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COSL

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

(Incorporated in the People's Republic of China as a joint stock limited liability company)
(Stock Code: 2883)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2012

FINANCIAL HIGHLIGHTS

1. Revenue increased by 23.0% to RMB10,010.6 million.

2. Profit from operations increased by 13.1% to RMB2,949.3 million.

3. Profit for the period increased by 15.8% to RMB2,402.8 million.

4. Basic earnings per share were RMB53.34 cents.

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT
For the six months ended 30 June 2012

		Six months ended 30 June	
		2012	2011
		(Unaudited)	(Unaudited)
	Note	***RMB'000***	*RMB'000*
REVENUE	*3*	**10,010,601**	8,139,160
Other revenues		**15,626**	63,613
		10,026,227	8,202,773
Depreciation of property, plant and equipment and amortisation of intangible assets		**(1,663,214)**	(1,540,730)
Employee compensation costs		**(1,568,956)**	(1,319,094)
Repair and maintenance costs		**(286,061)**	(251,814)
Consumption of supplies, materials, fuel, services and others		**(1,633,846)**	(1,288,491)
Subcontracting expenses		**(1,063,427)**	(465,612)
Operating lease expenses		**(298,453)**	(210,191)
Other operating expenses		**(446,035)**	(414,859)
Other selling, general and administrative expenses		**(89,533)**	(62,940)
Impairment of property, plant and equipment	*7*	**(27,420)**	(41,807)
Total operating expenses		**(7,076,945)**	(5,595,538)
PROFIT FROM OPERATIONS		**2,949,282**	2,607,235
Financial expenses			
Exchange (loss)/gains, net		**(32,592)**	29,507
Finance costs		**(229,380)**	(254,193)
Interest income		**68,390**	38,443
Financial expenses, net		**(193,582)**	(186,243)
Share of profits of jointly-controlled entities, net of tax		**133,672**	89,964
PROFIT BEFORE TAX		**2,889,372**	2,510,956
Income tax expense	*4*	**(486,596)**	(436,409)
PROFIT FOR THE PERIOD		**2,402,776**	2,074,547
Attributable to:			
Owners of the parent		**2,397,746**	2,071,230
Non-controlling interests		**5,030**	3,317
		2,402,776	2,074,547
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	*6*	**53.34 cents**	46.08 cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
PROFIT FOR THE PERIOD	**2,402,776**	2,074,547
OTHER COMPREHENSIVE INCOME/(LOSS)		
Exchange differences on translation of foreign operations	**29,268**	(163,483)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	**29,268**	(163,483)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**2,432,044**	1,911,064
Attributable to:		
Owners of the parent	**2,427,012**	1,907,755
Non-controlling interests	**5,032**	3,309
	2,432,044	1,911,064

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

	Note	**30 June 2012 (Unaudited)** *RMB'000*	31 December 2011 (Audited) *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*7*	**45,591,840**	46,285,323
Goodwill		**4,261,377**	4,245,207
Other intangible assets		**364,523**	371,656
Investments in jointly-controlled entities		**471,793**	444,767
Defined benefit assets		–	174
Other non-current assets	*8*	**188,636**	53,342
Total non-current assets		**50,878,169**	51,400,469
CURRENT ASSETS			
Inventories		**1,032,750**	894,553
Prepayments, deposits and other receivables		**798,020**	796,295
Accounts receivable	*9*	**5,209,743**	3,980,041
Notes receivable		**507,522**	1,219,384
Other current assets	*10*	**14,693**	21,310
Pledged time deposits		**18,111**	10,805
Time deposits with original maturity over three months		–	882,126
Cash and cash equivalents		**7,520,450**	5,646,159
Total current assets		**15,101,289**	13,450,673
CURRENT LIABILITIES			
Trade and other payables	*11*	**4,082,577**	4,530,740
Salary and bonus payables		**528,867**	807,337
Tax payable		**127,204**	61,553
Interest-bearing bank borrowings	*13*	**1,670,311**	1,626,325
Other current liabilities	*10*	**69,873**	79,197
Total current liabilities		**6,478,832**	7,105,152
NET CURRENT ASSETS		**8,622,457**	6,345,521
TOTAL ASSETS LESS CURRENT LIABILITIES		**59,500,626**	57,745,990

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 30 June 2012

	Note	**30 June 2012 (Unaudited)** *RMB'000*	31 December 2011 (Audited) *RMB'000*
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**1,960,441**	1,817,000
Interest-bearing bank borrowings	*13*	**24,970,129**	24,983,768
Long-term bonds	*14*	**1,500,000**	1,500,000
Deferred revenue		**960,570**	986,068
Employee benefit liability		**27,446**	–
Total non-current liabilities		**29,418,586**	29,286,836
NET ASSETS		**30,082,040**	28,459,154
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**4,495,320**	4,495,320
Reserves		**25,581,099**	23,154,087
Proposed final dividend		**–**	809,158
		30,076,419	28,458,565
Non-controlling interests		**5,621**	589
Total equity		**30,082,040**	28,459,154

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 and surveying 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 2012 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 2011.

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 2011, except for the adoption of new standards, interpretations and amendments as of 1 January 2012, noted below:

HKFRS 1 Amendments	Amendments to HKFRS 1 *First-Time Adoption of HKFRSs – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*
HKFRS 7 Amendments	Amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
HKAS 12 Amendments	Amendments to HKAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

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

The amendments to HKFRS 1 define when an entity's date of transition to HKFRS is on or after the functional currency normalisation date, the entity may elect to measure all assets and liabilities held before the functional currency normalisation date, at fair value on the date of transition to HKFRS. This fair value may be used as the deemed cost of those assets and liabilities in the opening HKFRS statement of financial position. However, this exemption may only be applied to assets and liabilities that were subject to severe hyperinflation. The adoption of HKFRS 1 Amendments does not have significant impact on the Group's interim condensed consolidated financial statements.

The amendments to HKFRS 7 enhance disclosures for financial assets. These disclosures relate to assets transferred (as defined under HKAS 39). If the assets transferred are not derecognised entirely in the financial statements, an entity has to disclose information that enables users of financial statements to understand the relationship between those assets which are not derecognised and their associated liabilities. If those assets are derecognised entirely, but the entity retains a continuing involvement, disclosures have to be provided that enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The adoption of HKFRS 7 Amendments does not have significant impact on the Group's interim condensed consolidated financial statements.

