COSL

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

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

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

FINANCIAL HIGHLIGHTS

1. Revenue was RMB13,552.1 million.
2. Profit from operations was RMB1,601.1 million.
3. Profit for the period was RMB986.4 million.
4. Basic earnings per share were RMB0.20.

The interim results of the Company for the six months ended 30 June 2019 accordance with Hong Kong Accounting Standard are unaudited.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
For the six months ended 30 June 2019

		Six months ended 30 June	
	Notes	**2019**	2018
		RMB'000	*RMB'000*
		(Unaudited)	(Unaudited)
REVENUE	*5*	**13,562,799**	8,140,008
Sales surtaxes		**(10,687)**	(12,132)
Revenue, net of sales surtaxes		**13,552,112**	8,127,876
Other income		**30,860**	101,340
Depreciation of property, plant and equipment and amortisation of intangible assets and multiclient library		**(2,167,184)**	(2,038,964)
Depreciation of right-of-use assets		**(314,671)**	–
Employee compensation costs		**(2,651,659)**	(2,030,567)
Repair and maintenance costs		**(171,158)**	(141,796)
Consumption of supplies, materials, fuel, services and others		**(2,986,885)**	(1,789,221)
Subcontracting expenses		**(2,643,858)**	(1,349,245)
Lease expenses		**(557,253)**	(513,357)
Other operating expenses		**(491,735)**	(482,803)
Impairment of property, plant and equipment	*10*	**–**	(122,962)
Impairment losses under expected credit loss model, net of reversal		**2,524**	(83)
Total operating expenses		**(11,981,879)**	(8,468,998)
PROFIT/(LOSS) FROM OPERATIONS		**1,601,093**	(239,782)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS (CONTINUED)
For the six months ended 30 June 2019

	Notes	Six months ended 30 June 2019 RMB'000 (Unaudited)	2018 RMB'000 (Unaudited)
Exchange gain, net		**46,731**	88,861
Finance costs		**(590,217)**	(518,023)
Interest income		**21,190**	47,831
Investment income		**173,884**	93,658
(Losses)/Gains arising from financial assets at fair value through profit or loss		**(49,441)**	24,375
Share of profits of joint ventures, net of tax		**119,908**	54,704
Other gains and losses	6	**58,974**	241,733
PROFIT/(LOSS) BEFORE TAX	6	**1,382,122**	(206,643)
Income tax expense	7	**(395,767)**	(156,619)
PROFIT/(LOSS) FOR THE PERIOD		**986,355**	(363,262)
Attributable to:			
Owners of the Company		**973,043**	(375,004)
Non-controlling interests		**13,312**	11,742
		986,355	(363,262)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic (RMB)	9	**0.20**	(0.08)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
PROFIT/(LOSS) FOR THE PERIOD	**986,355**	(363,262)
OTHER COMPREHENSIVE (EXPENSE)/INCOME		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of foreign operations	**(48,154)**	25,041
Share of other comprehensive income of joint ventures, net of related income tax	**287**	1,249
Income tax relating to items that may be reclassified subsequently to profit or loss	**1,455**	49,040
	(46,412)	75,330
OTHER COMPREHENSIVE (EXPENSE)/INCOME FOR THE PERIOD, NET OF INCOME TAX	**(46,412)**	75,330
TOTAL COMPREHENSIVE INCOME/(EXPENSE) FOR THE PERIOD	**939,943**	(287,932)
Attributable to:		
Owners of the Company	**926,175**	(301,224)
Non-controlling interests	**13,768**	13,292
	939,943	(287,932)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	Notes	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	**50,283,391**	51,533,128
Right-of-use assets		**1,280,387**	–
Goodwill	11	**–**	–
Other intangible assets		**58,379**	289,502
MultiClient library		**225,711**	139,707
Investments in joint ventures		**708,700**	679,162
Financial assets at fair value through profit or loss		**–**	–
Contract costs		**139,954**	172,893
Other non-current assets	13	**393,919**	97,816
Deferred tax assets		**65,493**	65,869
Total non-current assets		**53,155,934**	52,978,077
CURRENT ASSETS			
Inventories		**1,658,793**	1,324,220
Prepayments, deposits and other receivables		**428,404**	390,106
Accounts receivable	12	**13,547,462**	8,015,313
Notes receivable	12	**1,000**	208,164
Debt instruments at fair value through other comprehensive income		**5,322**	24,740
Contract costs		**62,237**	53,023
Financial assets at fair value through profit or loss		**–**	1,749,723
Other current assets	13	**3,069,281**	6,601,235
Pledged deposits		**29,075**	27,657
Time deposits with maturity of over three months		**–**	145,136
Cash and cash equivalents		**3,465,550**	3,169,610
Total current assets		**22,267,124**	21,708,927
CURRENT LIABILITIES			
Trade and other payables	14	**8,365,710**	8,895,667
Notes payable		**6,537**	50,266
Salary and bonus payables		**1,317,650**	909,174
Tax payable		**373,359**	373,566
Loan from a related party	15	**2,408,853**	1,374,823
Interest-bearing bank borrowings	16	**600,132**	599,968
Long term bonds	17	**2,419,005**	4,469,521
Lease liabilities		**654,503**	–
Contract liabilities		**430,538**	154,410
Other current liabilities	13	**521,151**	183,648
Total current liabilities		**17,097,438**	17,011,043

