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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 2011**

FINANCIAL HIGHLIGHTS

1. Revenue was RMB8,139.2 million.
2. Profit from operations was RMB2,607.2 million.
3. Profit for the period was RMB2,074.5 million.
4. Basic earnings per share were RMB46.08 cents.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2011

		Six months ended 30 June	
		2011	2010
		(Unaudited)	(Unaudited)
	Note	RMB'000	RMB'000
REVENUE	3	8,139,160	8,728,150
Other revenues		63,613	3,568
		<u>8,202,773</u>	<u>8,731,718</u>
Depreciation of property, plant and equipment and amortisation of intangible assets		(1,540,730)	(1,577,218)
Employee compensation costs		(1,319,094)	(1,382,778)
Repair and maintenance costs		(251,814)	(144,285)
Consumption of supplies, materials, fuel, services and others		(1,288,491)	(1,532,567)
Subcontracting expenses		(465,612)	(463,521)
Operating lease expenses		(210,191)	(246,664)
Other operating expenses		(414,859)	(549,201)
Other selling, general and administrative expenses		(62,940)	(50,256)
Impairment of property, plant and equipment	7	(41,807)	—
Total operating expenses		<u>(5,595,538)</u>	<u>(5,946,490)</u>
PROFIT FROM OPERATIONS		<u>2,607,235</u>	<u>2,785,228</u>
Financial income/(expenses)			
Exchange gains, net		29,507	41,266
Finance costs		(254,193)	(334,662)
Interest income		38,443	25,538
Financial expenses, net		<u>(186,243)</u>	<u>(267,858)</u>
Share of profits of jointly-controlled entities		<u>89,964</u>	<u>80,276</u>
PROFIT BEFORE TAX		2,510,956	2,597,646
Income tax expense	4	(436,409)	(423,408)
PROFIT FOR THE PERIOD		<u>2,074,547</u>	<u>2,174,238</u>
Attributable to:			
Owners of the parent		2,071,230	2,174,238
Non-controlling interests		3,317	—
		<u>2,074,547</u>	<u>2,174,238</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	6	<u>46.08 cents</u>	<u>48.37 cents</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME*For the six months ended 30 June 2011*

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
PROFIT FOR THE PERIOD	2,074,547	2,174,238
OTHER COMPREHENSIVE INCOME		
Exchange differences on translation of foreign operations	(163,483)	(36,403)
OTHER COMPREHENSIVE INCOME FOR THE PERIOD, NET OF TAX	(163,483)	(36,403)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u>1,911,064</u>	<u>2,137,835</u>
Attributable to:		
Owners of the parent	1,907,755	2,137,835
Non-controlling interests	3,309	—
	<u>1,911,064</u>	<u>2,137,835</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2011

		30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
	<i>Note</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	7	45,994,092	46,371,109
Goodwill		4,360,215	4,462,018
Other intangible assets		380,994	407,897
Investments in jointly-controlled entities		487,728	487,785
Available-for-sale investments		100	100
Defined benefit assets		6,654	6,265
Other non-current assets	8	203,750	28,120
Total non-current assets		51,433,533	51,763,294
CURRENT ASSETS			
Inventories		866,077	815,540
Prepayments, deposits and other receivables		246,600	388,791
Accounts receivable	9	3,747,746	3,460,752
Notes receivable		670,193	693,191
Other current assets	10	26,838	41,127
Pledged time deposits		138,536	87,533
Cash and cash equivalents		3,976,048	5,847,164
Time deposits with original maturity over three months		906,024	400,000
Total current assets		10,578,062	11,734,098

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(CONTINUED)

30 June 2011

		30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
	<i>Note</i>		
CURRENT LIABILITIES			
Trade and other payables	11	4,099,716	4,435,823
Salary and bonus payables		424,323	781,375
Tax payable		176,172	124,028
Current portion of long-term bonds	14	–	573,729
Interest-bearing bank borrowings	13	1,094,100	650,721
Other current liabilities	10	50,068	76,074
Total current liabilities		5,844,379	6,641,750
NET CURRENT ASSETS		4,733,683	5,092,348
TOTAL ASSETS LESS CURRENT LIABILITIES		56,167,216	56,855,642
NON-CURRENT LIABILITIES			
Deferred tax liabilities		1,825,008	1,716,052
Interest-bearing bank borrowings	13	25,238,831	27,090,539
Long-term bonds	14	1,500,000	1,500,000
Deferred revenue		874,128	922,523
Other non-current liabilities	15	37,418	36,603
Total non-current liabilities		29,475,385	31,265,717
NET ASSETS		26,691,831	25,589,925
EQUITY			
Equity attributable to owners of the parent			
Issued capital		4,495,320	4,495,320
Reserves		22,192,854	20,285,099
Proposed final dividend		–	809,158
		26,688,174	25,589,577
Non-controlling interests		3,657	348
Total equity		26,691,831	25,589,925

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2011

1. CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2011 have been prepared in accordance with Hong Kong Accounting Standard 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 2010.

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 2010, except for the adoption of new standards, interpretations and amendments as of 1 January 2011, noted below:

HKAS 24 (Revised)	<i>Related Party Disclosures</i>
HK(IFRIC)-Int 14 Amendment	<i>Amendment to HK(IFRIC)-Int 14 Prepayments of a Minimum Funding Requirement</i>

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

HKAS 24 (Revised) clarifies and simplifies the definition of a related party. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The adoption of HKAS 24 (Revised) does not have significant impact on the Group’s interim condensed financial statements.

HK(IFRIC)-Int 14 provides further guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. Adoption of this amendment does not have significant impact on Group’s interim condensed financial statements.