The amendments to HKAS 12 include a rebuttable presumption that the carrying amount of investment property measured using the fair value model in HKAS 40 will be recovered through sale and, accordingly, that any related deferred tax should be measured on a sale basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time, rather than through sale. Specifically, HKAS 12 will require that deferred tax arising from a non-depreciable asset measured using the revaluation model in HKAS 16 should always reflect the tax consequences of recovering the carrying amount of the underlying asset through sale. The adoption of HKAS 12 Amendments does not have significant impact on the Group's interim condensed consolidated financial statements.

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 and surveying 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 30 June 2012 (Unaudited)	**Drilling services** *RMB'000*	**Well services** *RMB'000*	**Marine support and transportation services** *RMB'000*	**Geophysical and surveying services** *RMB'000*	**Total** *RMB'000*
Segment revenue:					
Sales to external customers	**5,265,071**	**2,103,776**	**1,401,276**	**1,240,478**	**10,010,601**
Intersegment sales	**752,155**	**222,637**	**88,101**	**69,777**	**1,132,670**
	6,017,226	**2,326,413**	**1,489,377**	**1,310,255**	**11,143,271**
Reconciliation:					
Elimination of intersegment sales					**(1,132,670)**
Revenue					**10,010,601**
Segment result	**2,002,520**	**439,067**	**284,205**	**357,162**	**3,082,954**
Reconciliation:					
Exchange loss, net					**(32,592)**
Finance costs					**(229,380)**
Interest income					**68,390**
Profit before tax					**2,889,372**

Six months ended 30 June 2011 (Unaudited)	Drilling services *RMB'000*	Well services *RMB'000*	Marine support and transportation services *RMB'000*	Geophysical and surveying services *RMB'000*	Total *RMB'000*
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

Geographical Information

The Group mainly engages in the provision of drilling services, well services, marine support and transportation services and geophysical and surveying services in mainland China. Activities outside Mainland China are mainly conducted in Indonesia, Australia, Mexico, Myanmar, Norway, Dubai, and certain countries in the Middle East.

In determining the Group's geographical information, revenues and results are attributed to the segments based on the location of the Group's customers. No further analysis of geographical information is presented for revenues as revenues generated from customers in other locations are individually less than 10% (six months ended June 30 2011: Less than 10%), and approximately 68% (six months ended June 30 2011: Approximately 72%) 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 2012 and 2011:

Six months ended 30 June 2012 (Unaudited)	**Mainland China**	**Others**	**Total**
	RMB'000	***RMB'000***	***RMB'000***
Segment revenue:			
Sales to external customers	**6,846,370**	**3,164,231**	**10,010,601**

Six months ended 30 June 2011 (Unaudited)	Mainland China	Others	Total
	RMB'000	RMB'000	RMB'000
Segment revenue:			
Sales to external customers	5,888,593	2,250,567	8,139,160

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 Corporate Income Tax Law of the PRC (the "CIT") effective from 1 January 2008 introduces the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25% in China. The Company's statutory tax rate is 25%.

On 30 October 2008, the Company was certified as an High-New Technology Enterprise ("HNTE") by the Tianjin Science and Technology Commission, Tianjin Ministry of Finance, Tianjin State Administration of Taxation (the "TSAT"), and the Tianjin Local Taxation Bureau, which was effective for three years commencing 1 January 2008. Further, the Company obtained the approval of tax deduction and exemption registration report from the 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 years 2009 and 2010. The Company has applied to renew its HNTE certificate for three years commencing from 1 January 2011, and was re-certified as an HNTE on 8 October 2011, which is effective for three years commencing 1 January 2011. Consequently, management considers that it is appropriate to use the preferential rate of 15% to provide the income tax provision of the Company for the six months ended 30 June 2012 (six months ended 30 June 2011: 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 2011: 3.75%) of service income generated from drilling activities in the PRC. The Group's activities in Indonesia are mainly subject to corporate income tax of 25% (six months ended 30 June 2011: 25%). The Group's activities in Australia are subject to income tax of 30% (six months ended 30 June 2011: 30%) based on its taxable profit generated. The Group's activities in Myanmar are subject to income tax of 3.5% (six months ended 30 June 2011: 3.5%). The Group's 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 2011: 30% and 17.5%, respectively). The Group's activities in Norway are mainly subject to corporate income tax of 28% (six months ended 30 June 2011: 28%). The Group's activities in the U.K. are subject to income tax of 28% (six months ended 30 June 2011: 28%). The Group's activities in the Philippine are subject to income tax of 30% (six months ended 30 June 2011: 12%). The Group's activities in the Cambodia are subject to income tax of 14% (six months ended 30 June 2011: 10%). The Group's activities in Iraq are subject to income tax of 35% (six months ended 30 June 2011: Not applicable). The Group's activities in Dubai are not subject to any income tax. The Group's taxes pertaining to drilling activities in Iran and Libya are borne by the customers. The Group's taxes pertaining to drilling activities in Papua New Guinea are borne by the customers. The Group's taxes pertaining to activities in Saudi Arabia are borne by the customer unless otherwise provided in the drilling contracts.

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

	Six months ended 30 June	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Hong Kong profits tax	**–**	–
Overseas income taxes:		
Current	**83,762**	54,213
Deferred	**(40,216)**	(46,526)
PRC corporate income taxes:		
Current	**263,442**	244,581
Deferred	**179,608**	184,141
Total tax charge for the period	**486,596**	436,409

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			
	2012		2011	
	(Unaudited)		(Unaudited)	
	RMB'000	***%***	*RMB'000*	*%*
Profit before tax	**2,889,372**		2,510,956	
Tax at the statutory tax rate of 25% (six months ended 30 June 2011: 25%)	**722,343**	**25.0**	627,739	25.0
Tax reduction as an HNTE	**(165,647)**	**(5.7)**	(170,947)	(6.8)
Income not subject to tax	**(35,988)**	**(1.3)**	(23,464)	(0.9)
Expense not deductible for tax	**16,794**	**0.6**	15,967	0.6
Tax benefit for qualifying research and development expense	**(15,123)**	**(0.6)**	(11,867)	(0.5)
Effect of different tax rates for overseas subsidiaries	**(136,603)**	**(4.7)**	(80,069)	(3.2)
Unrecognised tax losses	**89,646**	**3.1**	–	–
Utilisation of previous unrecognised tax losses	**–**	**–**	(462,082)	(18.4)
Translation adjustment difference*	**6,075**	**0.2**	530,033	21.1
Adjustment in respect of current tax of previous periods	**10,539**	**0.4**	(21,218)	(0.8)
Others	**(5,440)**	**(0.2)**	32,317	1.3
Total tax charge at the Group's effective rate	**486,596**	**16.8**	436,409	17.4

* Translation adjustment difference mainly represents the tax effect of differences arising from foreign exchange effects to Norwegian Kroner ("NOK"), which is the basis for taxation for some group companies. The translation adjustment mainly relates to the difference between the profit before tax determined on the tax basis in NOK and that determined on the accounting basis of such group companies in US dollars, the functional currency.

