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

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

# INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2014

## FINANCIAL HIGHLIGHTS

1. Revenue increased by 28.0% to RMB15,927.7 million.
2. Profit from operations increased by 37.9% to RMB5,029.1 million.
3. Profit for the period increased by 39.1% to RMB4,439.0 million.
4. Basic earnings per share were RMB93.13 cents.

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS**

*For the six months ended 30 June 2014*

| | Notes | Six months ended 30 June 2014 RMB'000 (Unaudited) | 2013 RMB'000 (Unaudited) |
|---|---|---|---|
| **REVENUE** | *3* | **15,927,665** | 12,441,002 |
| Other revenues | | **67,812** | 75,018 |
| | | **15,995,477** | 12,516,020 |
| Depreciation of property, plant and equipment and amortisation of intangible assets | | **(1,863,272)** | (1,656,442) |
| Employee compensation costs | | **(2,078,199)** | (1,982,375) |
| Repair and maintenance costs | | **(410,464)** | (342,070) |
| Consumption of supplies, materials, fuel, services and others | | **(2,538,682)** | (2,182,297) |
| Subcontracting expenses | | **(2,392,757)** | (1,619,191) |
| Operating lease expenses | | **(721,908)** | (471,733) |
| Other operating expenses | | **(805,506)** | (615,286) |
| Impairment of property, plant and equipment | *8* | **(155,552)** | – |
| Total operating expenses | | **(10,966,340)** | (8,869,394) |
| **PROFIT FROM OPERATIONS** | | **5,029,137** | 3,646,626 |
| Exchange gains, net | | **6,767** | 10,806 |
| Finance costs | | **(297,664)** | (339,350) |
| Interest income | | **88,275** | 82,006 |
| Investment income | | **86,509** | 38,355 |
| Share of profits of joint ventures, net of tax | | **153,020** | 124,572 |
| **PROFIT BEFORE TAX** | *4* | **5,066,044** | 3,563,015 |
| Income tax expense | *5* | **(627,054)** | (372,565) |
| **PROFIT FOR THE PERIOD** | | **4,438,990** | 3,190,450 |
| Attributable to: | | | |
| Owners of the Company | | **4,424,022** | 3,180,320 |
| Non-controlling interests | | **14,968** | 10,130 |
| | | **4,438,990** | 3,190,450 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY** | | | |
| Basic and diluted (RMB) | *7* | **93.13 cents** | 70.75 cents |

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

*For the six months ended 30 June 2014*

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| **PROFIT FOR THE PERIOD** | **4,438,990** | 3,190,450 |
| **OTHER COMPREHENSIVE (EXPENSE)/INCOME** | | |
| Item that will not be reclassified to profit or loss: | | |
| Remeasurement of defined benefit pension plan | **12,787** | – |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange differences on translation of financial statements of foreign operations | **83,192** | (141,837) |
| Net fair value gain on available-for-sale investments | **4,823** | 14,993 |
| Income tax relating to items that may be reclassified subsequently | **(724)** | – |
| **OTHER COMPREHENSIVE INCOME/(EXPENSE) FOR THE PERIOD** | **100,078** | (126,844) |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, NET OF INCOME TAX** | **4,539,068** | 3,063,606 |
| Attributable to: | | |
| Owners of the Company | **4,523,783** | 3,053,663 |
| Non-controlling interests | **15,285** | 9,943 |
| | **4,539,068** | 3,063,606 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*At 30 June 2014*

| | Notes | 30 June 2014 RMB'000 (Unaudited) | 31 December 2013 RMB'000 (Audited) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | *8* | **52,237,234** | 51,292,406 |
| Goodwill | | **4,145,425** | 4,107,763 |
| Other intangible assets | | **377,754** | 393,220 |
| Investments in joint ventures | | **675,949** | 710,465 |
| Available-for-sale investments | | **–** | – |
| Other non-current assets | *11* | **2,179,822** | 1,160,437 |
| Deferred tax assets | | **4,277** | 7,254 |
| Total non-current assets | | **59,620,461** | 57,671,545 |
| **CURRENT ASSETS** | | | |
| Inventories | | **1,296,346** | 1,051,527 |
| Prepayments, deposits and other receivables | | **500,450** | 426,855 |
| Accounts receivable | *9* | **8,160,350** | 5,872,980 |
| Notes receivable | *10* | **1,160,272** | 1,513,375 |
| Other current assets | *11* | **4,579,023** | 2,363,446 |
| Pledged deposits | | **16,968** | 32,630 |
| Time deposits with original maturity over three months | | **1,415,280** | 600,000 |
| Cash and cash equivalents | | **8,248,847** | 9,600,797 |
| | | **25,377,536** | 21,461,610 |
| Asset classified as held for sale | | **129,128** | 129,128 |
| Total current assets | | **25,506,664** | 21,590,738 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | *12* | **7,692,013** | 7,159,326 |
| Salary and bonus payables | | **1,078,800** | 1,210,005 |
| Tax payable | | **374,123** | 258,220 |
| Interest-bearing bank borrowings | *14* | **3,838,455** | 3,803,582 |
| Other current liabilities | *11* | **156,864** | 112,876 |
| Total current liabilities | | **13,140,255** | 12,544,009 |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

*At 30 June 2014*

| | Notes | 30 June 2014 RMB'000 (Unaudited) | 31 December 2013 RMB'000 (Audited) |
|---|---|---|---|
| **NET CURRENT ASSETS** | | **12,366,409** | 9,046,729 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **71,986,870** | 66,718,274 |
| **NON-CURRENT LIABILITIES** | | | |
| Deferred tax liabilities | | **1,100,146** | 1,128,733 |
| Interest-bearing bank borrowings | *14* | **17,755,592** | 19,489,968 |
| Long-term bonds | *15* | **7,594,904** | 7,536,622 |
| Deferred revenue | | **1,150,617** | 1,265,669 |
| Employee benefit liabilities | | **65,081** | 37,479 |
| Total non-current liabilities | | **27,666,340** | 29,458,471 |
| **NET ASSETS** | | **44,320,530** | 37,259,803 |
| **EQUITY** | | | |
| Equity attributable to owners of the Company | | | |
| Issued capital | | **4,771,592** | 4,495,320 |
| Reserves | | **39,512,512** | 32,743,342 |
| | | **44,284,104** | 37,238,662 |
| Non-controlling interests | | **36,426** | 21,141 |
| Total equity | | **44,320,530** | 37,259,803 |

## 1. CORPORATE INFORMATION AND PRINCIPAL ACTIVITIES

China Oilfield Services Limited (the "Company") is a limited liability company incorporated in the People's Republic of China (the "PRC"). The registered office of the Company is located at 3-1516 Hebei Road, Haiyang New and Hi-Tech Development Zone, Tanggu, Tianjin, the PRC. As part of the reorganisation (the "Reorganisation") of China National Off-shore Oil Corporation ("CNOOC") in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "HKSE") in 2002, and pursuant to an approval document obtained from the relevant government authority dated 26 September 2002, the Company was restructured into a joint stock limited liability company.

During the period, the Company and its subsidiaries (hereinafter collectively referred to as the "Group") were principally engaged in the provision of oilfield services including drilling services, well services, marine support and transportation services, and geophysical and surveying services.

In the opinion of the directors of the Company (the "Directors"), the holding company and the ultimate holding company of the Company is CNOOC, which is a state-owned enterprise ("SOE") incorporated in the PRC.