Improvements to HKFRSs (issued in May 2010)

Apart from the above, the HKICPA has also issued Improvements to HKFRSs 2010 in May 2010 which sets 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 policies, none of them are expected to have a material financial impact on the Group.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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 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 services	Marine support and transportation services	Geophysical services	Total
30 June 2011 (Unaudited)	services	RMB'000	RMB'000	RMB'000	RMB'000
	<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	4,210,856	1,690,685	1,211,609	1,026,010	8,139,160
Intersegment sales	533,319	195,885	81,600	57,429	868,233
	4,744,175	1,886,570	1,293,209	1,083,439	9,007,393
Reconciliation:					
Elimination of intersegment sales					(868,233)
Revenue					8,139,160
Segment result*	1,560,761	314,817	393,433	428,188	2,697,199
Reconciliation:					
Exchange gains, net					29,507
Finance costs					(254,193)
Interest income					38,443
Profit before tax					2,510,956

Six months ended	Drilling	Well services	Marine support and transportation services	Geophysical services	Total
30 June 2010 (Unaudited)	services	RMB'000	RMB'000	RMB'000	RMB'000
	<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
	5,221,435	2,297,991	1,217,515	737,603	9,474,544
Reconciliation:					
Elimination of intersegment sales					(746,394)
Revenue					8,728,150
Segment result*	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					2,597,646

* The segment result for each operating segment does not include the unallocated exchange gains, 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 Mainland China are mainly conducted in Indonesia, Australia, Mexico, Myanmar, Norway, Vietnam, Dubai, and certain countries 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% (six months ended June 30 2010: less than 10%), and approximately 72% (six months ended June 30 2010: approximately 75%) of the Group's revenues are generated from customers in Mainland China.

The following table presents revenue information for the Group's geographical segments for the six months ended 30 June 2011 and 2010:

Six months ended

30 June 2011 (Unaudited)

	Mainland China	Others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment revenue:			
Sales to external customers	<u>5,888,593</u>	<u>2,250,567</u>	<u>8,139,160</u>

Six months ended

30 June 2010 (Unaudited)

	Mainland China	Others	Total
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment revenue:			
Sales to external customers	<u>6,526,062</u>	<u>2,202,088</u>	<u>8,728,150</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 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 from 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. The Company is in the process to apply for renewing its advanced technology enterprise status for three years commenced from 1 January 2011. Based on the management's assessment, the company believes that it has fulfilled the criteria for renewing as an advanced technology enterprise and thus, the management considers it appropriate to use 15% to accrue for the income tax liability of the Company for the six months ended 30 June 2011 (six months ended 30 June 2010: 15%).

Certain overseas subsidiaries of the Group with permanent establishment status in the PRC are subject to deemed income tax calculated at 3.75% (six months ended 30 June 2010: 3.75%) 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% (six months ended 30 June 2010: 25%). The Group's drilling activities in Australia are subject to income tax of 30% (six months ended 30 June 2010: 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 2010: 3.5%) 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 2010: 30% and 17.5%, respectively). The Group's activities in Norway are mainly subject to a corporate income tax of 28% (six months ended 30 June 2010: 28%). The Group's taxes pertaining to drilling activities in Libya and Saudi Arabia are borne by the customer. The Group's drilling activities in the U.K. are subject to income tax of 28% (six months ended 30 June 2010: Not applicable).

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

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Hong Kong profits tax	–	–
Overseas income taxes:		
Current	54,213	55,750
Deferred	(46,526)	(24,968)
PRC corporate income taxes:		
Current	244,581	345,666
Deferred	184,141	46,960
Total tax charge for the period	436,409	423,408

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:

	Six months ended 30 June			
	2011		2010	
	(Unaudited)		(Unaudited)	
	RMB'000	%	RMB'000	%
Profit before tax	2,510,956		2,597,646	
Tax at the statutory tax rate of 25% (six months ended 30 June 2010: 25%)	627,739	25.0	649,412	25.0
Tax reduction as an advanced technology enterprise	(170,947)	(6.8)	(181,282)	(7.0)
Income not subject to tax	(23,464)	(0.9)	(24,120)	(0.9)
Expense not deductible for tax	15,967	0.6	553,534	21.3
Tax benefit for qualifying research and development expense	(11,867)	(0.5)	(9,911)	(0.4)
Effect of different tax rates for overseas subsidiaries	(80,069)	(3.2)	(133,390)	(5.1)
Unrecognised tax losses	—	—	97,575	3.8
Utilisation of previous unrecognised tax losses	(462,082)	(18.4)	—	—
Deductible translation adjustment*	530,033	21.1	(657,478)	(25.3)
Adjustment in respect of current tax of previous periods	(21,218)	(0.8)	58,172	2.3
Others	32,317	1.3	70,896	2.7
Total tax charge at the Group's effective rate	436,409	17.4	423,408	16.4

* 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 accounting income of such group companies.

The share of tax attributable to jointly-controlled entities amounting to approximately RMB34,317,190 (six months ended 30 June 2010: RMB 35,915,298) was included in "Share of profits of jointly-controlled entities" in the interim condensed consolidated income statement.

5. 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-month period:

	Six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Final dividend for 2010: RMB0.18 per ordinary share (2009: RMB0.14 per ordinary share)	809,158	629,345

The board of directors of the Company did not propose the interim dividend for the six months ended 30 June 2011 (six months ended 30 June 2010: Nil).

6. 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 RMB2,071,230,000 (six months ended 30 June 2010: RMB2,174,238,000), and the weighted average number of ordinary shares of 4,495,320,000 (six months ended 30 June 2010: 4,495,320,000) in issue during the period.

There were no potentially diluting events for the periods ended 30 June 2011 and 2010.

7. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired certain seismic vessels, machines and equipment, motor vehicles and construction in progress with an aggregate cost amounting to approximately RMB1,799 million (six months ended 30 June 2010: RMB1,877 million). Vessels, machines and equipment with a net carrying amount amounting to RMB33 million (six months ended 30 June 2010: RMB65 million) were disposed of in 2011, resulting in a loss on disposal of RMB2 million (six months ended 30 June 2010: RMB13 million).

Out of the total interest expenses, as part of finance costs in interim condensed consolidated income statement, for the current period of RMB291.4 million (six months ended 30 June 2010: RMB367.1 million), an amount of approximately RMB45.4 million (six months ended 30 June 2010: RMB43.6 million) was capitalised in property, plant and equipment.