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)
At 30 June 2019

	Notes	**30 June 2019** *RMB'000* **(Unaudited)**	31 December 2018 *RMB'000* (Audited)
NET CURRENT ASSETS		**5,169,686**	4,697,884
TOTAL ASSETS LESS CURRENT LIABILITIES		**58,325,620**	57,675,961
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**97,422**	286,560
Interest-bearing bank borrowings	*16*	**495,171**	787,631
Long term bonds	*17*	**21,101,148**	21,069,892
Lease liabilities		**621,379**	–
Contract liabilities		**247,617**	308,000
Deferred income		**460,214**	522,839
Employee benefit liabilities		**25,043**	23,633
Total non-current liabilities		**23,047,994**	22,998,555
Net assets		**35,277,626**	34,677,406
EQUITY			
Equity attributable to owners of the Company			
Issued capital		**4,771,592**	4,771,592
Reserves		**30,344,736**	29,758,284
		35,116,328	34,529,876
Non-controlling interests		**161,298**	147,530
Total equity		**35,277,626**	34,677,406

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 No.1581, Haichuan Road, Tanggu Ocean Hi-tech Zone, Binhai Hi-tech Development District, 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.

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 services, and geophysical acquisition 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 incorporated in the PRC.

The condensed consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

As at 30 June 2019, particulars of the principal subsidiaries of the Company 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 2019	30 June 2018	Principal activities
COSL Chemicals (Tianjin), Ltd.	Tianjin, PRC 7 September 1993	PRC	RMB 20,000,000	100%	100%	Manufacture and marketing drilling fluids
PT. COSL INDO	Indonesia 1 August 2005	Indonesia	US Dollar ("US$") 400,000	100%	100%	Provision of oil & gas exploration services
COSL-HongKong Limited	Hong Kong 1 December 2005	Hong Kong	Hong Kong Dollar 10,000	100%	100%	Investment holding
COSL (Australia) Pty Ltd.	Australia 11 January 2006	Australia	Australian Dollar 10,000	100%	100%	Provision of drilling services
COSL Drilling Strike Pte.Ltd.	Singapore 29 October 2009	Singapore	Singapore Dollar 2	100%	100%	Provision of drilling services
COSL Prospector Pte.Ltd.	Singapore 27 February 2007	Singapore	US$189,779,384	100%	100%	Provision of drilling services
COSL Mexico S.A.de C.V	Mexico 26 May 2006	Mexico	US$ 8,504,525	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 2019	30 June 2018	Principal activities
COSL (Middle East) FZE	United Arab Emirates 2 July 2006	United Arab Emirates	UAE Dirhams 1,000,000	100%	100%	Provision of oil & gas exploration services
COSL Norwegian AS ("CNA")	Norway 23 June 2008	Norway	Norwegian Krone ("NOK") 1,541,328,656	100%	100%	Investment holding
COSL Drilling Pan-Pacific (Labuan) Ltd.	Malaysia 4 April 2009	Malaysia	US$100,000	100%	100%	Management of jack-up drilling rigs
COSL Drilling Pan-Pacific Ltd.	Singapore 13 April 2009	Singapore	US$1,000,000	100%	100%	Management of jack-up drilling rigs
COSL Singapore Capital Ltd.	Singapore 29 October 2009	Singapore	Singapore Dollar 2	100%	100%	Bond issuance
PT. Samudra Timur Santosa ("PT STS")(a)	Indonesia 27 July 2010	Indonesia	US$250,000	49%	49%	Provision of marine support services
COSL Oil-Tech (Singapore) Ltd.	Singapore 31 January 2011	Singapore	US$100,000	100%	100%	Provision of oilfield services and related activities
COSL Finance (BVI) Limited	British Virgin Islands 12 July 2012	British Virgin Islands	US$1	100%	100%	Bond issuance
COSL Deepwater Technology Co. Ltd.	Shenzhen, PRC 12 September 2013	PRC	RMB470,000,000	100%	100%	Provision of geophysical and surveying services
COSL Drilling Saudi Ltd.	Saudi Arabia 19 April 2016	Saudi Arabia	Saudi Riyal 375,000	96%	96%	Provision of drilling services