As at 30 June 2014, particulars of the principal subsidiaries of the Group are as follows:

| Name of entity | Place and date of incorporation/ registration | Principal place of business | Issued and fully paid share capital/ paid-in capital | Percentage of equity attributable to the Group 30 June 2014 | 30 June 2013 | Principal activities |
|---|---|---|---|---|---|---|
| COSL Chemicals (Tianjin), Ltd. (formerly known as Tianjin Jinlong Petro-Chemical Company Ltd.) | Tianjin, PRC 7 September 1993 | PRC | Renminbi ("RMB") 20,000,000 | **100%** | 100% | Provision of drilling fluids services |
| COSL Holding AS (formerly known as COSL Drillings Europe AS) | Norway 21 January 2005 | Norway | Norwegian Krone ("NOK") 1,494,415,487 | **100%** | 100% | Investment holding |
| PT. COSL INDO | Indonesia 1 August 2005 | Indonesia | US Dollar ("US$") 400,000 | **100%** | 100% | Provision of drilling services |
| COSL HongKong Ltd | Hong Kong 1 December 2005 | Hong Kong | Hong Kong Dollar ("HK$") 10,000 | **100%** | 100% | Investment holding |
| COSL (Australia) Pty Ltd. | Australia 11 January 2006 | Australia | Australian Dollar ("A$") 10,000 | **100%** | 100% | Provision of drilling services in Australia |
| COSL Mexico S.A.de C.V | Mexico 26 May 2006 | Mexico | US$8,504,525 | **100%** | 100% | Provision of drilling services |
| COSL (Middle East) FZE | United Arab Emirates 2 July 2006 | United Arab Emirates | US$280,000 | **100%** | 100% | Provision of drilling services |

| Name of entity | Place and date of incorporation/ registration | Principal place of business | Issued and fully paid share capital/ paid-in capital | Percentage of equity attributable to the Group 30 June 2014 | 30 June 2013 | Principal activities |
|---|---|---|---|---|---|---|
| COSL Norwegian AS | Norway 23 June 2008 | Norway | NOK1,541,328,656 | **100%** | 100% | Investment holding |
| COSL Drilling Pan-Pacific (Labuan) Ltd. | Malaysia 4 April 2009 | Malaysia | US$1 | **100%** | 100% | Management of jack-up drilling rigs |
| COSL Drilling Pan-Pacific Ltd. | Singapore 13 April 2009 | Singapore | US$1 | **100%** | 100% | Management of jack-up drilling rigs |
| PT Samudra Timur Santosa ("PT STS")(a) | Indonesia 27 July 2010 | Indonesia | US$250,000 | **49%** | 49% | Provision of marine support and transportation services |
| COSL Oil-Tech (Singapore) Ltd. | Singapore 31 January 2011 | Singapore | US$100,000 | **100%** | 100% | Provision of well services |
| COSL Finance (BVI) Limited | British Virgin Islands 12 July 2012 | British Virgin Islands | US$1 | **100%** | 100% | Bond issuance |

(a) In the opinion of the Directors, the Group has control over PT STS as the Group has 100% voting rights on PT STS that gives it the current ability to direct the relevant activities of PT STS. Accordingly, PT STS has been accounted for as a subsidiary and has been consolidated into the Group's condensed consolidated financial statements for the six months ended 30 June 2014 and 2013.

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the operating results of the Group for the current interim period or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

As at 30 June 2014, particulars of the joint ventures of the Group are as follows:

| Name of entity | Place and date of incorporation/ registration and operations | Nominal value of issued ordinary share/ registered capital | Percentage of equity directly/indirectly attributable to the Group | Principal activities |
|---|---|---|---|---|
| China Offshore Fugro Geo Solutions (Shenzhen) Company Ltd. ("China Offshose Fugro") | Shenzhen, PRC 24 August 1983 | US$6,000,000 | 50% | Provision of geophysical and surveying services |
| China France Bohai Geoservices Co., Ltd. ("China France") | Tianjin, PRC 30 November 1983 | US$6,650,000 | 50% | Provision of logging services |
| China Petroleum Logging– Atlas Cooperation Service Company | Shenzhen, PRC 10 May 1984 | US$2,000,000 | 50% | Provision of logging services |
| China Nanhai-Magcobar Mud Corporation Ltd. ("Magcobar") (a) | Shenzhen, PRC 25 October 1984 | RMB4,640,000 | 60% | Provision of drilling fluids services |

| Name of entity | Place and date of incorporation/ registration and operations | Nominal value of issued ordinary share/ registered capital | Percentage of equity directly/indirectly attributable to the Group | Principal activities |
|---|---|---|---|---|
| CNOOC-OTIS Well Completion Services Ltd. | Tianjin, PRC 14 April 1993 | US$2,000,000 | 50% | Provision of well completion services |
| Eastern Marine Services Ltd. ("Eastern Marine") (a) | Hong Kong 10 March 2006 | HK$1,000,000 | 51% | Provision of marine transportation services |
| COSL-Expro Testing Services (Tianjin) Company Ltd. ("COSL-Expro") | Tianjin, PRC 28 February 2007 | US$5,000,000 | 50% | Provision of well testing services |
| PBS-COSL Oilfield Services Company SDN BHD (''PBS-COSL") (b) | Brunei 20 March 2014 | Brunei Dollar ("BND") 100,000 | 49% | Provision of drilling services |

(a) The Group has 60% and 51% of the equity interests and voting rights in Magcobar and Eastern Marine respectively, and the remaining equity interests are held by the other respective sole investor of Magcobar and Eastern Marine. Pursuant to the articles of associations of Magcobar and Eastern Marine, at least two-thirds of the voting rights are required for decisions on directing the relevant activities of these entities. In the opinion of the Directors, the Group does not have control over Magcobar and Eastern Marine and the investments in these joint arrangements constitute interests in joint ventures based on the rights and obligations of the parties to these joint arrangements. Accordingly, Magcobar and Eastern Marine have been accounted for in the Group's condensed consolidated financial statements using the equity method.

(b) The Group has 49% of the equity interests in PBS-COSL, and the remaining equity interests are held by the other sole investor. Pursuant to the articles of association of PBS-COSL, the board of directors of PBS-COSL shall comprise four directors whereby both the Company and the other sole investor shall appoint two directors each. Unanimous approvals by the directors of PBS-COSL are required for decisions on directing the relevant activities of PBS-COSL. In the opinion of the Directors, the Group does not have control over PBS-COSL and the investment in this joint arrangement constitutes interest in joint venture based on the rights and obligations of the parties to these joint arrangements. Accordingly, PBS-COSL has been accounted for in the Group's condensed consolidation financial statements using the equity method.

All of the above investments in joint ventures are directly held by the Company except for Eastern Marine, which is indirectly held through China Oilfield Services (BVI) Limited.

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

### Basis of preparation

The condensed consolidated financial statements for the six months ended 30 June 2014 have been prepared in accordance with Hong Kong Accounting Standard 34 "*Interim Financial Reporting*" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

The 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 for the year ended 31 December 2013.

**Accounting policies and adoption of Hong Kong Financial Reporting Standards ("HKFRSs")**

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies adopted in the preparation of the 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 2013. The adoption of amendments to standards and interpretation effective for the current interim period commenced from 1 January 2014 does not have any material impact on the accounting policy adopted, interim financial position or performance of the Group.