Provision for impairment loss of approximately RMB41.8 million was recognised for the six months ended 30 June 2011 (six months ended 30 June 2010: Nil) in relation to certain land drilling equipments in Libya, as a direct result of the civil unrest there.

8. OTHER NON-CURRENT ASSETS

As at 30 June 2011 and 31 December 2010, substantially other non-current assets were deferred expenses recognised resulting from mobilisation cost incurred by the Group's jack-up and semi-submersible drilling rigs. The current portion of deferred expenses was recorded as other current assets in note 10. The deferred expenses are amortised over the drilling contract periods.

9. ACCOUNTS RECEIVABLE

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

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

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Outstanding balances aged:		
Within one year	4,010,505	3,692,000
One to two years	8,041	21,100
Two to three years	23,640	21,209
Over three years	7,767	7,923
	4,049,953	3,742,232
Less: Provision for impairment of accounts receivable	(302,207)	(281,480)
	3,747,746	3,460,752

10. OTHER CURRENT ASSETS/(LIABILITIES)

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Negative investment in a jointly-controlled entity*	(91,659)	(95,698)
Due to a jointly-controlled entity	(17,973)	(18,391)
Due from a jointly-controlled entity	91,747	95,785
Current portion of deferred revenue	(32,183)	(57,770)
	(50,068)	(76,074)
Current portion of deferred expenses	26,838	41,127

- * The negative interest in Premium Drilling was recognised 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.

11. TRADE AND OTHER PAYABLES

An aging analysis of the trade and other payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Outstanding balances aged:		
Within one year	3,924,298	4,173,676
One to two years	69,909	138,652
Two to three years	21,229	33,448
Over three years	84,280	90,047
	4,099,716	4,435,823

Trade and other payables are non-interest-bearing, and are normally settled on terms ranging from one month to two years.

12. 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 (president), three executive vice presidents, and three other vice presidents. 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 share appreciation rights will be settled in cash.

According to the SAR Plan, the exercise gain for excisable share appreciation rights will be determined by the difference between the average closing price of the shares on the Stock Exchange of Hong Kong Limited (the “HKSE”) as stated in the HKSE’s quotation from the 30 days immediately preceding the date of its annual report to the last transaction date of that year, and the exercise price.

The SAR Plan further provides that if the exercise 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.

As of 30 June 2011, the first batch share appreciation rights has been forfeited in 2009, the second batch has been approved and the third batch has not been submitted for approval. The exercise gains of the second and third batch share appreciation rights were measured at HK\$1.82 and HK\$2.27, respectively. The fair value of the share appreciation rights is calculated using the Black-Scholes model with the following assumptions: expected dividend yield of 1.17%, expected life of 0.5 years, expected volatility of 35.21% and a risk-free interest rate of 0.59%. The assumptions of the valuation model are based on the subjective estimation of the directors.

The fair value change is charged to income statement over the period until the finalization of exercise gain. The liability is measured at each end of the reporting period and the settlement date with changes recognised in profit or loss. As of 30 June 2011, the salary and bonus payable arising from the share appreciation rights was RMB1.4 million (31 December 2010: RMB7.7 million). The decrease in fair value of the share appreciation rights amounted to approximately RMB2.1 million for the period ended 30 June 2011 (six months ended 30 June 2010: RMB0.1 million), was recorded in general and administrative expenses.

Details of the share appreciation rights movement are as follows:

	2011
	Number of shares
Outstanding at 1 January 2011	3,503,663
Granted during the period	–
Exercised during the period	(1,250,000)
Forfeited during the period	(1,080,588)
Outstanding at 30 June 2011	1,173,075
Exercisable at 30 June 2011	844,725

13. INTEREST-BEARING BANK BORROWINGS

Current:

	30 June	31 December
	2011	2010
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Current portion of long-term bank loan	1,094,100	650,721

Non-current:

	Contractual interest rate (%)	Year of maturity	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Bank loans – unsecured (a)	i	2013	–	344,000
Bank loans – unsecured (b)	ii	2017	–	312,000
Bank loans – unsecured (c)	LIBOR+170pts	2020	5,105,945	5,219,623
Bank loans – unsecured (d)	iii	2015	–	450,000
Bank loans – unsecured (e)	LIBOR+138pts	2017	12,148,226	11,105,952
Bank loans – unsecured (f)	LIBOR+90pts	2017	5,177,280	5,298,160
Bank loans – unsecured (f)	LIBOR+90pts	2017	3,882,960	3,973,620
Headquarter entrusted loan – unsecured (g)	3.71%	2011	–	–
Headquarter entrusted loan – unsecured (g)	iv	2012	–	1,000,000
Bank loans-secured (h)	3.20%	2011	18,520	37,905
			26,332,931	27,741,260
Less: current portion of long-term bank loan			(1,094,100)	(650,721)
			25,238,831	27,090,539

- 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 Floating interest rate, with commission of the entrusted loan at 0.15%.
- (a) The Group borrowed a RMB denominated bank loan to be repaid from 30 June 2008 to 30 June 2013 by instalments as follows: RMB200 million on every 30 June from 2008 to 2011, RMB100 million on 30 June 2012, and RMB44 million on 30 June 2013. The Group repaid all the outstanding balance during the current period.
- (b) The Group borrowed a RMB400 million loan which should be repaid from 19 November 2009 to 19 November 2017 by installments as follows: RMB44 million on every 19 November from 2009 to 2016, RMB48 million on 19 November 2017. The Group repaid all the outstanding balance during the current period.
- (c) The Group borrowed a US\$800 million loan which the repayment will start on 2 September 2011, with installments amounting to US\$42.1 million bi-annually.
- (d) The Group borrowed a RMB450 million loan which the repayment will start on 7 April 2011, with installments amounting to RMB90 million annually. The Group repaid all the outstanding balance during the current period.

