% which as due to two main reasons. One, our well services segment reduced non-core business such as construction in the year. Second, we strengthened our refined management and strictly controlled cost in this year.

Subcontracting expenses increased by RMB259.3 million or 29.3%, which was mainly due to the increase in subcontracting volume as a result of the business expansion of the Group and enlarged market share.

Operating lease expenses decreased by RMB209.4 million or 35.5%, which was mainly due to the strengthening of cost control and reduction of external lease of equipment.

Other operating expenses decreased by RMB139.4 million or 13.0%, which was mainly due to the provision for large amount of default compensation estimated for last year. The Group reversed the compensation provision based on the ultimate settlement in this year.

Other selling, general and administrative expenses decreased by RMB340.0 million or 89.0%, which was mainly due to the recognition of provisions estimated for litigation in last year. Due to the settlement of litigation in this year, the Group reversed or paid the provision based on the ultimate settlement.

Impairment of property, plant and equipment of the Group decreased by RMB647.5 million or 79.0%. This was primarily attributable to the adverse impact of the macroeconomic environment and the delay in the delivery of the semi-submersible rigs under construction, the Group recognized an asset impairment loss of RMB819.9 million in last year. During this year, based on the market price of drilling package and status of the vessel, the Group recognized a total asset impairment loss of RMB172.4 million for the drilling package and an oilfield utility vessel.

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

Unit: RMB million

Business segment	**2010**	2009	**Increase/ (Decrease)**	**Percentage change**
Drilling services	**5,830.9**	7,180.2	(1,349.3)	(18.8%)
Well services	**3,560.4**	3,679.9	(119.5)	(3.2%)
Marine support and transportation services	**1,817.4**	1,531.7	285.7	18.7%
Geophysical services	**1,240.9**	1,113.9	127.0	11.4%
Total	**12,449.6**	13,505.7	(1,056.1)	(7.8%)

1.3 *Operating profit*

The operating profit of the Group during the year amounted to RMB5,200.1 million, representing an increase of RMB732.0 million or 16.4% from RMB4,468.1 million in last year. This was primary attributable to the fact that the Group had implemented powerful cost control, and there were no material asset impairment loss and no large amount of provision for litigations and default compensation recognized in this year.

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

Unit: RMB million

Business segment	**2010**	2009	**Increase/ (Decrease)**	**Percentage change**
Drilling services	**3,505.3**	2,747.5	757.8	27.6%
Well services	**813.9**	743.3	70.6	9.5%
Marine support and transportation services	**541.6**	654.2	(112.6)	(17.2%)
Geophysical services	**339.3**	323.1	16.2	5.0%
Total	**5,200.1**	4,468.1	732.0	16.4%

1.4 Financial expenses, net

In 2010, the financial expenses was RMB509.7 million, representing a decrease of RMB309.1 million or 37.8% compared with RMB818.8 million of last year, which was mainly due to the decrease of RMB112.2 million in finance cost as a result of refinancing and optimising of debt, which reduced the debt cost this year. In addition, the exchange differences for the year increased by RMB180.4 million compared with last year since an exchange gain of RMB87.7 million was recognized in 2010 while with an exchange loss of RMB92.7 million recognized in last year due to foreign exchange rates fluctuations.

1.5 Share of profits of jointly-controlled entities

In 2010, our share of profits of jointly-controlled entities amounted to RMB143.8 million, representing an increase of RMB33.5 million or 30.4% compared with RMB110.3 million for last year. This was primarily attributable to the increase in share of profits of China France Bohai Geoservices Co., Ltd. amounting to RMB26.6 million as compared with last year due to increase in work load.

1.6 Profit before tax

The profit before tax attained by the Group was RMB4,834.2 million in 2010, representing a growth of RMB1,074.6 million or 28.6% compared with RMB3,759.6 million for last year.

1.7 Income tax

The income tax expense in 2010 was RMB706.2 million, representing an increase of RMB81.9 million from RMB624.3 million of last year or an increase of 13.1%. It was in line with the increase of RMB1,074.6 million in profit before tax compared with last year.