## 3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their services and these are the basis of information that is prepared and reported to the Group's chief operating decision maker (i.e. the executive directors of the Company) for the purposes of making strategic decisions. The Group 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. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, exchange gains/(losses) and investment income are excluded from such measurement.

All assets are allocated to reportable segments other than certain cash and cash equivalents (funds managed by the corporate treasury), prepayments, pledged deposits, time deposits with original maturity over three months, other receivables and deferred tax assets as these assets are managed on a group basis.

All liabilities are allocated to reportable segments other than certain other payables, interest-bearing bank borrowings and long term bonds (funds managed by the corporate treasury), tax payable and deferred tax liabilities as these liabilities are managed on a group basis.

Intersegment sales 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 2014 (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* |
|---|---|---|---|---|---|
| Revenue: | | | | | |
| Sales to external customers | **8,602,880** | **3,994,612** | **1,733,345** | **1,596,828** | **15,927,665** |
| Intersegment sales | **1,235,038** | **424,860** | **50,848** | **46,454** | **1,757,200** |
| Segment revenue | **9,837,918** | **4,419,472** | **1,784,193** | **1,643,282** | **17,684,865** |
| Reconciliation: | | | | | |
| Elimination of intersegment sales | **(1,235,038)** | **(424,860)** | **(50,848)** | **(46,454)** | **(1,757,200)** |
| Group revenue | **8,602,880** | **3,994,612** | **1,733,345** | **1,596,828** | **15,927,665** |
| Segment results | **3,620,984** | **1,049,044** | **81,772** | **430,357** | **5,182,157** |
| Reconciliation: | | | | | |
| Exchange gains, net | | | | | **6,767** |
| Finance costs | | | | | **(297,664)** |
| Interest income | | | | | **88,275** |
| Investment income | | | | | **86,509** |
| Profit before tax | | | | | **5,066,044** |
| **As at 30 June 2014** | | | | | |
| Segment assets | **55,162,480** | **6,213,869** | **7,038,650** | **5,407,766** | **73,822,765** |
| Unallocated assets | | | | | **11,304,360** |
| Total assets | | | | | **85,127,125** |
| Segment liabilities | **5,082,543** | **2,304,447** | **1,474,667** | **1,020,968** | **9,882,625** |
| Unallocated liabilities | | | | | **30,923,970** |
| Total liabilities | | | | | **40,806,595** |

Six months ended 30 June 2013 (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* |
|---|---|---|---|---|---|
| Revenue: | | | | | |
| Sales to external customers | 6,908,269 | 2,655,383 | 1,599,729 | 1,277,621 | 12,441,002 |
| Intersegment sales | 1,125,059 | 750,387 | 202,329 | 89,583 | 2,167,358 |
| Segment revenue | 8,033,328 | 3,405,770 | 1,802,058 | 1,367,204 | 14,608,360 |
| Reconciliation: | | | | | |
| Elimination of intersegment sales | (1,125,059) | (750,387) | (202,329) | (89,583) | (2,167,358) |
| Group revenue | 6,908,269 | 2,655,383 | 1,599,729 | 1,277,621 | 12,441,002 |
| Segment results | 2,731,386 | 433,501 | 294,076 | 312,235 | 3,771,198 |
| Reconciliation: | | | | | |
| Exchange gains, net | | | | | 10,806 |
| Finance costs | | | | | (339,350) |
| Interest income | | | | | 82,006 |
| Investment income | | | | | 38,355 |
| Profit before tax | | | | | 3,563,015 |
| As at 31 December 2013 (audited) | | | | | |
| Segment assets | 53,696,826 | 5,861,453 | 6,103,283 | 4,614,383 | 70,275,945 |
| Unallocated assets | | | | | 8,986,338 |
| Total assets | | | | | 79,262,283 |
| Segment liabilities | 5,074,246 | 2,313,133 | 1,290,975 | 807,205 | 9,485,559 |
| Unallocated liabilities | | | | | 32,516,921 |
| Total liabilities | | | | | 42,002,480 |

## 4. PROFIT BEFORE TAX

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

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2014** | 2013 |
| | | ***RMB'000*** | *RMB'000* |
| | *Note* | **(Unaudited)** | (Unaudited) |
| Loss on disposal of property, plant and equipment, net | *8* | 10,927 | 5,748 |
| Impairment of accounts receivable recognised/(reversed) in profit or loss | | 38,183 | (1,808) |
| Impairment of other receivables recognised/(reversed), net | | 7,630 | (1,690) |
| Impairment of inventories | | 5,106 | 2,531 |
| Investment income from available-for-sale | | 86,509 | 38,355 |
| Cost of inventories recognised as an expense | | 1,283,415 | 1,022,300 |

## 5. 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 Mainland 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 CIT 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 from 1 January 2011, and the Company subsequently obtained the approval from Tianjin Offshore Oil Tax Bureau of Tianjin Provincial Office of the TSAT in February 2012. According to the approval, the CIT rate was approved to be 15% for the period from January 2011 to September 2014. Therefore, 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 2014 (six months ended 30 June 2013: 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 2013: 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 2013: 25%). The Group's activities in Australia are subject to income tax of 30% (six months ended 30 June 2013: 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 2013: 3.5%). The Group's activities in Mexico are subject to income tax of 30% (six months ended 30 June 2013: 30%). The Group's activities in Norway are mainly subject to corporate income tax of 27% (six months ended 30 June 2013: 28%). The Group's activities in the U.K. are subject to income tax of 28% (six months ended 30 June 2013: 28%). The Group's activities in the Philippines are subject to income tax of 30% (six months ended 30 June 2013: 30%). The Group's activities in Thailand are subject to income tax of 3%. The Group's activities in Qatar are subject to income tax of 10%. The Group's activities in Iraq are subject to income tax of 35% (six months ended 30 June 2013: 35%). The Group's activities in United Arab Emirates are not subject to any income tax. The Group's taxes pertaining to drilling activities in Iran are borne by the customers. The Group's taxes pertaining to operating lease activities of jack-up rig in Saudi Arabia are borne by the customers unless otherwise provided in the drilling contracts.

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

| | **Six months ended 30 June** | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| Hong Kong profits tax | **–** | – |
| Overseas income taxes: | | |
| Current | **103,837** | 90,171 |
| Deferred | **(30,617)** | (38,607) |
| PRC corporate income taxes: | | |
| Current | **553,715** | 420,824 |
| Deferred | **(1,051)** | (292,175) |
| Under provision in prior year | **1,170** | 192,352 |
| Total tax charge for the period | **627,054** | 372,565 |

## 6. DIVIDENDS PAID AND PROPOSED

During the current interim period, a final dividend of RMB0.43 per ordinary share of the Company comprising 4,495,320,000 ordinary shares existed as at 31 December 2013 together with 276,272,000 new ordinary shares issued by the Company on 15 January 2014 (2013: RMB0.31 per ordinary share in respect of the year ended 31 December 2012) was declared and paid to the owners of the Company. The aggregate amount of the final dividend declared and paid in the current interim period amounted to RMB2,051,785,000 (2013: RMB1,393,549,000).

The Directors have determined that no dividend will be paid in respect of the current interim period.

## 7. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| | ***RMB'000*** | *RMB'000* |
| | **(Unaudited)** | (Unaudited) |
| **Earnings** | | |
| Earnings for the purposes of basic earnings per share (profit for the period attributable to ordinary equity holders of the Company) | **4,424,022** | 3,180,320 |

| | Six months ended 30 June | |
|---|---|---|
| | **2014** | 2013 |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **4,750,222,895** | 4,495,320,000 |

The weighted average number of ordinary shares for the purpose of basic earnings per share has been adjusted for the new H shares issue that took place on 15 January 2014.