The share of tax attributable to jointly-controlled entities amounting to approximately RMB45,768,437 (six months ended 30 June 2011: RMB 34,317,190) was included in "Share of profits of jointly-controlled entities, net of tax" 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	
	2012	2011
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Final dividend for 2011: RMB0.18 per ordinary share (2010: RMB0.18 per ordinary share)	**809,158**	809,158

The board of directors of the Company did not propose the interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: 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 RMB2,397,746,000 (six months ended 30 June 2011: RMB2,071,230,000), and the weighted average number of ordinary shares of 4,495,320,000 (six months ended 30 June 2011: 4,495,320,000) in issue during the period.

No adjustment has been made to the basic earnings per share amounts presented for the periods ended 30 June 2012 and 2011 in respect of a dilution, as the Group had no potential ordinary shares in issue during those periods.

7. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired certain machines and equipment, motor vehicles and construction in progress with an aggregate cost amounting to approximately RMB906.4 million (six months ended 30 June 2011: RMB1,799.4 million). Vessels, machines and equipment with a net carrying amount amounting to RMB69.1 million (six months ended 30 June 2011: RMB32.6 million) were disposed of in 2012, resulting in a loss on disposal of RMB29.1 million (six months ended 30 June 2011: RMB2.1 million).

Out of the total interest costs, as part of the finance costs in interim condensed consolidated income statement, for the current period of RMB290.5 million (six months ended 30 June 2011: RMB291.4 million), an amount of approximately RMB72.4 million (six months ended 30 June 2011: RMB45.4 million) was capitalised in property, plant and equipment, with a capitalisation rate varying from 1.39% to 1.87% per annum (six months ended 30 June 2011: 1.19% to 3.76% per annum).

An impairment loss of approximately RMB27.4 million was recognised in the interim condensed consolidated income statements for the six months ended 30 June 2012 (six months ended 30 June 2011: RMB41.8 million) in relation to certain land drilling equipment located in Libya, as a result of the civil unrest in the country.

8. OTHER NON-CURRENT ASSETS

As at 30 June 2012 and 31 December 2011, other non-current assets were substantially deferred expenses recognised in relation to mobilisation costs incurred by the Group's jack-up and semi-submersible drilling rigs. The current portion of deferred expenses was recorded as other current assets (note 10). The deferred expenses are amortised over their respective 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 invoice date, is as follows:

	30 June 2012 (Unaudited) ***RMB'000***	31 December 2011 (Audited) *RMB'000*
Outstanding balances aged:		
Within one year	**5,244,584**	4,182,218
One to two years	**156,298**	84,582
Two to three years	**91,617**	1,747
Over three years	**25,210**	24,655
	5,517,709	4,293,202
Less: Provision for impairment of accounts receivable	**(307,966)**	(313,161)
	5,209,743	3,980,041

10. OTHER CURRENT ASSETS/LIABILITIES

	30 June 2012 (Unaudited) *RMB'000*	31 December 2011 (Audited) *RMB'000*
Current portion of deferred expenses*	**14,693**	21,310
Other current assets	**14,693**	21,310
Share of net liabilities of jointly-controlled entities **	**124,742**	126,322
Due to a jointly-controlled entity	**17,211**	17,145
Due from jointly-controlled entities	**(89,707)**	(89,367)
	52,246	54,100
Current portion of deferred revenue	**17,627**	25,097
Other current liabilities	**69,873**	79,197

* Deferred expenses represent mobilisation costs incurred by the Group's jack-up and semi-submersible drilling rigs, which are amortised over their respective drilling contract periods. As at 30 June 2012 and 31 December 2011, the current portion of deferred expenses was included in other current assets while the non-current portion of deferred expenses was included in non-current assets.

** The share of net liabilities of Premium Drilling AS ("Premium Drilling") and Atlantis Deepwater Orient Ltd. ("Atlantis Deepwater") with amounts of RMB89,609,000 (31 December 2011: RMB89,269,000) and RMB35,133,000 (31 December 2011: RMB37,053,000), respectively, were recognised since management of the Company is of the opinion that the Group has obligations to meet the liabilities of Premium Drilling and Atlantis Deepwater. The liquidation process for Premium Drilling and Atlantis Deepwater have commenced since 2009 and 2010 respectively. During current period, the liquidation process for Atlantis Deepwater entered into a final stage. On 14 August 2012, the liquidation and cancellation of Atlantis Deepwater were completed.

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 2012 (Unaudited) *RMB'000*	31 December 2011 (Audited) *RMB'000*
Outstanding balances aged:		
Within one year	**3,971,186**	4,351,926
One to two years	**22,924**	79,990
Two to three years	**22,681**	34,673
Over three years	**65,786**	64,151
	4,082,577	4,530,740

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

The first batch of share appreciation rights has been forfeited in 2009, the second batch has been approved and exercised in 2011.As at 30 June 2012, the third batch has not been submitted for approval. The exercise gains of the second, the third and the fourth batch share appreciation rights were measured at HK$1.82, HK$2.27 and HK$2.43 per share, respectively. The weighted average closing price of the shares immediately before the date on which the second batch of share appreciation rights was exercised was HK$9.11 per share.

The SAR is recorded as a finance liability at fair value through profit and loss and included in the salary and bonus payable account. The fair value change of the SAR is charged to income statement over the period until the finalisation of exercise gain. The liability is remeasured at the end of the reporting period and the settlement date with changes in fair value recognised in profit or loss. At 30 June 2012, the salary and bonus payable balance arising from the share appreciation rights was RMB1.4 million (31 December 2011: RMB1.4 million).

There is no change in the number of share appreciation rights during the period. (30 June 2011 and 30 June 2012: 1,173,075 shares).