(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 had 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 2019 and 2018.

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 2019, particulars of the joint ventures of the Group are as follows:

Name	Nominal value of issued ordinary/ registered share capital	Place and date of incorporation/ registration and operations	Percentage of Ownership interest 2019	2018	Voting rights held 2019	2018	Principal activities
China Offshore Fugro GeoSolutions (Shenzhen) Company Ltd.	US$6,000,000	Shenzhen, PRC 24 August 1983	50	50	50	50	Provision of geophysical and surveying services
China France Bohai Geoservices Co., Ltd.	US$6,650,000	Tianjin, PRC 30 November 1983	50	50	50	50	Provision of logging services
China Petroleum Logging-Atlas Cooperation Service Company	US$2,000,000	Shenzhen, PRC 10 May 1984	50	50	50	50	Provision of logging services
China Nanhai Magcobar Mud Corporation Ltd. ("Magcobar") (a)	RMB4,640,000	Shenzhen, PRC 25 October 1984	60	60	50	50	Provision of drilling fluids services
CNOOC-OTIS Well Completion Services Ltd.	US$2,000,000	Tianjin, PRC 14 April 1993	50	50	50	50	Provision of well completion services
COSL-Expro Testing Services (Tianjin) Company Ltd.	US$5,000,000	Tianjin, PRC 28 February 2007	50	50	50	50	Provision of well testing services
PBS-COSL Oilfield Services Company SDN BHD (''PBS-COSL'') (b)	Brunei Dollar 100,000	Brunei 20 March 2014	49	49	50	50	Provision of drilling services
COSL (Malaysia) SDN.BHD. ("COSL Malaysia") (c) (d)	Ringgit Malaysia 350,000	Malaysia 31 July 2017	49	49	50	50	Provision of drilling services

(a) The Group has 60% of the equity interests in Magcobar, the remaining equity interests of which are held by the other sole investor. Pursuant to the articles of association of Magcobar, more than two-thirds of the voting rights in the board of directors are required for decisions on directing the relevant activities of this entity. The board of directors of Magcobar shall comprise five directors whereby the Company shall appoint three directors and the other sole investor shall appoint two directors. In the opinion of the Directors, the Group does not have control over Magcobar and the investment in this joint arrangement constitutes interest in a joint venture based on the rights and obligations of the parties to this joint arrangement.

(b) The Group has 49% of the equity interests in PBS-COSL, the remaining equity interests of which 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 a joint venture based on the rights and obligations of the parties to this joint arrangement.

(c) The Group has 49% of equity interests in COSL Malaysia, the remaining equity interests of which are held by the other sole investor. Pursuant to the articles of association of COSL Malaysia, majority voting rights are required for decisions on directing the relevant activities of this entity. The board of directors of COSL Malaysia shall comprise five directors whereby the Group shall appoint two directors and the other sole investor shall appoint three directors, while the chairman of COSL Malaysia shall be appointed by the Group and the chairman has the right to veto any major decisions. As a result, unanimous consents by the Group and the other investor are required for decisions on directing the relevant activities of COSL Malaysia. In the opinion of the Directors, the Group does not have control over COSL Malaysia and the investment in this joint arrangement constitutes interest in a joint venture based on the rights and obligations of the parties to this joint arrangement.