No adjustment has been made to the basic earnings per share amounts presented for the six-month periods ended 30 June 2014 and 2013 as the Group had no dilutive potential ordinary shares in issue during those periods.

## 8. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group acquired certain machines and equipment, motor vehicles and construction in progress with an aggregate cost amounting to approximately RMB2,773 million (six months ended 30 June 2013: RMB1,388 million). Machines and equipment with an aggregate net carrying amount amounting to RMB24.4 million (six months ended 30 June 2013: RMB29.6 million) were disposed of during the current interim period, resulting in a loss on disposal of RMB10.9 million (six months ended 30 June 2013: RMB5.7 million).

Out of the total interest costs incurred, an amount of approximately RMB18.6 million (six months ended 30 June 2013: RMB30.2 million) was capitalised in property, plant and equipment, with a capitalisation rate of 1.46% per annum (six months ended 30 June 2013: 1.52% per annum).

During the period, the Directors conducted a review of the Group's plant and machinery and determined that four chemical carriers and well services equipment were impaired due to the depression in the chemicals shipping market and precarious situation in Libya in which those assets were located. Accordingly, impairment losses of RMB143,722,000 and RMB11,830,000 respectively (six months ended 30 June 2013: nil) have been recognised in respect of those assets, which are used in the marine support and transportation services segment and well services segment. The recoverable amounts of the relevant assets have been determined on the basis of their fair value less costs of disposal.

## 9. ACCOUNTS RECEIVABLE

The Group normally allows a credit period of 30 to 45 days to its trade customers in mainland China and no more than 6 months to its trade customers with good trading history in overseas. The following is an analysis of the accounts receivable by age, presented based on the invoice date.

| | **30 June 2014** *RMB'000* **(Unaudited)** | 31 December 2013 *RMB'000* (Audited) |
|---|---|---|
| Outstanding balances aged | | |
| Within six months | **7,354,910** | 5,497,125 |
| Six months to one year | **704,477** | 364,568 |
| One to two years | **100,632** | 10,759 |
| Two to three years | **331** | 528 |
| | **8,160,350** | 5,872,980 |

## 10. NOTES RECEIVABLE

| | **30 June 2014** *RMB'000* **(Unaudited)** | 31 December 2013 *RMB'000* (Audited) |
|---|---|---|
| Trade acceptances | **1,128,772** | 1,473,412 |
| Bank acceptances | **31,500** | 39,963 |
| | **1,160,272** | 1,513,375 |

All the notes receivable are of trading nature and will be due within six months from the date of issuance, in which the trade acceptances are normally settled within 30 days from the date of issuance. As of the date of approving for issuance of these condensed consolidation financial statements, all the trade acceptances as at 30 June 2014 have been fully settled.

## 11. OTHER CURRENT ASSETS/LIABILITIES AND OTHER NON-CURRENT ASSETS

| | **30 June 2014** *RMB'000* **(Unaudited)** | 31 December 2013 *RMB'000* (Audited) |
|---|---|---|
| Assets classified as available-for-sale (a) | **4,345,511** | 2,226,360 |
| Current portion of deferred expenses (b) | **74,695** | 55,950 |
| Value-added tax recoverable | **158,817** | 81,136 |
| Other current assets | **4,579,023** | 2,363,446 |
| Current portion of deferred revenue | **(156,864)** | (112,876) |
| Other current liabilities | **(156,864)** | (112,876) |
| Non-current portion of deferred expenses (b) | **224,554** | 211,049 |
| Value-added tax recoverable | **75,304** | 156,994 |
| Deposits paid for the acquisition of property, plant and equipment (b) | **1,822,743** | 735,692 |
| Others | **57,221** | 56,702 |
| Other non-current assets (b) | **2,179,822** | 1,160,437 |

(a) Assets classified as available-for-sale represents the Group's investments in corporate wealth management products issued by commercial banks in the PRC and liquidity funds. The liquidity funds included in the available-for-sale investments do not have fixed maturity date and coupon rate.

(b) Other non-current assets mainly consisted of deferred expenses recognised in relation to mobilisation costs incurred by the Group's jack-up and semi-submersible drilling rigs, and deposits paid for the acquisition of property, plant and equipment. The current portion of deferred expenses was recorded as other current assets. The deferred expenses are amortised over their respective drilling contract periods.

## 12. 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 2014** *RMB'000* **(Unaudited)** | 31 December 2013 *RMB'000* (Audited) |
|---|---|---|
| Outstanding balances aged | | |
| Within one year | **7,467,136** | 6,955,745 |
| One to two years | **125,073** | 113,148 |
| Two to three years | **26,672** | 18,084 |
| Over three years | **73,132** | 72,349 |
| | **7,692,013** | 7,159,326 |

## 13. SHARE APPRECIATION RIGHTS PLAN

The share appreciation rights plan for senior officers (the "SAR Plan") was approved by the shareholders of the Company in an extraordinary general meeting on 22 November 2006. 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 from the approval date, 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 HKSE as stated in the HKSE's quotation from the 30th day immediately after the date of its annual report published to the last transaction date of that year, and the exercise price.

The SAR Plan further provides that if the exercise gains 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 percentages:

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 first batch of share appreciation rights has been forfeited in 2009, the second batch has been approved and exercised in 2011, the third batch has been approved on 23 May 2014 by certain authorities and exercised during the current interim period and the fourth batch will not be exercised. The exercise gains of the second and the third batch of share appreciation rights were measured at HK$1.82 and HK$2.27 per share respectively. The weighted average closing price of the shares immediately before the date on which the second and third batches of share appreciation rights were exercised at HK$9.11 and HK$19.12 per share respectively.

The SAR is recorded as a financial liability at fair value through profit and loss and included in the salary and bonus payable account. The liability is re-measured at the end of the reporting period and the settlement date with changes in fair value recognised in profit or loss. During the current period, 811,880 shares have been exercised and 361,195 shares were forfeited.

Details of the movements in the share appreciation rights during the current interim period are as follows:

| | **30 June 2014 Number of shares** | 30 June 2013 Number of shares |
|---|---|---|
| Outstanding at 1 January | **1,173,075** | 1,173,075 |
| Granted during the period | **–** | – |
| Exercised during the period | **(811,880)** | – |
| Forfeited during the period | **(361,195)** | – |
| Outstanding at 30 June | **–** | 1,173,075 |
| Exercisable at 30 June | **–** | 1,173,075 |

## 14. INTEREST-BEARING BANK BORROWINGS

During the current interim period, the Group did not obtain any new bank loans (six months ended 30 June 2013: nil), and repaid bank loans of US$312 million (equivalent to approximately RMB1,914.8 million) (six months ended 30 June 2013: US$132 million (equivalent to approximately RMB815.9 million)). For all bank borrowings of the Group, the weighted average effective interest rate for the period ended 30 June 2014 was 1.61% per annum (six months ended 30 June 2013: 1.62% per annum) and the borrowings are repayable in instalments over a period of 3 to 6 years.