13. INTEREST-BEARING BANK BORROWINGS

Current:

	30 June 2012 (Unaudited) *RMB'000*	31 December 2011 (Audited) *RMB'000*
Current portion of long term bank loan	**1,670,311**	1,626,325

Non-current:

	Contractual interest rate *(%)*	**Year of maturity**	**30 June 2012 (Unaudited)** *RMB'000*	31 December 2011 (Audited) *RMB'000*
Export-Import Bank of China – unsecured (a)	LIBOR+170pts	2020	**4,516,969**	4,710,921
Bank of China – unsecured (b)	LIBOR+138pts	2017	**13,489,983**	13,077,912
Bank of China – unsecured (c)	LIBOR+90pts	2017	**4,933,422**	5,040,720
Industrial and Commercial Bank of China – unsecured (c)	LIBOR+90pts	2017	**3,700,066**	3,780,540
			26,640,440	26,610,093
Less: Current portion of long term bank loan			**(1,670,311)**	(1,626,325)
			24,970,129	24,983,768

(a) The Group borrowed a US$800.0 million loan for the purpose of funding the acquisition of a subsidiary. The repayment started on 2 September 2011 over 19 instalments amounting to US$42.1 million bi-annually. The Group repaid US$42.1 million during the first half of the year.

(b) The Group entered into a US$2,200.0 million credit facility agreement with Bank of China dated 30 April 2009, of which US$1,700.0 million was to replace loans and bonds of COSL Drilling Europe AS ("CDE"), and US$500.0 million was for the purpose of CDE's daily operations. The repayment started on 14 May 2012 over 11 instalments bi-annually. During the first half of the year, the Group withdrew a principal of US$119.5 million and repaid US$54.9 million respectively.

(c) The Group borrowed US$800.0 million from Bank of China and US$600.0 million from Industrial and Commercial Bank of China in May 2009 to replace CDE's syndicated bank loan. The repayment both started on 25 May 2012 and 22 May 2012, respectively, over 11 instalments bi-annually. The Group repaid US$20.0 million and US$15.0 million respectively during the first half of the year.

14. LONG-TERM BONDS

	Year of maturity	30 June 2012 (Unaudited) *RMB'000*	31 December 2011 (Audited) *RMB'000*
Non-Current:			
Corporate bonds	2022	1,500,000	1,500,000

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 each year, and the redemption or maturity date is 14 May 2022.

15. CONTINGENCY

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. Management has been discussing and negotiating with the Norwegian tax authorities on the aforesaid tax disputes. Presently, the Norwegian tax authorities still hold the view on taxable position and are to assess the related taxable amounts. Management of the Company continues to carry out active negotiation with Norwegian tax authorities. As at the approval date of the consolidated financial statements, the Company has not received any formal decision from the Norwegian tax authorities. Considering that the above tax disputes are still under negotiation, and the final outcome of the assessment amount by the tax authorities and the timing of cash outflows, if any, is uncertain, the directors have not made any provision for the above-mentioned tax disputes in the consolidated financial statements.

16. 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

During the first half of 2012, recovery of global economy has been weakened, which shook the stability of the major economies and resulted in lowering growth rate in them. As at the end of June, international oil price dropped after a rise, with oil price in New York and London both fell by approximately 20% from their highest level of the year and WTI price sank to around US$80/barrel.

According to the report of Barclays Capital, the expenditures in exploration and development projects by the world's oil and gas companies will reach US$598.0 billion in 2012, representing an increase of 10% over 2011. For the drilling services segment, the market was showing an upward trend in market demand for drilling rigs, in particular for high-end drilling rigs. According to the data from ODS-data, overall global drilling rig contract signing rate increased by 4.5% as compared to the same period of last year, and the global comprehensive day rate of drilling rigs in the first half of 2012 increased. The well services segment rebounded along with the substantially increased demand in the market, which showed a growth in the operating volume and service price. With more investments, demand for geophysical and surveying services increased, which pushed up the prices of the services and equipment and bring a steady growth to the market.

Business Review

Drilling Services Segment

During the first half of 2012, while the Group was committed to solidifying the domestic drilling services market, it also put in efforts in developing the international markets, which significantly increased income from this segment. Driven by the substantial operation and addition of equipment, the drilling service business recorded an operating income of RMB5,265.0 million for the first half of 2012, increased by 25.0% compared to RMB4,210.9 million of the same period last year.

The addition of the semi-submersible drilling rigs enhanced both the Group's deep-water capability and its competitiveness in overseas drilling operation. COSLPioneer continued to provide drilling services to Statoil in the North Sea with satisfactory result, received recognition from clients. HYSY981, a deep-water semi-submersible drilling rig of the sixth generation operated and managed by the Group, commenced its operation in the South China Sea in the first half of 2012. Its operation has been steady and it met various standards satisfactorily.

As for jack-up drilling rigs, the Group operated a total of 27 jack-up drilling rigs, of which 13 were located in Bohai, China, 3 in South China Sea, 1 in the waters east of China, 1 in Yellow Sea and the remaining 9 in Indonesia, Mexico, Middle East and other overseas areas. During the first half of 2012, jack-up drilling rigs of the Group operated for 4,577 days, representing an increase of 591 days or 14.8% over the same period last year, where COSLSeeker at Indonesia and COSLConfidence at Mexico attained a full operation of 364 days, representing an increase of 286 days over the same period last year.

As at 30 June 2012, the Group operated and managed a total of 34 drilling rigs, as well as 2 accommodation rigs and 4 module rigs, which were serving at waters of the North Sea and Mexico respectively.

During the first half of 2012, the number of operating days of the Group's drilling rigs amounted to 5,358 days, representing an increase of 871 days, and the calendar day utilization rate reached 92.8%, representing a 2.2 basic points increase compared with the same period of last year.