(d) As at 30 June 2019, the Group has yet injected any capital into COSL Malaysia since the capital injection time according to the joint venture agreement has not due yet.

All of the above investments in joint ventures are directly held by the Company except for COSL Malaysia, which is indirectly held through COSL Drilling Pan-Pacific Ltd.

The above joint ventures are accounted for using the equity method in these condensed consolidated financial statements.

2. BASIS OF PREPARATION

The condensed consolidated financial statements for the six months ended 30 June 2019 have been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (HKICPA) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the HKSE.

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 2018.

2A. SIGNIFICANT EVENT

In December 2016, COSL Offshore Management AS (“COM”, a subsidiary of the Company) as a plaintiff filed a claim (the “Claim”) against Statoil Petroleum AS (hereinafter “Statoil”) with a court in Norway, claiming that Statoil’s termination of a contract was unlawful and for the contract to be maintained or otherwise Statoil is obliged to cover COM’s loss resulting from the unlawful termination. The court delivered a judgement on 15 May 2018 against Equinor Petroleum AS (Statoil’s new company name, hereinafter “Equinor”) with an award of damages in COM’s favor. On 14 June 2018, Equinor appealed and COM filed on the same day for its entitlement to the damages against Equinor’s appeal. As of the issuance date of this condensed consolidated financial statements, no further court hearing has taken place.

The Directors consider the award of damages as a contingent asset and has not recognised it as a receivable at 30 June 2019 as receipt of such award of damages is dependent on the outcome of the further court process.

3. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRSs"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2018.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	*Leases*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
Amendments to HKFRSs	*Annual Improvements to HKFRSs 2015-2017 Cycle*

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and on the disclosures set out in these condensed consolidated financial statements.

3.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 *Leases* ("HKAS 17"), and the related interpretations.

3.1.1 Key changes in accounting policies resulting from application of HKFRS 16

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of the underlying assets that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term. During the current interim period, no lease of low-value assets occured.

Right-of-use assets

Except for short-term leases and leases of low-value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;

- any lease payments made at or before the commencement date, less any lease incentives received;

- any initial direct costs incurred by the Group; and

- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

Except for short-term leases and leases of low-value assets, at the commencement date of a lease, the Group recognizes and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate;
- amounts expected to be paid under residual value guarantees;
- the exercise price of a purchase option reasonably certain to be exercised by the Group; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

Variable lease payments that reflect changes in market rental rates are initially measured using the market rental rates as at the commencement date. Variable lease payments that do not depend on an index or a rate are not included in the measurement of lease liabilities and right-of-use assets, and are recognised as expense in the period on which the event or condition that triggers the payment occurs. As the lease payments of certain drilling rigs leases which the Group entered into were determined by utilisation days and day rates, the Group recognised these variable lease payments as expense during this current interim period when they were paid or payable.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.
- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and
- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

Taxation

For the purposes of measuring deferred tax for leasing transactions in which the Group recognises the right-of-use assets and the related lease liabilities, the Group first determines whether the tax deductions are attributable to the right-of-use assets or the lease liabilities.

For leasing transactions in which the tax deductions are attributable to the lease liabilities, the Group applies HKAS 12 *Income Taxes* requirements to the leasing transaction as a whole. Temporary differences relating to right-of-use assets and lease liabilities are assessed on a net basis. Excess of depreciation on right-of-use assets over the lease payments for the principal portion of lease liabilities resulting in net deductible temporary differences.

As a lessor

Allocation of consideration to components of a contract

Effective on 1 January 2019, the Group applies HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Sale and leaseback transactions

The Group acts as a seller-lessee

The Group applies the requirements of HKFRS 15 to assess whether sale and leaseback transaction constitutes a sale by the Group as a seller-lessee. For a transfer that does not satisfy the requirements as a sale, the Group accounts for the transfer proceeds as borrowing within the scope of HKFRS 9.