- (e) The Group borrowed US\$1,880 million of which the repayment will start on 14 May 2012 over eleven instalments, paid bi-annually.
- (f) The Group borrowed a US\$800 million and a US\$600 million loans which will be repaid on 24 May 2017 and 21 May 2017, respectively.
- (g) The Group obtained entrusted loan facilities amounting to RMB2 billion and RMB1 billion which will expire on 10 June 2011 and 29 June 2012, respectively. The Group repaid all the outstanding balance during the current period.
- (h) The loan was denominated in United States dollars and is to be repaid in semi-annual instalments beginning six months after the loan drawdown date.

14. LONG-TERM BONDS

As at 30 June 2011, long-term bonds consist of:

Non-current:

Corporate bonds:

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

Current:

Second security priority US\$ bonds:

COSL Drilling Semi AS (formerly known as “Offrig Drilling ASA”) issued the bonds in April 2006, with book value of US\$200 million and with a second security priority mortgage in the construction contracts relating to semi-submersible rigs. The Company incurred debt issuance costs of US\$4.5 million, which are capitalised and amortised as a component of interest expense over the term of the bonds. The bonds carry a fixed coupon rate of 9.75% and have a five-year bullet maturity. In April 2011, the bonds were matured and had been redeemed, the mortgage in the construction contracts relating to semi-submersible rigs was released correspondently.

15. OTHER NON-CURRENT LIABILITIES

	30 June 2011 (Unaudited) RMB'000	31 December 2010 (Audited) RMB'000
Negative interest in a jointly-controlled entity*	37,466	36,651
Due from a jointly-controlled entity	(48)	(48)
	<u>37,418</u>	<u>36,603</u>

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

16. CONTINGENCY

- (a) In 2009 and 2010, certain subsidiaries of CDE received notifications from the Norwegian 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 letters and assessment report to the Norwegian tax authorities regarding the above notifications and requirements on 30 June 2010, 19 January 2011 and 7 June 2011 respectively, and no further requests have been received from the Norwegian tax authorities as at the approval date of the interim condensed consolidated financial statements. 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 the interim condensed consolidated 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 year. As at the approval date of the interim condensed consolidated financial statement, 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 the interim condensed consolidated financial statements.

17. COMPARATIVE AMOUNTS

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

18. EVENTS AFTER THE REPORT PERIOD

There have been no subsequent events that need to be disclosed in the interim condensed consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

Industry Review

In the first half of 2011, the global economy had experienced various challenges during its slow recovery, but the global economic condition was still grim. International crude oil price was unstable at high level. Due to the continued unrest in the Middle East and North Africa and the influence of speculative capital in early 2011, international crude oil (WTI) average price was US\$98.3/barrel, accompanied by significant fluctuation within the range from US\$83/barrel to US\$114/barrel in the first half of 2011. In June, as the members of the International Energy Agency (IEA) jointly released the strategic oil reserve, oil price was impacted and declined to around US\$90/barrel. High oil price stimulated oilfield investment to a certain extent. Barclays Capital expects that investment in the exploration and production around the world would reach US\$529 billion in 2011, representing an increase of 16% compared with US\$458 billion in 2010. The well services and the geophysical services segments continued their recovery momentum. Although the demand for high end drilling rigs that had been ordered in the drilling services segment has increased, the speed of recovery of the drilling services segment was still slow due to the continuous delivery of the newly built drilling rigs that had been ordered and the fact that the usage of low end drilling rigs was still subdued. According to the data from ODS-data, the global comprehensive day rate of drilling rigs in the first half of 2011 was at around the same level as in the first half of last year, and overall global drilling rig contract signing rate reduced by 2.75% compared to the same period of last year. The day rate of the drilling services segment in offshore of the PRC was stable and sustaining a high rate of securing contracts. The demand for geophysical businesses was booming in China.

Business Review

Drilling Services Segment

As of 30 June 2011, the Group operated a total of 31 drilling rigs (of which 27 were jack-up drilling rigs, 4 were semi-submersible drilling rigs), 2 accommodation rigs, 4 module rigs and 6 land drilling rigs. Among the Group's drilling rigs, 10 were operating in Bohai Bay, 5 in South China Sea, 1 in East China Sea, and 8 in overseas such as Indonesia and Australia; 2 newly delivered 200 feet jack-up drilling rigs were waiting for the operator's inspection and acceptance, 1 semi-submersible drilling rig delivered last year was under modification before the commencement of operation, and another 4 jack-up drilling rigs were under maintenance. Moreover, 2 accommodation rigs were providing services to customers in the North Sea, 4 module rigs were working in the Mexican waters, 5 land drilling rigs originally working in Libya stopped operation due to the civil war within the country, and the other 1 land drilling rig was in Xinjiang of China.

In the first half of 2011, competition was still intense in the drilling services segment. The Company strived to consolidate its existing markets, and at the same time kept exploring overseas markets. During the period, we successfully renewed a service contract with a client in relation to the offshore accommodation rig-COSLRigmar for a term of 12 months; apart from the second contract renewal for the 4 module rigs with the client at Mexican Bay, we also entered into a service contract with Mexico National Oil Company for a jack-up drilling rig. In addition, the two 200 feet jack-up drilling rigs delivered at the end of last October commenced operation in the first quarter of this year. The other two 200 feet jack-up drilling rigs were delivered in May this year. In the first half of the year, the operating day of the Group's drilling rigs was 4,487 days, representing an increase of 75 days compared with

the same period of last year, and the calendar day utilization rate of the Group's drilling rigs reached 90.6%, representing a 4.0 basic points decrease compared with the same period of last year. At the same time, under influences of the suspension of land drilling rigs in Libya and the upgrading of module rigs in Mexico as well as the market environment, the turnover of our drilling services segment recorded a decrease of 8.8% from RMB4,616.3 million for the same period of last year to RMB4,210.9 million.