The operation details of our jack-up and semi-submersible drilling rigs in the first half of 2012 are as follows:

	For the six months ended 30 June			
	2012	2011	Increase/ (Decrease)	Increase/ (Decrease)
Operating days (day)	**5,358**	4,487	871	19.4%
Jack-up drilling rigs	**4,577**	3,986	591	14.8%
Semi-submersible drilling rigs	**781**	501	280	55.9%
Available day utilization rate	**99.7%**	94.0%	5.7 basic points	
Jack-up drilling rigs	**99.9%**	93.3%	6.6 basic points	
Semi-submersible drilling rigs	**98.9%**	100.0%	(1.1 basic points)	
Calendar day utilization rate	**92.8%**	90.6%	2.2 basic points	
Jack-up drilling rigs	**93.1%**	90.4%	2.7 basic points	
Semi-submersible drilling rigs	**90.7%**	92.3%	(1.6 basic points)	

The main reasons for the increase by 591 days in operating days contributed by jack-up drilling rigs compared with the same period of last year were an increase of 286 operating days as a result of COSLSeeker and COSLConfidence's full operation, and an increase of 484 operating days by COSL921, COSL922, COSL923 and COSL924. There were a decrease of 156 operating days for drilling rig BH8 due to its preparation for overseas operations, as well as a decrease of 165 days in operating days contributed by BH9, BH12, COSL931, COSL936, NH1 and COSLStrike and COSLBoss due to repair and maintenance and an increase of 142 days in operating days contributed by other drilling rigs due to less repair and maintenance.

The operating days of semi-submersible drilling rigs increased by 280 days compared with the same period of last year was due to COSLPioneer and HYSY981, which have commenced operation and increased the operating days by 173 days and 133 days respectively, while the operating days of other drilling rigs decreased by 26 days due to repair and maintenance.

Due to the increased operation of COSL923, COSL924, COSLSeeker and COSLConfidence and the commencement of operation of COSLPioneer and HYSY981, the calendar day utilization rate of the Group's drilling rigs in the first half of 2012 reached 92.8%, representing an increase of 2.2 basic points as compared with the same period of last year.

The two accommodation rigs continued to serve in the North Sea and operated for 364 days in the first half of 2012, with available day utilization rate and calendar day utilization rate both reached 100.0%. While the operating days of 4 module rigs working in the Mexican Bay decreased due to repair and maintenance last year, they resumed operation in the first half of this year and accumulated operating rate of 723 days and a calendar day utilization rate of 99.3%.

With the addition of new semi-submersible drilling rigs, the average day income of the drilling rigs of the Group for the first half of 2012 increased by 13.8% compared with the same period of last year, and the details are as follows:

	For the six months ended 30 June			
Average day income* (ten thousand US$/day)	**2012**	2011	Increase/ (Decrease)	Increase/ (Decrease)
Jack-up drilling rigs	**10.9**	10.7	0.2	1.9%
Semi-submersible drilling rigs	**28.8**	19.5	9.3	47.7%
Drilling rigs sub-total	**13.7**	11.7	2.0	17.1%
Accommodation rigs	**20.2**	21.5	(1.3)	(6.0%)
Total	**14.0**	12.3	1.7	13.8%

Note 1: US$/RMB exchange rate was 1:6.3249 on 30 June 2012 and 1:6.4716 on 30 June 2011, respectively.

Note 2: The average day income of drilling rigs includes COSLPioneer and HYSY981. After excluding them, the average day income in sub-total of semi-submersible drilling rigs and drilling rigs and that in total are US$211,000/day, US$119,000/day and US$124,000/day respectively.

* Average day income = Revenue / operating days

Well Services Segment

In the first half of 2012, efforts were put in enhancing technical service capability and solidifying and developing domestic and international markets of the well services segment, which recorded a rebound in operation volume compared with last year and an increase in the operating income by RMB1,690.7 million or 24.4% to RMB2,103.8 million as compared with the same period last year.

The Group endeavored to enhance quality of the technical services of this segment by research and development of technology with a view to increasing income. The first application of the proprietary logging-while-drilling system developed by the Group ELIS-II at western South China Sea was a success, which changed the future of the ELIS system which has only been applied to development of production well as a marine downhole instrument in the past. In addition, the Group for the first time completed a project on fracing work for Sinopec in the first half of 2012.

As for the international markets, other than consolidation of its share in conventional well services market, the Group has completed its first cable perforation, pressure test on blowout preventers and other well services at Maysan oilfield, Iraq.

Marine Support and Transportation Services Segment

In the first half of 2012, the Group's marine support and transportation services segment faced intense market competition. The Group utilized its own advantages and reasonably selected social resources to support innovation and return, as a result the segment recorded a growth of RMB189.7 million or 15.7% in operating income to RMB1,401.3 million in the first half of 2012 as compared to RMB1,211.6 million in the same period last year.

As at 30 June 2012, the Group owned an aggregate of 72 oilfield utility vessels. In addition, it also owned 3 oil tankers and 5 chemical carriers.

The operation of self-owned oilfield utility vessels in the first half of 2012 is as follows:

	For the six months ended 30 June			
Operating days (day)	**2012**	2011	Increase/ (Decrease)	Increase/ (Decrease)
Standby vessels	**7,053**	7,922	(869)	(11.0%)
AHTS vessels	**2,714**	2,942	(228)	(7.7%)
Platform supply vessels	**865**	905	(40)	(4.4%)
Multi-purpose vessels	**690**	659	31	4.7%
Workover support barges	**645**	628	17	2.7%
Total	**11,967**	13,056	(1,089)	(8.3%)

The operating days of self-owned vessels decreased by 1,089 days compared with the same period of last year, mainly because there were 3 vessels scrapped, which resulted in a decrease of operating days of 357 days; 2 vessels were upgraded to geophysical and surveying vessels, which resulted in a decrease of operating days of 362 days; NH216 underwent repair, which resulted in a decrease of operating days by 181 days. HYSY683 increased operating days by 151 days, BH285, BH268, New Century I, NH210 and COSL222 increased operating days by 184 days due to less repair and maintenance and other vessels in aggregate decreased operating days by 524 days.

During the first half of 2012, calendar day utilization rate of self-owned vessels was 90.9%, decreased by 5.6 basic points from 96.5% for the same period last year due to scrapping and repair and maintenance.

The transportation volume of oil tankers was 932,000 tons during the period, representing an increase of 18.8% compared with 784,000 tons for the same period of last year. The transportation volume of chemical carriers increased by 3.8% from 1,098,000 tons for the same period of last year to 1,140,000 tons.

Geophysical and Surveying Services Segment

During the first half of 2012, 3D operation entered its prime, when the Group recorded operating income of RMB1,240.5 million with its rational arrangement of vessels and new equipment, increased by RMB214.5 million or 20.9% as compared to RMB1,026.0 million of the same period last year.