3.1.2 Transition and summary of effects arising from initial application of HKFRS 16

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:

i. relied on the assessment of whether leases are onerous by applying HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* as an alternative of impairment review;

ii. elected not to recognise right-of-use assets and lease liabilities for leases with lease term ends within 12 months of the date of initial application;

iii. excluded initial direct costs from measuring the right-of-use assets at the date of initial application;

iv. applied a single discount rate to a portfolio of leases with a similar remaining terms for similar class of underlying assets in similar economic environment.

v. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group's leases with extension and termination options.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

As at 1 January 2019, the Group recognised additional lease liabilities and measured right-of-use assets at the carrying amounts as if HKFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application by applying HKFRS 16.C8(b)(i) transition. The weighted average incremental borrowing rates applied by the relevant group entities range from 3.85% to 4.47%.

	At 1 January 2019 *RMB'000*
Operating lease commitments disclosed as at 31 December 2018	**2,048,554**
Less: Value-added tax	**88,390**
Operating lease commitments without value-added tax	**1,960,164**
Lease liabilities discounted at relevant incremental borrowing rates	**1,764,313**
Add: Extension options reasonably certain to be exercised	**47,321**
Less: Recognition exemption-short-term leases	**10,631**
Lease liabilities as at 1 January 2019	**1,801,003**
Analysed as	
Current	**712,208**
Non-current	**1,088,795**
	1,801,003

The carrying amount of right-of-use assets as at 1 January 2019 comprises the following:

	Note	Right-of-use assets *RMB'000*
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16		**1,480,885**
Reclassified from prepaid lease payments	*(a)*	215,226
		1,696,111
By class:		
Drilling rigs		969,562
Tankers and vessels		320,779
Land and building		331,659
Machinery and equipment		73,943
Others		168
		1,696,111

(a) Upfront payments for leasehold lands in the PRC and Indonesia were classified as prepaid lease payments under other intangible assets as at 31 December 2018. Upon application of HKFRS 16, prepaid lease payments amounting to RMB215,226,000 were reclassified to right-of-use assets.

As a lessor

In accordance with the transitional provisions in HKFRS 16, except for sub-leases in which the Group acts as an intermediate lessor, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

(b) Upon application of HKFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1 January 2019. The application has had no impact on the Group's condensed consolidated statement of financial position at 1 January 2019. However, effective on 1 January 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.

(c) Effective on 1 January 2019, the Group has applied HKFRS 15 to allocate consideration in the contract to each lease and non-lease components. The change in allocation basis has had no material impact on the condensed consolidated financial statements of the Group for the current period.

Sales and leaseback transactions

(d) The Group acts as a seller-lessee

In accordance with the transition provisions of HKFRS 16, sale and leaseback transactions entered into before the date of initial application were not reassessed. Upon application of HKFRS 16, the Group applies the requirements of HKFRS 15 to assess whether sales and leaseback transaction constitutes a sale. During the period, no sales and leaseback transactions occurred.

The following table summarises the impact of transition to HKFRS 16 on retained profits at 1 January 2019.

	Notes	**Impact of adopting HKFRS 16 at 1 January 2019** ***RMB'000***
Retained profits		
Recognition of right-of-use assets relating to operating leases		1,480,885
Recognition of lease liabilities relating to operating leases		(1,801,003)
The impact arising from prepayments for rental expense	*(e)*	(8,540)
The impact arising from accrued lease payments relating to operating leases	*(f)*	325,075
The impact arising from capitalised lease expenses	*(g)*	(1,599)
Impact before tax		(5,182)
Tax effects		(530)
Impact at 1 January 2019		(5,712)

The following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Notes	Carrying amounts previously reported at 31 December 2018	Adjustments	Carrying amounts under HKFRS 16 at 1 January 2019
		RMB'000	*RMB'000*	***RMB'000***
Non-current Assets				
Right-of-use assets		–	1,696,111	**1,696,111**
Other intangible assets	*(a)*	289,502	(215,226)	**74,276**
Deferred tax assets		65,869	48	**65,917**
Other non-current assets	*(h)*	97,816	50,000	**147,816**
Current Assets				
Prepayments, deposits and other receivables	*(e) (h)*	390,106	(58,540)	**331,566**
Contract cost	*(g)*	53,023	(1,599)	**51,424**
Current Liabilities				
Trade and other payables	*(f)*	8,895,667	(325,075)	**8,570,592**
Lease liabilities		–	712,208	**712,208**
Non-current liabilities				
Deferred tax liabilities		286,560	578	**287,138**
Lease liabilities		–	1,088,795	**1,088,795**
Equity				
Reserves		29,758,284	(5,712)	**29,752,572**

(e) Upon application of HKFRS 16, prepayments for rental expense under operating leases previously included in prepayments, deposits and other receivables of RMB8,540,000 were reversed at transition and the Group adjusted retained profits accordingly.