The operation details of our jack-up and semi-submersible drilling rigs in the first half of 2011 are as follows:

	For the six months ended 30 June		Increase/ (Decrease)	Increase/ (Decrease)
	2011	2010		
Operating days (day)	4,487	4,412	75	1.7%
Jack-up drilling rigs	3,986	3,935	51	1.3%
Semi-submersible drilling rigs	501	477	24	5.0%
Available day utilization rate	94.0%	100.0%	(6.0 basic points)	
Jack-up drilling rigs	93.3%	100.0%	(6.7 basic points)	
Semi-submersible drilling rigs	100.0%	100.0%	–	
Calendar day utilization rate	90.6%	94.6%	(4.0 basic points)	
Jack-up drilling rigs	90.4%	95.4%	(5.0 basic points)	
Semi-submersible drilling rigs	92.3%	87.8%	4.5 basic points	

The main reasons for the increase by 51 days in operating days of jack-up drilling rigs compared with the same period of last year were, firstly, COSL936 and COSL937 which commenced operation last year were fully operated and increased operating days by 40 days in the current period, and the 200 feet drilling rigs COSL921 and COSL922 commenced operation in March this year and increased operating days by 244 days, in the mean time, the 2 drilling rigs COSLSeeker and COSLConfidence operated 284 days less due to market impact, and the operating days of other jack-up drilling rigs increased by 51 days due to the decrease in the number of days of repair and maintenance.

The operation days of semi-submersible drilling rigs increased by 24 days compared with the same period of last year mainly due to the decrease in the number of days of repair and maintenance by 24 days.

Due to the decrease in operating days of the 2 drilling rigs COSLSeeker and COSLConfidence, the calendar day utilization rate of the Group's drilling rigs was 90.6%, representing a 4.0 basic points decrease compared with the same period of last year.

The two accommodation rigs continued to provide services to clients in the North Sea and operated for 362 days in the first half of the year, with available day utilization rate and calendar day utilization rate both reached 100.0%. The 4 module rigs working in Mexican Bay were upgraded and modified during the period to provide better service to our clients, and operated for 370 days in the first half of the year

with a calendar day utilization rate of 51.1%. The 6 land drilling rigs operated for a total of 444 days, representing a decrease of 618 days compared with the same period last year. This was mainly due to the civil war in Libya which led to the suspension of operation of 5 land drilling rigs of the Group since the end of February this year. Under this impact, the calendar day utilization rate of land drilling rigs decreased to 40.9%.

The average day rate of the drilling rigs of the Group for the first half of 2011 slightly decreased compared with the same period of last year, and the details are as follows:

Average day rate* (ten thousand US\$/day)	For the six months ended 30 June		Increase/ (Decrease)	Increase/ (Decrease)
	2011	2010		
Jack-up drilling rigs	10.7	11.0	(0.3)	(2.7%)
Semi-submersible drilling rigs	19.5	19.3	0.2	1.0%
Drilling rigs sub-total	11.7	12.0	(0.3)	(2.5%)
Accommodation rigs	21.5	22.7	(1.2)	(5.3%)
Total	12.3	12.7	(0.4)	(3.1%)

Note: US\$/RMB exchange rate was 1:6.4716 on 30 June 2011 and 1:6.7909 on 30 June 2010, respectively.

* Average day rate = Revenue / Operating day

Well Services Segment

In the first half of 2011, operation volume of the well services segment decreased due to market impact, resulting in a turnover of RMB1,690.7 million, which has decreased by RMB490.7 million or 22.5% compared with RMB2,181.4 million for the same period of last year.

In the first half of 2011, although the operation volume of the well services segment decreased due to the overall domestic market impact, the Group continued to consolidate its overseas market of the well services segment. The Group successfully renewed the Papua New Guinea LIHIR project and the 1-year cementing service contract for three sets of cementing equipments with Philippine client. Moreover, we also completed the first optimization of onshore oilfield production in Indonesia, which laid a foundation for the Group's expansion in the oilfield production optimization business in Indonesia. At the same time, the Group explored the new energy market of land coalbed methane. We provided logging services to the clients' land coalbed methane projects during the period.

While keep exploring new markets, the Group also continuously improved its own technical level. The self-researched cement slurry for deep-water cementing successfully passed the deep-water test, symbolizing that the Group possessed the initial ability to carry out deep-water cementing. The self-developed Enhanced Reservoir Characteristic Tester (ERCT) was the first set of modular strata testing instrument within the country, which made China to be the one of the few countries which owns this technology.

Marine Support and Transportation Services Segment

In the first half of 2011, the Group's marine support and transportation services segment faced intense market competition. The Group utilized its own advantages and reasonably selected resources from the market to expand and create profit, maintaining a high calendar day utilization rate of its own vessels. In the first half of the year, the calendar day utilization rate of its own vessels was 96.5%, representing a 1.3 basic points increase compared with 95.2% for the same period of last year. As at 30 June 2011, the Group owned an aggregate of 75 oilfield utility vessels, 3 oil tankers and 5 chemical carriers. There are 2 other high-power deep-water utility vessels under construction which are expected to be delivered in the second half of the year.

The operation of self-owned oilfield utility vessels in the first half of 2011 is as follows:

Operating days (day)	For the six months ended 30 June		Increase/ (Decrease)	Increase/ (Decrease)
	2011	2010		
Standby vessels	7,922	8,188	(266)	(3.2%)
AHTS vessels	2,942	3,118	(176)	(5.6%)
Platform supply vessels	905	905	—	—
Multi-purpose vessels	659	687	(28)	(4.1%)
Workover support barges	628	497	131	26.4%
Total	<u>13,056</u>	<u>13,395</u>	<u>(339)</u>	<u>(2.5%)</u>

The operating days of self-owned vessels decreased by 339 days compared with the same period of last year mainly because there were 5 utility vessels scrapped and retired last year, which resulted in the decrease of operating days of 571 days; moreover, the 1 workover support barge commenced operation last year increased operating days by 181 days; and the operating days of other vessels increased by a total of 51 days.