1.8 Profit after tax

In 2010, the profit after tax of the Group was RMB4,128.0 million, representing an increase of RMB992.7 million or 31.7% from RMB3,135.3 million of last year.

1.9 Basic earnings per share

In 2010, the Group's basic earnings per share was approximately RMB92 cents, representing an increase of approximately RMB22 cents or 31.7% as compared with approximately RMB70 cents for last year.

1.10 Dividend

For 2010, the Board proposed a final dividend of RMB0.18 per ordinary share, totaling RMB809.2 million.

2. Consolidated statement of Financial Position Analysis

As of 31 December 2010, the total assets of the Group amounted to RMB63,497.4 million, representing an increase of RMB2,720.9 million or 4.5% compared with RMB60,776.5 million at the end of 2009. The total liabilities was RMB37,907.5 million, representing a decrease of RMB563.4 million or 1.5% compared with RMB38,470.9 million at the end of 2009. The shareholders' equity was RMB25,589.9 million, representing an increase of RMB3,284.3 million or 14.7% compared with RMB22,305.6 million at the end of 2009. The analysis of reasons for significant changes in the amount of accounting items on the consolidated statement of financial position is as follows:

2.1 Property, plant and equipment

As of 31 December 2010, the property, plant and equipment of the Group were RMB46,371.1 million, representing an increase of RMB1,284.6 million or 2.8% compared with RMB45,086.5 million as of the beginning of the year. The increase was mainly due to continuing investment in the existing construction projects during the year.

2.2 Available-for-sale investments

As of 31 December 2010, the available-for-sale investment of the Group were RMB0.1 million, representing a decrease of RMB19.3 million compared with RMB19.4 million as of the beginning of the year. The main reason was the Group recognised the impairment losses for all the equity investment in Petrojack ASA in 2010, which withdrew its listing from stock market in March 2010.

2.3 Pledged time deposits (non-current portion)

As of 31 December 2010, the Group had no non-current pledged time deposit. The pledged deposits of RMB39.1 million at the beginning of 2010 would due within a year and was reclassified to the current portion of pledged time deposits.

2.4 Prepayments, deposits and other receivables

As of 31 December 2010, the prepayments, deposits and other receivables of the Group were RMB388.8 million, representing a decrease of RMB366.7 million or 48.5% compared with RMB755.5 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 projects of the 200-feet drilling rigs, 12 cable seismic vessels and deep water triple-functional utility vessel progressed, which resulted in a decrease of RMB459.6 million in prepayments.

2.5 Notes receivables

As of 31 December 2010, the notes receivable of the Group was RMB693.2 million, representing an increase of RMB263.5 million compared with RMB429.7 million as of the beginning of the year. The increase was mainly due to the receipt of cash for notes receivable balance as of the beginning of the year. In addition, there were trade acceptances amounted to RMB691.6 million issued by CNOOC Limited and banker's acceptances amounted to RMB1.6 million issued by other client during the year.

2.6 *Pledged deposits (current portion)*

As of 31 December 2010, the current portion of pledged deposits of the Group were RMB87.5 million, representing a decrease of RMB159.8 million or 64.6% compared with RMB247.3 million as of the beginning of the year. The decrease was mainly due to the release of bank deposit according to the procedures and payment of related amount after the Group has agreed with the counterparties on the litigations.

2.7 *Cash and cash equivalents*

As of 31 December 2010, cash and cash equivalents of the Group were RMB5,847.2 million, representing an increase of RMB2,632.6 million or 81.9% compared with RMB3,214.6 million as of the beginning of the year. The details were provided in "Consolidated Statement of Cash Flow Analysis" below.

2.8 *Other current assets*

As of 31 December 2010, other current assets of the Group were RMB41.1 million, representing an increase of RMB20.5 million or 99.8% compared with RMB20.6 million as of the beginning of the year. The increase was mainly due to the reclassification of the current portion of the deferred mobilization cost into other current assets during the year.