(f) These relate to accrued lease payments of certain operating leases in which the rentals increase progressively as agreed in the contracts. The carrying amount of RMB325,075,000 included in accounts payable as at 1 January 2019 was reversed at transition and the Group adjusted retained profits accordingly.

(g) Upon application of HKFRS 16, the operating leases expenses capitalised to contract costs relating to existing leases contracts at 1 January 2019 were decreased with an amount of RMB1,599,000.

(h) Upon application of HKFRS 16, the prepaid lease payments of RMB50,000,000 relating to existing leases contract that entered into but not commenced at 1 January 2019 were reclassified to other non-current assets.

Note: For the purpose of reporting cash flows from operating activities under indirect method for the six months ended 30 June 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

3.2 Impacts and changes in accounting policies of application on HK(IFRIC)-Int 23 *Uncertainty over Income Tax Treatments*

HK(IFRIC)-Int 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires the Group to determine whether uncertain tax positions are assessed separately or as a group and assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by individual group entities in their respective income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

The Group applied this interpretation retrospectively with the cumulative effect of initially applying the interpretation recognised at the date of initial application, 1 January 2019, without restating comparatives. The interpretation have no material impact on the Group's condensed consolidated financial statements.

4. OPERATING SEGMENT INFORMATION

The Group is organised into four business units based on the internal structure and management strategy, which is also the basis of information reported to the Group's chief operating decision maker (i.e. the executive directors of the Company) for the purpose of making strategic decisions. The Group has four reportable and 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, the sale of well chemical materials and well workovers, and seismic data processing services;

(c) the marine support 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;

(d) the geophysical acquisition and surveying services segment is engaged in the provision of offshore seismic data collection and marine surveying.

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 result, 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, net, investment income and (losses)/gains arising from financial assets at fair value through profit or loss ("FVTPL") 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), pledged deposits, time deposits with maturity of over three months, certain other receivables, certain other current assets, financial assets at FVTPL 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, loan from a related party, 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 and transfers are transacted with reference to the selling prices used for sales made to third parties at the prevailing market prices.

Six months ended 30 June 2019 (Unaudited)

	Drilling services *RMB'000*	Well services *RMB'000*	Marine support services *RMB'000*	Geophysical acquisition and surveying services *RMB'000*	Total *RMB'000*
Revenue:					
Sales to external customers, net of sale surtaxes	4,489,247	6,624,182	1,440,229	998,454	13,552,112
Sales surtaxes	2,645	6,371	968	703	10,687
Sales to external customers, before net of sales surtaxes	4,491,892	6,630,553	1,441,197	999,157	13,562,799
Intersegment sales	92,777	35,340	71,884	–	200,001
Segment revenue	4,584,669	6,665,893	1,513,081	999,157	13,762,800
Elimination	(92,777)	(35,340)	(71,884)	–	(200,001)
Group revenue	4,491,892	6,630,553	1,441,197	999,157	13,562,799
Segment results	324,220	1,279,934	134,376	41,445	1,779,975
Reconciliation:					
Exchange gain, net					46,731
Finance costs					(590,217)
Interest income					21,190
Investment income					173,884
Loss arising from financial assets at FVTPL					(49,441)
Profit before tax					1,382,122
Income tax expense					395,767
As at 30 June 2019 (Unaudited)					
Segment assets	45,354,643	11,377,887	8,380,943	4,869,411	69,982,884
Unallocated assets					5,440,174
Total assets					75,423,058
Segment liabilities	4,862,530	5,388,581	1,380,153	1,059,079	12,690,343
Unallocated liabilities					27,455,089
Total liabilities					40,145,432

Six months ended 30 June 2018 (Unaudited)