As affected by the decrease in transportation volume of external vessels, the transportation volume of oil tankers during the period was 784,000 tons, representing a decrease of 17.4% compared with 949,000 tons for the same period of last year. As the number of days of repair and maintenance decreased, the transportation volume of chemical carriers increased by 23.6% from 888,000 tons for the same period of last year to 1,098,000 tons.

In the first half of 2011, the Group's marine support and transportation services segment realized a turnover of RMB1,211.6million, representing an increase of 1.6% or RMB18.8 million compared with RMB1,192.8 million for the same period of last year.

Geophysical Services Segment

Seismic Services

In the first half of 2011, the country's first 12-streamer deep-water geophysical vessel HYSY720, was successfully delivered and commenced 3D seismic collection in the South China Sea, and effectively enhanced the seismic data collection capabilities of the Group's geophysical services segment. While new equipments commenced operation which enhanced the Group's working capabilities, the Group also made reasonable arrangements and considerations in the market, the Group utilized to deploy vessels such as HYSY719 and Nanhai 502 to carry out seismic data collection in overseas at the beginning of the year when it was winter period and not suitable for operation in China.

In the first half of 2011, the details of the Group's collection and processing workload are as follows:

Services	For the six months ended 30 June		Increase/ (Decrease)	Increase (Decrease)
	2011	2010		
2D collection (km)	16,202	17,874	(1,672)	(9.4%)
2D processing (km)	12,423	856	11,567	1,351.3%
3D collection (km ²)	9,938	5,753	4,185	72.7%
Including Submarine cable (km ²)	322	185	137	74.1%
3D processing (km ²)	3,366	2,301	1,065	46.3%

The operation volume of 2D collection services reduced by 1,672 km compared with the same period of last year, mainly because the Group rented an external vessel to carry out 2D collection for the same period of last year and the vessel was not rented this year, which reduced the operation volume by 5,010 km. At the same time, through reasonable regional arrangements, the operation volume of 2D collection carried out by self-owned vessels increased by 3,338 km compared with the same period of last year. The operation volume of 3D collection services increased by 4,185km² compared with the same period of last year, mainly because the 12-streamer geophysical vessel newly commenced operation, HYSY720, brought 1,533 km² of operation volume, HYSY719 was fully operated in the first half of 2011, resulted in an increase in operation volume by 1,361 km², operation volume of other vessels increased by 1,154 km² in total, the submarine cable fleet which commenced operation in April last year increased operation volume by 137 km² during this period. For the data processing services, as impacted by the market, 2D data processing and 3D data processing business recorded a relatively high increase .

Surveying Services

In the first half of 2011, the Group's surveying services recorded a turnover of RMB186.3 million, increased by 20.1% or RMB31.2 million from RMB155.1 million for the same period of last year.

In the first half of 2011, the Group's geophysical services recorded a turnover of RMB1,026.0 million, representing an increase of 39.1% or RMB288.4 million compared with RMB737.6 million for the same period of last year.

FINANCIAL REVIEW

1. Analysis of interim condensed consolidated income statement

1.1 Revenue

In the first half of 2011, the Group's revenue amounted to RMB8,139.2 million, representing a decrease of 6.7% or RMB588.9 million from RMB8,728.1 million for the same period of last year.

The table below shows the revenue of each of the business segments in the first half of 2011:

Business segments	For the six months ended 30 June		Change %
	2011	2010	
Drilling services	4,210.9	4,616.3	(8.8%)
Well services	1,690.7	2,181.4	(22.5%)
Marine support and transportation services	1,211.6	1,192.8	1.6%
Geophysical services	1,026.0	737.6	39.1%
Total	<u>8,139.2</u>	<u>8,728.1</u>	<u>(6.7%)</u>

1.2 Operating expenses

In the first half of 2011, the aggregate operating expenses of the Group amounted to RMB5,595.5 million, representing a decrease of RMB351.0 million or 5.9% from RMB5,946.5 million for the same period of last year.

The table below shows the operating expenses of each of the business segments in the first half of 2011:

Business segments	For the six months ended 30 June		Change %
	2011	2010	
Drilling services	2,707.2	2,836.5	(4.6%)
Well services	1,414.8	1,688.4	(16.2%)
Marine support and transportation services	844.2	842.6	0.2%
Geophysical services	629.3	579.0	8.7%
Total	<u>5,595.5</u>	<u>5,946.5</u>	<u>(5.9%)</u>

The table below shows the breakdown of operating expenses for the Group in the first half of 2011:

Unit: RMB million

	For the six months ended 30 June		Change %
	2011	2010	
Depreciation of property, plant and equipment and amortization of intangible assets	1,540.7	1,577.2	(2.3%)
Employee compensation costs	1,319.1	1,382.8	(4.6%)
Repair and maintenance costs	251.8	144.3	74.5%
Consumption of supplies, materials, fuel, services and others	1,288.5	1,532.6	(15.9%)
Subcontracting expenses	465.6	463.5	0.5%
Operating lease expenses	210.2	246.6	(14.8%)
Impairment of property, plant and equipment	41.8	—	100.0%
Other selling, general and administrative expenses	62.9	50.3	25.0%
Other operating expenses	414.9	549.2	(24.5%)
Total operating expenses	<u>5,595.5</u>	<u>5,946.5</u>	<u>(5.9%)</u>

Repair and maintenance costs increased by RMB107.5 million or 74.5% compared with the same period of last year. This was mainly due to the maintenance of overseas semi-submersible rig NH6 in the dock, at the same time, repair and maintenance was carried out for 2 jack-up drilling rigs.

Consumption of supplies, materials, fuel, services and others decreased by RMB244.1 million or 15.9% compared with the same period of last year, mainly due to the Group's increased effort in its cost control. The other reason is that under the impact of the international political environment and market, the work volume of drilling services and well services decreased.

Impairment losses of property, plant and equipment increased by RMB41.8 million, mainly because the civil war in Libya during the period affected the Group's land drilling business in Libya, the management recognized an asset impairment of RMB41.8 million accordingly.