2.9 *Salary and bonus payables*

As of 31 December 2010, the salary and bonus payables of the Group were RMB781.4 million, representing an increase of RMB304.0 million or 63.7% compared with RMB477.4 million as of the beginning of the year, which was mainly due to the increase of our staff number and bonus during the year.

2.10 *Tax payable*

As of 31 December 2010, the tax payable of the Group was RMB124.0 million, representing an increase of RMB37.2 million or 42.8% compared with RMB86.8 million as of the beginning of the year. The main reason was the increase of income tax compared with last year resulting from the significant increase of profit before tax.

2.11 *Interest-bearing bank borrowings (current portion)*

As of 31 December 2010, the current portion of interest-bearing bank borrowings of the Group were RMB650.7 million, representing an increase of RMB367.6 million or 129.9% compared with RMB283.1million as of the beginning of the year. The increase was mainly due to the long-term borrowings amounting to approximately RMB650.7 million of the Group would due within one year, and were reclassified to this item. The borrowings amounting to RMB283.1 million as of the beginning of the year were repaid during the year.

2.12 Current portion of long-term bonds

As of 31 December 2010, the current portion of long-term bonds of the Group were RMB573.7 million, while there was no such item for last year. The increase was mainly due to one of the Group's bond amounting to RMB573.7 million would due within one year and was thus reclassified to this item.

2.13 Long term bonds

As of 31 December 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 beginning of the year. This was mainly due to the redemption of bonds by the Group amounting to RMB580.2 million during the year. In addition, bonds amounting to RMB573.7 million which would due within one year were reclassified to the current portion of long-term bonds during the year.

2.14 Other non-current liabilities

As of 31 December 2010, other non-current liabilities of the Group were RMB36.6 million, representing an increase of RMB30.3 million or 482.6% compared with RMB6.3 million as of the beginning of the year. This was mainly due to the increase of non-current liability due to jointly-controlled entity Atlantis Deepwater Orient Ltd. for the year.

3. Consolidated Statement of Cash Flow Analysis

As of the beginning of 2010, the Group held cash and cash equivalents of RMB3,214.6 million. The net cash inflow from operating activities from the year was RMB7,855.1 million, net cash outflow from investing activities was RMB3,574.2 million, net cash outflow from financing activities was RMB1,577.6 million and the negative impact of foreign exchange fluctuations was RMB70.7 million. As of 31 December 2010, the Group's cash and cash equivalents were RMB5,847.2 million.

3.1 Cash flows from operating activities

As of 31 December 2010, net cash flows from operating activities of the Group reached RMB7,855.1 million, of which RMB17,996.8 million was received from the sales of goods and the provision of services and RMB10.4 million from tax refund, while RMB5,260.8 million was paid for the purchase of goods and receipt of services, RMB2,728.6 million was paid to or for employees, and RMB1,336.8 million was used to pay for various taxes. Cash outflow related to other operating activities amounted to RMB825.9 million.

3.2 Cash flows from investing activities

As of 31 December 2010, net cash outflows used in investing activities of the Group amounted to RMB3,574.2 million, of which RMB4,433.9 million was paid for the purchase of fixed assets, intangible assets and other long-term assets during the year. In addition, the investment recovered amounted to RMB642.2 million during the year and the investment income and interest income received during the year amounted to RMB194.7 million and RMB72.2 million, respectively, and RMB70.0 million was received from the disposal of fixed assets and other long-term assets during the year. A total cash outflow amounted to RMB119.4 million in relation to other investing activities.

3.3 Net cash flows from financing activities

As of 31 December 2010, net cash outflow used in financing activities amounted to RMB1,577.6 million, of which RMB1,645.5 million was paid for repayment of debt, RMB630.3 million was paid for dividends distribution, and RMB769.0 million was paid for the repayment of interest, and RMB1,478.3 million was received from borrowings and government grants during the year. A total cash outflow amounted to RMB11.1 million in relation to other financing activities.

3.4 The cash decreased by RMB70.7 million due to the impact of foreign exchange fluctuations.

4. Capital expenditure

In 2010, the capital expenditure of the Group amounted to RMB5,476.5 million, representing a decrease of RMB2,936.8 million or 34.9% compared with RMB8,413.3 million as of last year.