Geophysical Services

During the first half of 2012, the Group increased its 3D collection operation by rational deployment of operation vessels responsive to market demand which scientifically and effectively enhanced collecting capability of the business segment. HYSY720, a large 12-streamer geophysical vessel, completed its 3D seismic collection operation in the East China Sea smoothly in the early 2012 in spite of the disadvantageous winter condition. HYSY719, a 3D collection vessel, retuned to waters of South China Sea to commence its 3D seismic collection operation after having completed its 3D collection operation under a service contract in Myanmar.

In the first half of 2012, the details of the Group's collection and processing workload are as follows:

Services	For the six months ended 30 June 2012	2011	Increase/ (Decrease)	Increase (Decrease)
2D collection (km)	**10,946**	16,202	(5,256)	(32.4%)
2D processing (km)	**11,216**	12,423	(1,207)	(9.7%)
3D collection (km2)	**13,659**	9,938	3,721	37.4%
Including submarine cable (km2)	**446**	322	124	38.5%
3D processing (km2)	**6,351**	3,366	2,985	88.7%

With the shrinking of the 2D collection service market, the operation volume of 2D collection services reduced by 5,256 km compared with the same period of last year, mainly because BH517, originally a 2D collection vessel, was modified as a deep-water cable vessel, which reduced the operation volume by 7,410 km. At the same time, through reasonable arrangements of equipment resources, the operation volume of BH511 increased by 3,564 km compared with the same period of last year, while that of other vessels decreased by 1,410 km in total. The operation volume of 3D collection services increased by 3,721 km2 compared with the same period of last year, mainly because HYSY720, the 12-streamer geophysical vessel commenced operation last year, and brought with it 4,188 km2 of operation volume, HYSY719 was fully operated in the first half of 2012, resulted in an increase in operation volume by 1,273 km2; with the commencement of operation of BH517, operation volume of submarine cable business increased by 124 km2; operation volume of other vessels decreased by 1,864 km2 in total as a result of repair and maintenance. For the data processing services business, with addition of processing projects overseas and growth in on-board processing business, operation volume of 3D data processing business increased by 2,985 km2 or 88.7% as compared to the same period last year, while that of 2D data processing business decreased by 9.7%.

Surveying Services

During the first half of 2012, HYSY708, a surveying vessel of the Group, commenced operation in April. The vessel was equipped with deep-water surveying and supporting capability and is the only one in China capable to operate under the fifth grade sea condition. It contributed greatly to the enhancement of the Group's capability in deep-water services. In the first half of 2012, the Group's surveying services recorded an income of RMB304.2 million, increased by 63.3% or RMB117.9 million from RMB186.3 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 2012, the Group's revenue amounted to RMB10,010.6 million, representing an increase of 23.0% or RMB1,871.4 million from RMB8,139.2 million for the same period of last year, mainly driven by full operation of domestic and foreign business and addition of new equipment by the Group in the first half of 2012.

The table below shows the revenue of each of the business segments in the first half of 2012:

Unit: RMB million	**For the six months ended 30 June**		
Business segments	**2012**	2011	Change %
Drilling services	**5,265.0**	4,210.9	25.0%
Well services	**2,103.8**	1,690.7	24.4%
Marine support and transportation services	**1,401.3**	1,211.6	15.7%
Geophysical and surveying services	**1,240.5**	1,026.0	20.9%
Total	**10,010.6**	8,139.2	23.0%

1.2 Operating expenses

The table below shows the breakdown of operating expenses for the Group in the first half of 2012:

Unit: RMB million	**For the six months ended 30 June**		
	2012	2011	Change %
Depreciation of property, plant and equipment and amortization of intangible assets	**1,663.2**	1,540.7	8.0%
Employee compensation costs	**1,569.0**	1,319.1	18.9%
Repair and maintenance costs	**286.1**	251.8	13.6%
Consumption of supplies, materials, fuel, services and others	**1,633.8**	1,288.5	26.8%
Subcontracting expenses	**1,063.4**	465.6	128.4%
Operating lease expenses	**298.5**	210.2	42.0%
Impairment losses of property, plant and equipment	**27.4**	41.8	(34.4%)
Other selling, general and administrative expenses	**89.5**	62.9	42.3%
Other operating expenses	**446.0**	414.9	7.5%
Total operating expenses	**7,076.9**	5,595.5	26.5%

In the first half of 2012, the operating expenses of the Group amounted to RMB7,076.9 million, representing an increase of RMB1,481.4 million or 26.5% from RMB5,595.5 million for the same period of last year, mainly due to an increase in staff cost of RMB 249.9 million as a result of staff for new equipment and rise in staff salary, an increase in depreciation of RMB122.5 million for new equipment, an increase in supplies and materials expenses of RMB345.3 with increase in workload; an increase in sub-contracting expenses of RMB597.8 million as a result of full operation and new equipment in both domestic and overseas business, an increase in rental expenses of RMB88.3 million due to charter of HYSY981 and an aggregated increase in other costs and expenses of RMB77.6 million.

Consumption of supplies, materials, fuel, services and others increased by RMB345.3 million or 26.8% compared with the same period of last year, mainly due to the increase of consumption of supplies and materials as a result of higher operation volume and new equipment.

Sub-contracting expenses increased by RMB597.8 million or 128.4% compared with the same period of last year, of which RMB212.0 million was for addition of semi-submersible drilling rigs for overseas business expansion in the drilling business, RMB115.5 million was used in projects sub-contracted of the seismic service business to cater for domestic market demand, RMB77.3 million and RMB29.5 million in domestic and overseas projects sub-contracted of the well service business respectively to cater for market demand, and RMB163.5 million in marine support and transportation services as a result of a growth in chartering business.

Operating lease expenses increased by RMB88.3 million or 42.0% as compared to the same period last year, mainly due to operating lease payments of HYSY981.

Impairment losses of property, plant and equipment decreased by RMB14.4 million or 34.4%, as compared to RMB41.8 million provided in the same period of last year, which were all in relation to certain land drilling equipment located in Libya.

Other selling, general and administrative expenses increased by RMB26.6 million or 42.3%, mainly due to management fee of semi-submersible drilling rigs and consultation fee accrual.