Other operating expenses decreased by RMB134.3 million or 24.5% 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 in the first half of 2010, which resulted in a decrease of impairment loss of RMB93.9 million compared with the same period of last year.

1.3 Profit from operations

The profit from operations of the Group during the first half of 2011 amounted to RMB2,607.2 million, representing a decrease of RMB178.0 million or 6.4% from RMB2,785.2 million for the same period of last year.

The profit from operations of each of the business segments in the first half of 2011 are shown in the table below:

Unit: RMB million

Business segments	For the six months ended 30 June		Change %
	2011	2010	
Drilling services	1,521.9	1,779.9	(14.5%)
Well services	291.7	495.6	(41.1%)
Marine support and transportation services	380.4	351.1	8.3%
Geophysical services	413.2	158.6	160.5%
Total	<u>2,607.2</u>	<u>2,785.2</u>	<u>(6.4%)</u>

1.4 Financial expenses, net

In the first half of 2011, the net financial expenses of the Group was RMB186.2 million, representing a decrease of RMB81.7 million or 30.5% from RMB267.9 million for the same period of last year, mainly due to the Group's full repayment during the period of the loans used in the Mexico project, the Indonesia barge project and the Libya project, as well as the loan borrowed from CNOOC Finance Corporation Limited and the second security priority bonds, which resulted in the decrease of financial expenses by RMB80.5 million compared with the same period of last year.

1.5 Share of profits of jointly-controlled entities

In the first half of 2011, the Group's share of profits of jointly-controlled entities amounted to RMB90.0 million, representing an increase of RMB9.7 million compared to RMB80.3 million for the same period of last year. This was mainly due to the decrease in share of loss of a jointly-controlled entity, Eastern Marine Service Ltd., amounted to RMB12.2 million, and the aggregate share of profits of the remaining jointly-controlled entities decreased by RMB2.5 million as compared with the same period of last year.

1.6 Income tax expense

In the first half of 2011, the income tax expense was RMB436.4 million, representing an increase of 3.1% compared to RMB423.4 million for the same period of last year.

1.7 Profit for the period

In the first half of 2011, the profit of the Group was RMB2,074.5 million, including the profit attributable to owners of the parent amounted to RMB2,071.2 million. The profit attributable to owners of the parent decreased by RMB103.0 million or 4.7% as compared with RMB2,174.2 million for the same period of last year.

1.8 Basic earnings per share

In the first half of 2011, the Group's basic earnings per share were RMB0.46, representing a decrease of RMB0.02 or 4.7% as compared with RMB0.48 for the same period of last year.

2. Analysis of interim condensed consolidated statement of financial position

As of 30 June 2011, the total assets of the Group amounted to RMB62,011.6 million, representing a decrease of RMB1,485.8 million or 2.3% compared with RMB63,497.4 million at the end of 2010. The total liabilities were RMB35,319.8 million, representing a decrease of RMB2,587.7 million or 6.8% compared with RMB37,907.5 million at the end of 2010. The shareholders' equity was RMB26,691.8 million, representing an increase of RMB1,101.9 million or 4.3% compared with RMB25,589.9 million at the end of 2010. The analysis for significant changes in accounts on the interim condensed consolidated statement of financial position is as follows:

2.1 Other non-current assets

As of 30 June 2011, other non-current assets of the Group amounted to RMB203.8 million, representing an increase of 625.3% or RMB175.7 million compared with RMB28.1 million at the beginning of the year. This was mainly resulting from the mobilization cost incurred by a semi-submersible drilling rig.

2.2 Prepayments, deposits and other receivables

As of 30 June 2011, the prepayments, deposits and other receivables of the Group was RMB246.6 million, representing a decrease of RMB142.2 million or 36.6% compared with RMB388.8 million as of the beginning of the year. The decrease was mainly due to the realization of prepayments for equipment maintenance and maintenance cost charged as the maintenance progressed.

2.3 Pledged time deposits (current portion)

As of 30 June 2011, the pledged time deposits of the Group was RMB138.5 million, representing an increase of RMB51.0 million or 58.3% compared with RMB87.5 million as of the beginning of the year. This was mainly due to increased guarantee deposit of RMB116.6 million for the Group's drilling rig which went to Indonesia for operation during the period. Moreover, part of the pledged time deposits were due and released according to the relevant requirements during the period.

2.4 Cash and cash equivalents

As of 30 June 2011, cash and cash equivalents of the Group was RMB3,976.0 million, representing a decrease of RMB1,871.2 million or 32.0% compared with RMB5,847.2 million as of the beginning of the year. The details were provided in "Analysis of interim condensed consolidated statement of cash flows" below.

2.5 Other current assets

As of 30 June 2011, other current assets of the Group were RMB26.8 million, representing a decrease of RMB14.3 million or 34.8% compared with RMB41.1 million as of the beginning of the year. Other current assets consisted of the current part of deferred mobilization cost. The decrease in this period was mainly due to the normal amortization of deferred mobilization cost as the drilling works carried out.

2.6 Salary and bonus payables

As of 30 June 2011, the salary and bonus payables of the Group were RMB424.3 million, representing a decrease of 45.7% or RMB357.1 million compared with RMB781.4 million at the beginning of the year. The major reasons were that the balance at the beginning of the year consisted of the Group's provision for staff salary and year-end bonus in 2010, which were distributed at the beginning of the year. The balance at the end of the period was the Group's provision during the period for staff salary and bonus which have not been paid.

2.7 Interest-bearing bank borrowings (current portion)

As of 30 June 2011, the current portion of interest-bearing bank borrowings of the Group amounted to RMB1,094.1 million, representing an increase of RMB443.4 million or 68.1% compared with RMB650.7 million as of the beginning of the year. This was mainly due to borrowings in the amount of RMB796.8 million would due within one year during the period. On the other hand, the Group early repaid borrowings and loans totaling RMB353.4 million for the Mexican project, the Indonesian barge project, the Libya project to Eksportfinans, a Norwegian export credit institution.