The capital expenditure of each business segment is as follows:

Unit: RMB million

Business segment	**2010**	2009	**Increase/ (Decrease)**	**Percentage change**
Drilling services	**3,328.1**	6,062.8	(2,734.7)	(45.1%)
Well services	**295.1**	760.1	(465.0)	(61.2%)
Marine support and transportation services	**1,016.1**	924.7	91.4	9.9%
Geophysical services	**837.2**	665.7	171.5	25.8%
Total	**5,476.5**	8,413.3	(2,936.8)	(34.9%)

The decrease in our capital expenditure for the year was mainly due to the completion of one 375-feet jack-up drilling rig, one 400-feet jack-up drilling rig, one 2,500-feet semi-submersible drilling rigs, two land drilling rigs, two 350-feet jack-up drilling rigs, two 200-feet jack-up drilling rigs and 2 liftboats this year which were under construction in last year.

OUTLOOK

Looking forward to 2011, the global economy will maintain its recovery trend. In the "World Economic Situation and Prospects 2011" published by the United Nations, it is forecasted that the global economy will achieve a growth rate of 3.1% in 2011. The developing economies will achieve a growth rate of 6.0%. According to the report from State Economic and Development Commission, the economic growth of China in 2011 is forecasted to be around 8%. There are uncertainties over the recovery of the world economy, such as the possible impact of the earthquake in Japan. High oil price and increasing global demand for oil and gas resources will motivate oil companies for more investments in exploration and development activities. After the Mexican Gulf incident, the safety and technical standards in drilling operation have been enhanced, reducing the competitiveness of low-end drilling platforms. In 2011, the situation of supply exceeding demand for drilling platforms will continue and the oil drilling industry will still face intense competition.

Faced with the challenges as well as opportunities in 2011, the Company will actively expand both the domestic and overseas markets to ensure stable growth of revenue. It will continue to strengthen its cost management in lowering cost and raising efficiency, persuing better QHSE management with more commitment to social responsibility; its internal control functions should be reinforced and overall risk management enhanced. The Company will further increase its competitiveness to achieve sustainable growth, striving for more promising results performance to pay back our shareholders and the society.

OTHER INFORMATION

Audit Committee

The audit committee comprises three independent non-executive directors. 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 2010 has been reviewed by the audit committee.

Corporate Governance Practices

Throughout the 12 months ended 31 December 2010, the Company has complied with the Code on Corporate Governance as stated in Appendix 14 of the Listing Rules, except for provision E.1.2. The following summarises the requirements of the Code and the deviation from the Code by the Company.

Pursuant to provision E.1.2 of the Code on Corporate Governance, the chairman of the board is required to attend the annual general meeting of the Company. 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 an unexpected matter that required his immediate attention. Therefore, Mr. Liu Jian, the vice chairman of the Company, presided the general meeting and acted 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 12-month period ended 31 December 2010, complied with the Model Code for Securities Transactions by Directors of Listed Companies 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 2010.

Material Litigation and Arbitration

In 2007, Awilco Offshore ASA made a compulsory acquisition of the outstanding shares in OffRig Drilling ASA ("Offrig"). Certain minority shareholders disagreed with the price paid per share. In 2009, an appraisement where the estimated value of the shares was set at NOK 56, higher than the original acquisition price, was made by the Norwegian court. After affirmative defense by the Company, an appraisement where the estimated value for the shares was set at NOK 34.56 was made by the Court of Appeal in August 2010. The minority shareholders were unsatisfied about the second appraisement and have filed an appeal to the Supreme Court of Norway, which has dismissed the appeal. This litigation has been executed according to the final judgment. The final acquisition price was approximately NOK 180 million.

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
Yang Haijiang
Company Secretary

22 March 2011

As at the date hereof, the executive directors of the Company are Messrs Li Yong and Li Feilong, the non-executive directors of the Company are Messrs Liu Jian (Chairman) and Wu Mengfei and the independent non-executive directors of the Company are Messrs Tsui Yiu Wa, Fong Wo, Felix and Chen Quansheng.