## 15. LONG-TERM BONDS

| | **Year of maturity** | **30 June 2014** *RMB'000* **(Unaudited)** | 31 December 2013 *RMB'000* (Audited) |
|---|---|---|---|
| Non-current: | | | |
| Corporate bonds (a) | 2022 | **1,500,000** | 1,500,000 |
| Senior unsecured US$ bonds (b) | 2022 | **6,094,904** | 6,036,622 |
| | | **7,594,904** | 7,536,622 |

(a) 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 effective interest rate of 4.48% per annum (six months ended 30 June 2013: 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.

(b) On 6 September 2012, COSL Finance (BVI) Limited, a subsidiary of the Group, issued 10-year senior unsecured bonds, with a US$1,000 million principal amount. Interest of the bonds is payable semi-annually in arrears on 6 March and 6 September of each year, and the redemption or maturity date is 6 September 2022. The effective interest rate for the current interim period was 3.38% per annum (six months ended 30 June 2013: 3.38% per annum).

## MANAGEMENT DISCUSSION AND ANALYSIS

## INDUSTRY REVIEW

In the first half of 2014, both global oil demand and its production volume achieved stable growth while international crude oil prices fluctuated at a high-level affected by many factors. Average prices of Brent and WTI were US$108.84/barrel and US$100.82/barrel respectively, representing an increase of 0.89% and 6.93% over the same period of last year. Such increases were higher than expected in the beginning of the year. According to the estimated data of Spears & Associates, the total amount of well services market reached US$420.4 billion in 2014, representing an increase of 7% as compared with the same period last year. The investment amount continued to grow. The well services industry continued to develop and the customer's demands for equipment still concentrated on safe and high-efficient models.
The performance of equipment was different from each other. In the first half of 2014, the average utilization rate of global jack-up drilling rigs was 87.7%, representing an increase of 2.2% over the same period last year, the average utilization rate of semi-submersible drilling rigs was 84.2%, representing a decrease of 4.7% over the same period of last year. The average utilization rate of drilling ship was 95.2%, representing an increase of 3.0% over the same period last year. The global well services segment remained active with the decrease in global earthquake data collection volume in the first half of 2014. The utility vessels market remained stable.

## BUSINESS REVIEW

### Drilling Services Segment

During the first half of 2014, the drilling services segment of the Group realized revenue of RMB8,602.9 million, increased by 24.5% compared to RMB6,908.3 million of the same period last year, which is mainly attributable to the expansion in the scope of the drilling equipment and further increase in the production capacity as well as the settlement of US$ 65 million in relation to the standby fee dispute between COSL Offshore Management AS ("COM"), a subsidiary of the Group, and Statoil Petroleum AS ("Statoil"), a Norwegian oil company.

During the first half of 2014, the Group continued to adopt a combination of "lease, buy and construct" to improve the equipment production capacity. We leased "HYSY932" and "Gulf Driller I", both 300-feet jack-up drilling rigs, and "Kai Xuan I", a 400-feet jack-up drilling rig. The jack-up drilling rigs "COSLGift" and "COSLHunter" that were purchased last year have commenced overseas drilling operation contracts in the beginning of this year and April 2014 in Southeast Asia and Mexico, respectively. "COSL7", a new module rig, has arrived in Mexico in April 2014 and is under module installation and testing. In addition, after preliminary design and preparation, the construction project of "HYSY944", a 400-feet jack-up drilling rig was launched last year, and has started construction work in shipyard since May 2014.

As at the end of June 2014, the Group operated and managed a total of 43 drilling rigs (including 33 jack-up drilling rigs and 10 semisubmersible drilling rigs), of which 14 rigs were operating in Bohai, China, 10 in the South China Sea, 2 in the East China Sea, and 15 were operating in overseas regions such as the North Sea of Norway, Mexico and Indonesia, and 1 rig was under repair and maintenance abroad and 1 rig was under preparation before operation. In addition, the Group also owned 2 accommodation rigs and 4 module rigs and other equipments.

During the first half of 2014, the number of operating days of the Group's drilling rigs amounted to 6,593 days, representing an increase of 503 days compared with the same period of last year. The calendar day utilization rate was 91.0%, a decrease of 4.3 percentage points compared with the same period of last year due to the increase in the number of repairs and maintenance days during the period.

The operation details of our jack-up and semi-submersible drilling rigs in the first half of 2014 are as follows:

| | **For the six months ended 30 June** | | | |
|---|---|---|---|---|
| | **2014** | 2013 | Increase | Percentage change |
| **Operating days (day)** | **6,593** | 6,090 | 503 | 8.3% |
| Jack-up drilling rigs | **4,814** | 4,741 | 73 | 1.5% |
| Semi-submersible drilling rigs | **1,779** | 1,349 | 430 | 31.9% |
| **Available day utilization rate** | **97.9%** | 99.7% | Down 1.8 percentage points | |
| Jack-up drilling rigs | **97.2%** | 100.0% | Down 2.8 percentage points | |
| Semi-submersible drilling rigs | **100.0%** | 98.7% | Up 1.3 percentage points | |
| **Calendar day utilization rate** | **91.0%** | 95.3% | Down 4.3 percentage points | |
| Jack-up drilling rigs | **88.6%** | 96.3% | Down 7.7 percentage points | |
| Semi-submersible drilling rigs | **98.3%** | 92.1% | Up 6.2 percentage points | |

The increase by 73 operating days of jack-up drilling rigs compared with the same period of last year was mainly attributable to an increase of 189 operating days as a result of "COSLGift" and "COSLHunter" which started operation in this period; an increase of 122 operating days as a result of the leasing of "HYSY932" and "Gulf Driller I" in this period; an increase of 97 operating days as a result of "KANTAN II" which was leased in May last year has obtained full operation during the period and a decrease of 335 days in operating days of other drilling rigs due to repair and maintenance.

The operating days of semi-submersible drilling rigs increased by 430 days compared with the same period of last year was mainly due to the increase of 315 days contributed by "NH7", "COSLPromoter" and "NH9" which started operation in March, April and October last year respectively, while the operating days of other drilling rigs increased by 115 days due to the decrease in repair and maintenance days.

Two accommodation rigs continued to operate in the North Sea for 309 days in the first half of 2014, representing a decrease of 53 days compared the same period last year, which was mainly due to one of the accommodation rigs has undergone maintenance. As such, the calendar day utilization rate decreased to 85.4% and the available day utilization rate still reached 100.0%.

Four module rigs operated in the Mexican Bay and the operating days increased by 2 days to 709 days. The calendar day utilisation rate was 97.9%, representing an increase of 0.9 percentage point as compared with the same period of last year.

The average day income of the drilling rigs of the Group for the first half of 2014 increased as compared with the same period of last year, with details as follows:

| | For the six months ended 30 June | | | |
|---|---|---|---|---|
| **Average day income (ten thousand US$/day)** | **2014** | 2013 | Increase/ (Decrease) | Percentage Change |
| Jack-up drilling rigs | **13.0** | 11.8 | 1.2 | 10.2% |
| Semi-submersible drilling rigs | **32.3** | 32.8 | (0.5) | (1.5%) |
| Drilling rigs sub-total | **17.6** | 16.9 | 0.7 | 4.1% |
| Accommodation rigs | **27.7** | 25.8 | 1.9 | 7.4% |
| Group's average | **18.1** | 17.4 | 0.7 | 4.0% |

Notes: (1) Average day income = Revenue/operating days.

(2) The average day income of drilling rigs did not include the settlement of US$65 million in respect of the standby fee dispute between COM and Statoil.