2.8 Long-term bonds (current portion)

As of 30 June 2011, the Group had no long-term bonds (current portion). This was mainly due to the Group's repayment of the outstanding balance of CDE second security priority bond with an amount of RMB573.7 million during the period.

3. Analysis of interim condensed consolidated statement of cash flows

3.1 Net cash flows from operating activities

In the first half of 2011, net cash inflows from operating activities of the Group reached RMB2,875.9 million, of which RMB8,020.8 million was received from the sales of goods and the provision of services, while RMB2,378.7 million was paid for the purchase of goods and receipt of services, RMB1,673.9 million was paid to or for employees, and RMB555.6 million was used to pay for various taxes. Cash outflow related to other operating activities amounted to RMB536.7 million.

3.2 Net cash flows from investing activities

In the first half of 2011, net cash outflows used in investing activities of the Group amounted to RMB2,192.5 million, of which RMB1,868.7 million was paid for the purchase of fixed assets, intangible assets and other long-term assets during the period, and RMB507.8 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 RMB93.8 million and RMB40.3 million, respectively, while RMB30.6 million was received from the disposal of fixed assets during the period. A total cash inflows received from disposal of other investments amounted to RMB19.3 million.

3.3 Net cash flows from financing activities

In the first half of 2011, net cash outflows used in financing activities amounted to RMB2,491.1 million, of which RMB32.8 million was received from government grants and RMB1,323.9 million was received from borrowings during the period. RMB2,716.8 million was paid for repayment of debts, RMB807.2 million was paid for dividends distribution, and RMB323.8 million was paid for the repayment of interests.

3.4 The net impact of foreign exchange fluctuations on cash during the period was the decrease in cash for RMB63.5 million.

4. Capital expenditure analysis

In the first half of 2011, the total capital expenditure of the Group amounted to RMB1,799.8 million, representing a decrease of RMB85.0 million or 4.5% compared with RMB1,884.8 million for the same period of last year.

The capital expenditure of each of business segments in the first half of 2011 is shown in the table below:

Unit: RMB million

Business Segments	For the six months ended 30 June		
	2011	2010	Change %
Drilling services	828.0	873.1	(5.2%)
Well services	124.5	96.8	28.6%
Marine support and transportation services	105.2	531.2	(80.2%)
Geophysical services	742.1	383.7	93.4%
Total	<u>1,799.8</u>	<u>1,884.8</u>	<u>(4.5%)</u>

The capital expenditure of the drilling services segment was mainly used for the construction of 2 200-foot jack-up drilling rigs and 2 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 equipments. The capital expenditure of the marine support and transportation services segment was mainly used for the construction of 2 deep water AHTS vessels. The capital expenditure of the geophysical services segment was mainly used for the construction of 1 deep-water surveying vessel and 1 12-streamer geophysical vessel.

OUTLOOK

Looking forward to the second half of 2011, the recovery momentum of the world economy will still continue, but the strength of recovery will be weakened, and the recovery trend is still not unstable. The European sovereign debt crisis, the slowdown of the economic growth of the USA and the downgrade of the U.S. credit rating recently have brought new uncertainties to the growth of the world economy. The recovery of the global economy and the growth in newly emerged economics together contributed to a higher demand for oil consumption and in turn a growth in the oilfield services market. According to the data of Spears & Associates, it is expected that a growth of around 5% of the total value of the oilfield services market would be maintained in 2011, reaching US\$270 billion. Along with the burgeoning offshore petroleum exploration and development, there will be a faster growth in both the production capacity and demand of the future offshore oilfield services market. According to the anticipation of ODS-data, it is expected that the comprehensive day rate of drilling rigs around the world in the second half of the year would increase by 10.53% compared with the first half of the year. The speed of recovery of the large drilling equipments segment will accelerate, but market competition is still severe.

Facing the second half of the year which is full of opportunities and challenges, COSL will put greater emphasis on the research of technology to promote the development, continue to enhance the quality and capability of the oilfield technical services, keep on conducting comprehensive reinforcement on safety management, place great importance on production safety, increase the effort in overseas and domestic market expansion persistently. For the domestic market, business will be market-oriented. The allocation of resources as well as the sales and marketing should be optimized to enhance the service capability and maintain the leading status in the service market of the offshore oilfields in the PRC. The Company will also strengthen the exploration of the deep water market and establish full capability of deep water services and actively develop techniques and services in new markets such as the coalbed methane to enable new growth of income for the Company. For the overseas market, apart from expanding and strengthening the overseas business, the Company will actively foster projects in countries like Iraq and Cambodia while sustaining the exploration of markets such as the Middle East and the Gulf of Mexico in order to facilitate the steady development of overseas business; the Company will further enhance cost control, and raise economic efficiency. The Company will continue to bear social responsibilities proactively, put great effort in facilitating energy-saving and emission-reduction and protecting the environment and provide continued and steady return to the shareholders.

AUDIT COMMITTEE

The audit committee comprises of three independent non-executive directors of the Company. The audit committee has reviewed the accounting principles and practices adopted by the Group as well as the internal control and financial reporting matters. The interim results for the six months ended 30 June 2011 have not been audited but have been reviewed by Ernst & Young in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity”, issued by the Hong Kong Institute of Certified Public Accountants. The unaudited interim financial report for the six months ended 30 June 2011 has been reviewed by the audit committee.

CORPORATE GOVERNANCE PRACTICES

For the six months ended 30 June 2011, the Company has complied with the Code on Corporate Governance Practices as stated in Appendix 14 of the Listing Rules.

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

Upon specific enquiry to all directors by the Company, the directors have confirmed that they have, for the six months ended 30 June 2011, complied with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. The Company has adopted a code of conduct for securities transactions by directors that exceed the provisions set out in the Model Code.

PURCHASE, DISPOSAL AND REDEMPTION OF OUR LISTED SECURITIES

Neither the Company nor its subsidiaries have purchased, disposed of or redeemed any of the Company’s listed securities during the six months ended 30 June 2011.

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

23 August 2011

As at the date of this announcement, 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.