The table below shows the operating expenses of each of the business segments in the first half of 2012:

Unit: RMB million	**For the six months ended 30 June**		
Business segments	**2012**	2011	Change %
Drilling services	**3,262.2**	2,707.2	20.5%
Well services	**1,795.8**	1,414.8	26.9%
Marine support and transportation services	**1,115.2**	844.2	32.1%
Geophysical and surveying services	**903.7**	629.3	43.6%
Total	**7,076.9**	5,595.5	26.5%

During the first half of 2012, operating expenses of the drilling services business increased by RMB555.0 million or 20.5% compared with the same period of last year; that of the well services business increased by RMB381.0 million or 26.9% compared with the same period of last year; that of marine support and transportation services business increased by RMB271.0 million or 32.1% compared with the same period of last year; and that of the geophysical and surveying services business increased by RMB274.4 million or 43.6% 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 2012 amounted to RMB2,949.3 million, representing an increase of RMB342.1 million or 13.1% from RMB2,607.2 million for the same period of last year, mainly due to growth in income by 23.0% while operating expenses increased by 26.5% in the first half of 2012.

Unit: RMB million	**For the six months ended 30 June**		
Business segments	**2012**	2011	Change %
Drilling services	**2,000.5**	1,521.9	31.4%
Well services	**326.9**	291.7	12.1%
Marine support and transportation services	**286.9**	380.4	(24.6%)
Geophysical and surveying services	**335.0**	413.2	(18.9%)
Total	**2,949.3**	2,607.2	13.1%

1.4 *Financial expenses, net*

In the first half of 2012, the net financial expenses of the Group was RMB193.6 million, representing an increase of RMB7.4 million or 4.0% from RMB186.2 million for the same period of last year, of which interest income, and finance costs and exchange loss increased by RMB30.0 million and RMB37.4 million respectively.

1.5 *Share of profits of jointly-controlled entities*

In the first half of 2012, the Group's share of profits of jointly-controlled entities amounted to RMB133.7 million, representing an increase of RMB43.7 million compared to RMB90.0 million for the same period of last year. This was mainly due to an increase in investment income recognized in 3 joint ventures, namely COSL-Expro Testing Services (Tianjin), China France Bohai Geoservices Co., Ltd. and China Offshore Fugro Geo Solutions, of RMB47.0 million, while that in other joint ventures decreased by RMB3.3 million in total.

1.6 *Income tax expense*

In the first half of 2012, the income tax expense was RMB486.6 million, representing an increase of 11.5% compared to RMB436.4 million for the same period of last year.

1.7 *Profit for the period*

In the first half of 2012, the net profit of the Group was RMB2,402.8 million, including the net profit attributable to owners of the Company amounted to RMB2,397.7 million, which increased by RMB326.5 million or 15.8% as compared with RMB2,071.2 million for the same period of last year.

1.8 Basic earnings per share

In the first half of 2012, the Group's basic earnings per share were RMB0.53, representing an increase of RMB0.07 or 15.8% as compared with RMB0.46 for the same period of last year.

2. Analysis of interim condensed consolidated statement of financial position

As of 30 June 2012, the total assets of the Group amounted to RMB65,979.5 million, representing an increase of RMB1,128.4 million or 1.7% compared with RMB64,851.1 million at the end of 2011. The total liabilities were RMB35,897.5 million, representing a decrease of RMB494.4 million or 1.4% compared with RMB36,391.9 million at the end of 2011. The shareholders' equity was RMB30,082.0 million, representing an increase of RMB1,622.8 million or 5.7% compared with RMB28,459.2 million at the end of 2011. 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 2012, other non-current assets of the Group amounted to RMB188.6 million, representing an increase of 253.8% or RMB135.3 million compared with RMB53.3 million at the beginning of the year. This was mainly resulting from the increase in non-current portion of mobilization cost incurred by drilling rigs of the Group.

2.2 Notes receivable

As of 30 June 2012, the notes receivable of the Group amounted to RMB507.5 million, representing an decrease of 58.4% compared with RMB1,219.4 million at the beginning of the year, mainly due to RMB711.9 million of cash received in the period.

2.3 Accounts receivable

As of 30 June 2012, the Group's accounts receivable amounted to RMB5,209.7 million, increased by RMB1,229.7 million or 30.9% compared with RMB3,980.0 million at the beginning of the year, which was mainly due to a growth in revenue.

2.4 Pledged time deposits (current portion)

As of 30 June 2012, the pledged time deposits of the Group was RMB18.1 million, representing an increase of RMB7.3 million or 67.6% compared with RMB10.8 million as of the beginning of the year. This was mainly due to a deposit for bank guarantee for drilling operations incurred by an Indonesian subsidiary of RMB10.5 million and recovery of a guarantee deposit of RMB3.2 million previously paid.

2.5 Cash and cash equivalents

As of 30 June 2012, cash and cash equivalents of the Group was RMB7,520.5 million, representing an increase of RMB1,874.3 million or 33.2% compared with RMB5,646.2 million as of the beginning of the year. The details were provided in "Analysis of interim condensed consolidated statement of cash flows" below.

2.6 Time deposits with original maturity over three months

As of 30 June 2012, there was no time deposit with original maturity over three months.

2.7 Other current assets

As of 30 June 2012, other current assets of the Group were RMB14.7 million, representing a decrease of RMB6.6 million or 31.0% compared with RMB21.3 million as of the beginning of the year. The decrease was mainly due to the amortization of current portion of mobilization cost of drilling rig operations.

2.8 Salary and bonus payables

As of 30 June 2012, the salary and bonus payable by the Group were RMB528.9 million, representing a decrease of 34.5% or RMB278.4 million compared with RMB807.3 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 2011, 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.

2.9 Tax payable

As of 30 June 2012, the tax payable of the Group amounted to RMB127.3 million, representing an increase of RMB65.7 million or 106.7% compared with RMB61.6 million at the beginning of the year. The balance at the end of the period represented tax payment provided by the Group but not yet paid.

2.10 Defined Benefit Scheme

As at 30 June 2012, the Group's defined benefit scheme amounted to RMB27.4 million, representing an increase of RMB27.6 million over that negative balance of RMB0.2 million as at the beginning of the year, mainly due to an increase in the Group's defined benefit pension scheme liabilities borne by CDE, the Group's subsidiary in Norway.

2.11 Non-controlling interests

During the first half of 2012, interests attributable to minority holders of ordinary shares of the Group amounted to RMB5.6 million, representing an increase of RMB5.0 million or 833.3% over that of RMB0.6 million as at the beginning of the year, mainly due to an increase in the profit of PT. SAMUDAR TIMUR SANTOSA, a non-wholly owned subsidiary of the Group, which increased its equity attributable to the owners.