(3) US$/RMB exchange rate was 1: 6.1528 on 30 June 2014 and 1: 6.1787 on 30 June 2013, respectively.

**Well Services Segment**

During the first half of 2014, the well services segment further expanded its market through continuous improvement and development of logging, cementing well, drilling fluids and production enhancement technologies. Meanwhile, the operation volume of the main business lines increased substantially due to the increase in the number of drilling rigs. Revenue thus increased by 50.4% to RMB3,994.6 million from RMB2,655.4 million of the same period last year.

During the first half of 2014, the well services segment continued to focus on the development of its technology level. Several technologies have obtained breakthrough in marine application and a new progress in enhancing recovery were achieved with production boost measures. Among which, the self-developed ELIS system has first commenced its operation successfully in deep water while the self-developed anti-corrosion cement system has been first applied in Bohai. The nitrogen-filled foam water plugging technology and skill have been successfully applied in water which will provide a new technological method and solution for marine oilfield high-water-cut-well comprehensive treatment. The low-permeability fracking technologies increased the production capacity of coalbed methane field; mature oilfields increased production volume and enhanced water control by utilizing carbon dioxide profile control technology; and acidizing technology has been gradually introduced to the international market upon mature domestic development.

**Marine Support and Transportation Services Segment**

In the first half of 2014, the Group's marine support and transportation services segment, adhered to safe production and quality services, has earned customer satisfaction. Rational utilization of external resources on the premise of the utilization rate of self-owned vessels led to capacity expansion and revenue increment. During the first half of 2014, the marine support and transportation services segment realized revenue of RMB1,733.4 million, representing an increase of RMB133.7 million or 8.4% as compared to RMB1,599.7 million in the same period last year. Among which, the chartered vessels operated 8,475 days in total, representing an increase of 1,445 days compared with the same period last year and realized revenue of RMB674.1 million.

In addition, in order to satisfy different requirements in the offshore oil and gas exploration and development in China together with an aim to adjust the equipment structures of marine support and transportation services segment, the Group purchased a deep-water supply vessel, HYSY613, which has officially commenced operation in May this year.

The calendar day utilization rate of the self-owned vessels in the first half of 2014 was 93.0%, representing a decrease of 1.2 percentage points compared with the same period last year, which was mainly due to the increase in repair and maintenance days during the period. The operating days of self-owned vessels are as follows:

| | **For the six months ended 30 June** | | | |
|---|---|---|---|---|
| **Operating days (day)** | **2014** | 2013 | Increase/ (Decrease) | Percentage change |
| Standby vessels | **6,509** | 6,846 | (337) | (4.9%) |
| AHTS vessels | **2,457** | 2,811 | (354) | (12.6%) |
| Platform supply vessels | **1,327** | 888 | 439 | 49.4% |
| Multi-purpose vessels | **629** | 666 | (37) | (5.6%) |
| Workover support barges | **719** | 718 | 1 | 0.1% |
| Total | **11,641** | 11,929 | (288) | (2.4%) |

The transportation volume of oil tankers was 916,000 tons for the first half of 2014, representing a decrease of 24,000 tons compared with 940,000 tons for the same period of last year. The transportation volume of chemical carriers decreased by 86,000 tons from 955,000 tons for the same period of last year to 869,000 tons.

**Geophysical and Surveying Services Segment**

During the first half of 2014, geophysical and surveying services segment continued to adhere to scientific and precise attitudes to serve the customers and ensure the equipment utilization efficiency to complete various large projects through reasonable deployment, coordination and arrangement. The segment realized revenue of RMB1,596.8 million, representing an increase of 25.0% over the same period of last year. Among which, "HYSY720", a 12-streamer seismic vessel, was recognized by customers due to its high quality, high efficiency and safety service for earthquake data collection in the South China Sea.

In addition, the construction work of "HYSY721", a 12-streamer seismic vessel, was smooth and it has been successfully delivered in August 2014.

*Geophysical Services*

In the first half of 2014, the details of the Group's collection and processing workload are as follows:

| Services | For the six months ended 30 June **2014** | 2013 | Increase/ (Decrease) | Percentage change |
|---|---|---|---|---|
| 2D collection (km) | **12,215** | 14,854 | (2,639) | (17.8%) |
| 2D processing (km) | **4,034** | 14,011 | (9,977) | (71.2%) |
| 3D collection ($km^2$) | **17,085** | 12,899 | 4,186 | 32.5% |
| Including submarine cable ($km^2$) | **306** | 347 | (41) | (11.8%) |
| 3D processing ($km^2$) | **11,305** | 7,432 | 3,873 | 52.1% |

During the first half of 2014, the Group's workload for 3D collection and processing increased significantly, of which, the operation volume for 3D collection services increased by 4,186 $km^2$ compared with the same period of last year, which was mainly due to the Group has utilized external vessels to commence 3D operation positively, which increased operation volume by 3,073 $km^2$. The operation efficiency of "HYSY720" also enhanced during the period, which increased operation volume by 1,573$km^2$ while the operation volume of other vessels decreased by 460$km^2$. 3D processing operation increased by 52.1% over the same period last year, due to the increase in processing business in Bohai Sea. The reduction of one external vessel due to operation arrangement decreased, the operation volume of 2D collection business by 17.8% compared with the same period last year. 2D processing volume decreased by 71.2% over the same period last year, due to the decrease of 2D collection business and market influence.

*Surveying Services*

In the first half of 2014, the Group's surveying services recorded revenue of RMB277.0 million, which increased by RMB0.1 million from RMB276.9 million in the same period of last year.

## 1. Analysis of condensed consolidated statement of profit or loss

*1.1 Revenue*

In the first half of 2014, the Group's revenue amounted to RMB15,927.7 million, representing an increase of 28.0% or RMB3,486.7 million over the same period last year, mainly driven by commencement of operation of new equipment and further increase in production capacity. The details are analyzed below:

The revenue of each of the business segments in the first half of 2014

*Unit: RMB million*

| | For the six months ended 30 June | | | |
|---|---|---|---|---|
| **Business segments** | **2014** | 2013 | Increase | Increase |
| Drilling services | **8,602.9** | 6,908.3 | 1,694.6 | 24.5% |
| Well services | **3,994.6** | 2,655.4 | 1,339.2 | 50.4% |
| Marine support and transportation services | **1,733.4** | 1,599.7 | 133.7 | 8.4% |
| Geophysical and surveying services | **1,596.8** | 1,277.6 | 319.2 | 25.0% |
| Total | **15,927.7** | 12,441.0 | 3,486.7 | 28.0% |

- Revenue generated from drilling services business increased by 24.5% over the same period of last year. The main reasons include: 1) "COSLGift", "COSLHunter", "HYSY932" and "Gulf Driller I" commenced operation during the period and "NH7", "COSLPromoter", "KANTAN II" and "NH9" which commenced operation in March, April, May and October last year reached full operation during the period. 2) The settlement of US$65 million in respect of the standby fee dispute between COM and Statoil was recognized as revenue during the current period.

- Driven by the expansion of the well services market due to technological improvement as well as the increase in the number of drilling rigs, the operation volume of the main business lines of the well services segment increased, which led to an increase in revenue by 50.4% over the same period of last year.

- Revenue from marine support and transportation services increased by 8.4% over the same period of last year which was mainly due to the increase in operation volume of chartered vessels during the period.

- Revenue from geophysical and surveying services increased by 25.0% compared with the same period of last year, which was mainly due to the growth of 3D collection volume during the period.

*1.2 Operating expenses*

In the first half of 2014, the operating expenses of the Group amounted to RMB10,966.3 million, representing an increase of RMB2,096.9 million or 23.6% from RMB8,869.4 million for the same period of last year.

The table below shows the breakdown of operating expenses for the Group in the first half of 2014:

*Unit: RMB million*

| | **For the six months ended 30 June** | | | |
|---|---|---|---|---|
| | **2014** | 2013 | Increase | Increase |
| Depreciation of property, plant and equipment and amortization of intangible assets | **1,863.3** | 1,656.4 | 206.9 | 12.5% |
| Employee compensation costs | **2,078.2** | 1,982.4 | 95.8 | 4.8% |
| Repair and maintenance costs | **410.4** | 342.1 | 68.3 | 20.0% |
| Consumption of supplies, materials, fuel, services and others | **2,538.7** | 2,182.3 | 356.4 | 16.3% |
| Subcontracting expenses | **2,392.7** | 1,619.2 | 773.5 | 47.8% |
| Operating lease expenses | **721.9** | 471.7 | 250.2 | 53.0% |
| Other operating expenses | **805.5** | 615.3 | 190.2 | 30.9% |
| Impairment of property, plant and equipment | **155.6** | 0.0 | 155.6 | 100.0% |
| Total operating expenses | **10,966.3** | 8,869.4 | 2,096.9 | 23.6% |

From the above breakdown in operating expenses, the new equipments launched last year and the first half of this year led to an increase of depreciation of property, plant and equipment and amortization of intangible assets of RMB206.9 million.

Owing to the overall increase in operation volume of the Group, especially the substantial increase in operation volume of the well services segment such as well cementing and slurries; the expenses for consumption of fuel increased by RMB356.4 million.

Subcontracting expenses increased by RMB773.5 million due to the market maintenance and expansion as well as the utilization of external resources among four business segments.

The operating lease expenses increased by RMB250.2 million over the same period last year due to the impact of leasing drilling rigs (“HYSY981”, “NH7”, “HYSY932” and “Gulf Driller I”).

The other operating expenses increased by RMB190.2 million, which was mainly due to the increase in travel allowance and overseas travel expenses resulting from business expansion. In addition, the provisions for doubtful debts and inventories obsolescence made during the period increased as compared with the same period last year.

The impairment of property, plant and equipment during the period was RMB155.6 million which was mainly due to the provision for asset impairment loss of RMB143.7 million made in respect of four chemical carriers in the marine support and transportation services segment and the provision for asset impairment loss of RMB11.9 million in respect of the well services equipment in Libya.

The table below shows the operating expenses of each of the business segments in the first half of 2014:

*Unit: RMB million*

| | **For the six months ended 30 June** | | | |
|---|---|---|---|---|
| **Business segments** | **2014** | 2013 | **Increase** | **Increase** |
| Drilling services | **4,988.4** | 4,182.4 | 806.0 | 19.3% |
| Well services | **3,079.1** | 2,344.3 | 734.8 | 31.3% |
| Marine support and transportation services | **1,659.2** | 1,308.9 | 350.3 | 26.8% |
| Geophysical and surveying services | **1,239.6** | 1,033.8 | 205.8 | 19.9% |
| Total | **10,966.3** | 8,869.4 | 2,096.9 | 23.6% |

1.3 *Profit from operations*

The profit from operations of the Group during the first half of 2014 amounted to RMB5,029.1 million, representing an increase of RMB1,382.5 million or 37.9% from RMB3,646.6 million for the same period of last year.

The profit from operations for each segment is shown in the table below:

*Unit: RMB million*

| | **For the six months ended 30 June** | | | |
|---|---|---|---|---|
| **Business segments** | **2014** | 2013 | **Increase/ (Decrease)** | **Percentage change** |
| Drilling services | **3,621.0** | 2,731.4 | 889.6 | 32.6% |
| Well services | **938.1** | 329.5 | 608.6 | 184.7% |
| Marine support and transportation services | **82.0** | 297.1 | (215.1) | (72.4%) |
| Geophysical and surveying services | **388.0** | 288.6 | 99.4 | 34.4% |
| Total | **5,029.1** | 3,646.6 | 1,382.5 | 37.9% |

*Notes:* The segment result of the marine support and transportation services segment during the period decreased by 72.2% as compared with the same period last year, mainly due to the provision for asset impairment loss of RMB143.7 million made in respect of four chemical carriers and the repair and maintenance days of self-owned vessels increased during the period according to the arrangement which led to the increase in maintenance expenses.

### 1.4 *Financial expenses, net*

In the first half of 2014, the net financial expenses of the Group was RMB202.6 million, representing a decrease of RMB43.9 million or 17.8% from RMB246.5 million for the same period of last year, of which finance costs decreased by RMB41.6 million, exchange gains decreased by RMB4.0 million and interest income increased by RMB6.3 million.

### 1.5 *Investment income*

During the first half of 2014, the investment income of the Group amounted to RMB86.5 million, representing an increase of RMB48.1 million or 125.3% from RMB38.4 million for the same period last year, which was mainly due to the increase in investment income from the corporate wealth management products and liquidity fund of the Group during the period.

### 1.6 *Share of profits of joint ventures, net of tax*

In the first half of 2014, the Group's share of profits of joint ventures, net of tax, amounted to RMB153.0 million, representing an increase of RMB28.4 million or 22.8% compared to RMB124.6 million for the same period of last year. This was mainly due to the increase in profit of the five joint ventures such as China Offshore Fugro and CNOOC-OTIS Well Completion Services Ltd.

### 1.7 *Income tax*

In the first half of 2014, the income tax expense of the Group was RMB627.1 million, representing an increase of RMB254.5 million or 68.3% compared to RMB372.6 million for the same period of last year. This was mainly due to the increase in profit before tax and the last period adjustments on both the deferred tax liabilities and income tax expenses in accordance with the requirements of "Announcement No.15 in 2012 of State Administration of Taxation" as the above requirements allowed the adjustments upon temporary difference arising from different depreciation period between tax base and accounting base.

### 1.8 *Profit for the period*

In the first half of 2014, the profit for the period of the Group was RMB4,439.0 million, representing an increase of RMB1,248.5 million or 39.1% compared with RMB3,190.5 million for the same period of last year.

*1.9 Basic earnings per share*

In the first half of 2014, the Group's basic earnings per share was RMB93 cents, representing an increase of RMB22 cents or 31.0% as compared with RMB71 cents for the same period of last year.

## 2. Analysis on condensed consolidated statement of financial position

As of 30 June 2014, the total assets of the Group amounted to RMB85,127.1 million, representing an increase of RMB5,864.8 million or 7.4% compared with RMB79,262.3 million as at the end of 2013. The total liabilities were RMB40,806.6 million, representing a decrease of RMB1,195.9 million or 2.8% compared with RMB42,002.5 million as at the end of 2013. Total equity was RMB44,320.5 million, representing an increase of RMB7,060.7 million or 18.9% compared with RMB37,259.8 million as at the end of 2013.