3. Analysis of consolidated statement of cash flows

3.1 Net cash flows from operating activities

In the first half of 2012, net cash inflows from operating activities of the Group reached RMB3,412.9 million, of which RMB9,846.1 million was received from the sales of goods and the provision of services, while RMB3,510.0 million was paid for the purchase of goods and receipt of services, RMB1,929.3 million was paid to or for employees, and RMB525.0 million was used to pay for various taxes. Cash outflow related to other operating activities amounted to RMB468.9 million.

3.2 Net cash flows from investing activities

In the first half of 2012, net cash outflows used in investing activities of the Group amounted to RMB387.8 million, of which RMB1,389.5 million was paid for the purchase of property, plant and equipment, intangible assets and other long-term assets during the period. In addition, the investment income and interest income received during the period amounted to RMB55.8 million and RMB58.8 million, respectively, while RMB5.0 million was received from the disposal of fixed assets during the period. A total cash inflows received from disposal of investments amounted to RMB882.1 million.

3.3 Net cash flows from financing activities

In the first half of 2012, net cash outflows used in financing activities amounted to RMB1,192.4 million, of which RMB17.0 million was received from government grants and RMB750.6 million was received from borrowings during the period. RMB834.7 million was paid for repayment of debts, RMB810.7 million was paid for dividends distribution, and RMB314.6 million was paid for the repayment of interests in cash.

3.4 The net impact of foreign exchange fluctuations on cash during the period was the increase in cash for RMB41.6 million.

4. Capital expenditure analysis

Affected by arrangements and progress of projects, in the first half of 2012, the total capital expenditure of the Group amounted to RMB911.3 million, representing a decrease of RMB888.5 million compared with RMB1,799.8 for the same period of last year.

The capital expenditure of each of business segments in the first half of 2012 is shown in the table below:

Unit: RMB million	For the six months ended 30 June		
Business Segments	**2012**	**2011**	**Change %**
Drilling services	**821.0**	828.0	(0.8%)
Well services	**98.9**	124.5	(20.6%)
Marine support and transportation services	**11.9**	105.2	(88.7%)
Geophysical services	**(20.5)**	742.1	(102.8%)
Total	**911.3**	1,799.8	(49.4%)

The capital expenditure of the drilling services segment was mainly used for construction of 3 CDE semi-submersible drilling rigs, namely COSLInnovator, COSLPromoter and COSLProspector. The capital expenditure of the well services segment was mainly used for construction and purchase of various well services equipment. The capital expenditure of the marine support and transportation services segment was mainly used for the construction of 2 deep water AHTS vessels and 14 oilfield utility vessels. The geophysical and surveying services segment had no large sum of capital expenditure, which was negative due to reversal of tax allowance in the first half of 2012.

OUTLOOK

On top of the weakening growth in developed and major emerging economies, the European debt crisis and suspense of the launch of the QE3 in the United States have laid even more uncertainties on global economies. IMF anticipated in its World Economic Outlook Reports that growth rate of the global economy will reduce to 3.5% in 2012. Under the slowdown faced by major economies in the world, oil price will fluctuate with the macro uncertainties.

Spears Association expects that total turnover of global oilfield services industry will rise 11% from 2011 to US$349.0 billion. China's dependence on external oil is beyond 54%. High production targets of major clients will bring market opportunities to COSL.

In the second half of 2012, large equipment coming on stream and new market contracts to be obtained will contribute greatly to growth in revenue of the Company. Apart from the 2,500 feet semi-submersible drilling rig COSLInnovator delivered in November last year, COSLPromoter, another 2,500 feet semi-submersible drilling rig, completed its delivery in April this year. It is expected that these two rigs will commence operation in the North Sea of Norway in the second half of 2012. HYSY981 and the deep-water surveying vessel 708 will also contribute to the increase in revenue for the second half of 2012.

COSL will continue to stress technological development and development of high-end equipment to enhance quality and capability of its well services. It will also continue to strengthen safety management and emphasis on operational safety. Efforts on expansion in domestic and overseas market will be doubled to meet market demands; establishment of deep-water capability will be accelerated to build comprehensive deep-water service competence; problem-solving and application of technology of thick oil and low-permeability oilfield development will not slacken; and enhancement of capability and technological level of non-conventional oil and gas services will be upheld.

The Company will also aim at some of preceding risk factors, as well as future ones, to review and adopt corresponding measures. For example, the Company performs specific offshore drilling services and other related services in countries which are under U.S. sanctions such as Iran. Although such businesses at present are under normal operation, and the overall businesses and activities of such countries only represent a small portion of comprehensive income and net income. Management and the Board of the Company fully understand the related risks, and has been seeking for corresponding strategy proactively.

OTHER INFORMATION

AUDIT COMMITTEE

The audit committee comprises of three independent non-executive directors of the Company. The audit committee has reviewed the accounting principles and practices adopted by the Group as well as the internal control and financial reporting matters. The unaudited interim financial report for the six months ended 30 June 2012 has been reviewed by the audit committee. The preliminary announcement has been based on the Group's interim condensed financial statements for the six months ended 30 June 2012 which have been agreed with the auditors.

CORPORATE GOVERNANCE PRACTICES

During the period from 1 January 2012 till 31 March 2012, the Company has applied the principles of and has complied with all code provisions of the Code on Corporate Governance Practices (the "**Old Code**") as set forth in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). For the period from 1 April 2012 till 30 June 2012, save for Code Provision A.6.7, the Company has complied with the code provisions included in the amendments to the Old Code which took effect since 1 April 2012 (the "**New Code**").

According to Code Provision A.6.7, independent non-executive directors and other non-executive directors are required to attend general meetings. Mr. Wu Mengfei, a non-executive director of the Company, and Mr. Chen Quansheng, an independent non-executive director of the Company, failed to attend the Annual General Meeting of the Company held on 5 June 2012 due to some other urgent issues that required their immediate attention.

Save as disclosed, there has been no deviation from the code provisions as set forth and on the Old Code and the New Code for the six months ended 30 June 2012.

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

Specific enquiry have been made with all directors of the Company, the directors have confirmed that they have, for the six months ended 30 June 2012, complied with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules.

PURCHASE, DISPOSAL AND REDEMPTION OF OUR LISTED SECURITIES

Neither the Company nor its subsidiaries have purchased, disposed of or redeemed any of the Company's listed securities during the six months ended 30 June 2012.

DISCLOSURE OF INFORMATION ON THE HKSE'S WEBSITE

All information required by paragraphs 46(1) to 46(6) of Appendix16 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

21 August 2012

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.