The analysis for significant changes in accounts on the consolidated statement of financial position is as follows:

| *Unit: RMB million*<br>**Items** | **30 June 2014** | 31 December 2013 | Increase | **Reasons** |
|---|---|---|---|---|
| Other non-current assets | **2,179.8** | 1,160.4 | 87.8% | Prepayments of part of the construction fees for construction of 12-streamer geophysical vessel, drilling rigs and oilfield utility vessel |
| Deferred tax assets | **4.3** | 7.3 | (41.1%) | Reversal of the deductible temporary difference arising from the provision of employee compensation cost during the period, resulting in the decrease in the deferred tax assets. |
| Accounts receivable | **8,160.4** | 5,873.0 | 38.9% | Expansion of business scale and prolonged internal approval process of part of customers. |
| Other current assets | **4,579.0** | 2,363.4 | 93.7% | The corporate wealth management products and liquidity fund with non-fixed interests subscribed during the period increased. |
| Pledged deposits | **17.0** | 32.6 | (47.9%) | Certain pledged time deposits were due. |
| Time deposits with original maturity over three months | **1,415.3** | 600.0 | 135.9% | On 15 January 2014, the Group had successfully placed 276,272,000 new H shares at a placing price of HK$21.30.<br>As such, the Group had more available funds and the time deposits with original maturity over three months deposited in the banks increased. |
| Tax payable | **374.1** | 258.2 | 44.9% | Income tax payable increased due to the profit before tax increased in the current period. |
| Other current liabilities | **156.9** | 112.9 | 39.0% | The current portion of the deferred mobilization fee increased. |
| Employee benefit liabilities | **65.1** | 37.5 | 73.6% | Increased employee benefit liabilities of a subsidiary in Norway |
| Non-controlling interests | **36.4** | 21.1 | 72.5% | PT.SAMUDAR TIMUR SANTOSA generated profit for the period. |

## 3. Analysis of consolidated statement of cash flows

At the beginning of 2014, the Group held cash and cash equivalents of RMB9,600.8 million. Net cash inflows from operating activities for this period amounted to RMB4,578.5 million. Net cash outflows from investing activities were RMB6,248.9 million. Net cash inflows from financing activities were RMB266.2 million. The impact of foreign exchange fluctuations on cash was increased of RMB52.2 million. As at 30 June 2014, the Group's cash and cash equivalents amounted to RMB8,248.8 million.

### *3.1 Cash flows from operating activities*

During the current period ended 30 June 2014, the Group's net cash inflows from operating activities amounted to RMB4,578.5 million, representing an increase of RMB1,516.4 million or 49.5% compared to the same period last year. This is mainly due to the increase in revenue and increase in the settlement of note receivable during the period.

### *3.2 Cash flows from investing activities*

During the current period ended 30 June 2014, the net cash outflows from the Group's investing activities amounted to RMB6,248.9 million, representing an increase of RMB6,019.8 million or 2,627.6% compared to the same period last year. This is mainly due to the fact that net cash outflow from purchase and disposal of available-for-sale investments (represented mainly the liquidity fund and corporate wealth management products subscribed by the Group) increased by RMB1,760.6 million, net cash inflow from saving and withdrawing time deposits with maturity over three months decreased by RMB2,923.2 million and cash outflow from the deposits paid for the acquisition of properties, plants and equipment increased by RMB1,084.9 million during the period. The cash outflows from other investing activities increased by RMB251.1 million.

### *3.3 Cash flows from financing activities*

During the current period ended 30 June 2014, the Group's net cash inflows from financing activities amounted to RMB266.2 million, and the net cash outflows were RMB 2,583.4 million for the same period last year. This is mainly due to the Group had successfully placed 276,272,000 new H shares on 15 January 2014, which resulted in the increase in the proceeds from share issue of RMB4,573.4 million. The repayment of bank borrowings increased by RMB1,098.9 million as compared with the same period last year. The dividends paid increased by RMB657.6 million and interest payment decreased by RMB32.7 million as compared with the same period last year.

*3.4 The impact of foreign exchange rate changes on cash during the period was increased of RMB52.2 million.*

## 4. Capital Expenditure

In the first half of 2014, the capital expenditure of the Group was RMB2,783.3 million, representing an increase of RMB1,391.4 million or 100.0% compared to RMB1,391.9 million of the same period last year.

The capital expenditure of each business segment is shown in the table below:

*Unit: RMB million*

| Business Segments | For the six months ended 30 June **2014** | 2013 | Increase | Increase |
|---|---|---|---|---|
| Drilling services | **1,253.6** | 1,014.2 | 239.4 | 23.6% |
| Well services | **228.8** | 218.5 | 10.3 | 4.7% |
| Marine support and transportation services | **634.1** | 51.3 | 582.8 | 1,136.1% |
| Geophysical and surveying services | **666.8** | 107.9 | 558.9 | 518.0% |
| Total | **2,783.3** | 1,391.9 | 1,391.4 | 100% |

The capital expenditure of the drilling services segment was mainly used for the construction of semi-submersible drilling rig (i.e. "COSLProspector") and two jack-up drilling rigs and 1 semi-submersible drilling rig. The capital expenditure of the well services segment was mainly used for the construction and purchase of relevant well services equipment relating to such business segment. The capital expenditure of the marine support and transportation services segment was mainly used for the purchase and construction of oilfield utility vessels. The capital expenditure of the geophysical and surveying services segment was mainly used for the construction of a 12-streamer geophysical vessel and 1 surveying vessel.

## BUSINESS OUTLOOK

Looking forward, the international oil price will still fluctuate at a high-level affected by various factors in the second half of 2014. The global investment was made in exploration and development activities, in particularly the investment in marine exploration and development will continue to grow. According to the IHS report, the capital expenditures for the global oil and gas exploration and production was US$217.0 billion, representing an increase of approximately 6.5% over the same period of last year. The well services market remained active in general. The investment in exploration and development grew at a faster speed in the major regions (such as Asian Pacific regions and Middle East regions, etc), which is substantially higher than the average growth rate of global market, laying a solid foundation for sustainable growth of the Company's business. With the increasing underground workload of oil company and the rising importance of mature oilfields in oil exploitation, the capacity of oil services market and demands will be further enhanced.

# 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 2014 has been reviewed by the audit committee.

## CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2014, the Company has complied with the Corporate Governance Code as set out in Appendix 14 of the Listing Rules.

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

Upon specific enquiry to all directors by the Company, the directors have confirmed that they have, for the six months ended 30 June 2014, 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 2014.

## PROGRESS OF BUSINESS PLAN

In the first half of 2014, the Group recorded a revenue of RMB15,927.7 million, representing an increase of 28.0% over the same period of last year; total operating expense was RMB10,966.3 million, representing an increase of 23.6% over the same period of last year; net profit attributable to the shareholders was RMB4,424.0 million, representing an increase of 39.1% over the same period last year; capital expenditure was RMB2.78 billion. The business of the Company progressed orderly in the second of the year and we are confidence in fulfilling the annual business plan.

## MISCELLANEOUS

On 20 March 2012, the Company disclosed its connected transaction in relation to the transfer of land use right of certain lands located in Haiyang New and Hi-Tech Development Zone to CNOOC Infrastructure Management Co., Ltd. As at the date of this interim report, the transfer procedures of such land transaction were not yet completed due to the fact that the progress of infrastructure project did not fulfill the investment requirements of transfer.

The directors are of the opinion that there have been no material changes to the information published in its annual report for the year ended 31 December 2013, other than those disclosed in this interim report.

## 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*

26 August 2014

*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 Zeng Quan; and the independent non-executive directors of the Company are Messrs. Tsui Yiu Wa, Fong Wo, Felix and Law Hong Ping, Lawrence.*