	Drilling services *RMB'000*	Well services *RMB'000*	Marine support services *RMB'000*	Geophysical acquisition and surveying services *RMB'000*	Total *RMB'000*
Revenue:					
Sales to external customers, net of sale surtaxes	3,003,493	3,396,570	1,242,095	485,718	8,127,876
Sales surtaxes	2,755	6,949	1,557	871	12,132
Sales to external customers, before net of sales surtaxes	3,006,248	3,403,519	1,243,652	486,589	8,140,008
Intersegment sales	33,895	41,994	35,470	–	111,359
Segment revenue	3,040,143	3,445,513	1,279,122	486,589	8,251,367
Elimination	(33,895)	(41,994)	(35,470)	–	(111,359)
Group revenue	3,006,248	3,403,519	1,243,652	486,589	8,140,008
Segment results	(437,123)	575,768	88,043	(170,033)	56,655
Reconciliation:					
Exchange gain, net					88,861
Finance costs					(518,023)
Interest income					47,831
Investment income					93,658
Gains arising from financial assets at FVTPL					**24,375**
Loss before tax					(206,643)
Income tax expense					156,619
As at 31 December 2018 (Audited)					
Segment assets	44,231,273	8,033,369	7,693,239	4,329,946	64,287,827
Unallocated assets					10,399,177
Total assets					74,687,004
Segment liabilities	4,304,514	4,625,860	1,112,851	1,153,677	11,196,902
Unallocated liabilities					28,812,696
Total liabilities					40,009,598

Geographical information

The Group mainly engages in the provision of drilling services, well services, marine support services and geophysical acquisition and surveying services principally in Mainland China. Activities outside Mainland China are mainly conducted in Indonesia, Mexico and Norway.

In determining the Group's geographical information, revenue is presented below based on the location of operations.

The following table presents revenue information for the Group's geographical areas for six months ended 30 June 2019 and 2018.

Six months ended 30 June 2019 (Unaudited)	**Domestic**	**International**		**Total**
		North Sea	**Others**	
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Segment revenue:				
Sales to external customers	**10,539,580**	**669,837**	**2,353,382**	**13,562,799**
Less: Sales surtaxes	**(10,687)**	**–**	**–**	**(10,687)**
Sales to external customers, net of sales surtaxes	**10,528,893**	**669,837**	**2,353,382**	**13,552,112**

Six months ended 30 June 2018 (Unaudited)	Domestic	International		Total
		North Sea	Others	
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue:				
Sales to external customers	6,150,208	703,093	1,286,707	8,140,008
Less: Sales surtaxes	(12,132)	–	–	(12,132)
Sales to external customers, net of sales surtaxes	6,138,076	703,093	1,286,707	8,127,876

Information about a major customer

Revenue from transactions with a major customer, CNOOC Limited and its subsidiaries (the "CNOOC Limited Group"), including sales to a group of entities which are known to be under common control of CNOOC Limited, accounted for 80% (six months ended 30 June 2018: 73%) of the total sales of the Group for six months ended 30 June 2019.

5. REVENUE

(A) For the six month ended 30 June 2019 (Unaudited)

	For the six month ended 30 June 2019				
	Drilling services *RMB'000*	**Well services** *RMB'000*	**Marine support services** *RMB'000*	**Geophysical acquisition and surveying services** *RMB'000*	**Total** *RMB'000*
Timing of revenue recognition					
A point in time	**–**	**26,359**	**–**	**2,166**	**28,525**
Over time	**4,491,892**	**6,604,194**	**1,441,197**	**996,991**	**13,534,274**
Total	**4,491,892**	**6,630,553**	**1,441,197**	**999,157**	**13,562,799**

The Group's most contracts with customers generally provide for payment on a day rate or operation volume basis. The Group elected to apply the practical expedient by recognising revenue in the amount to which the Group has right to invoice.

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

	For the six month ended 30 June 2019		
	Segment revenue *RMB'000*	**Adjustments and eliminations** *RMB'000*	**Consolidated** *RMB'000*
Drilling services	**4,584,669**	**(92,777)**	**4,491,892**
Well services	**6,665,893**	**(35,340)**	**6,630,553**
Marine support services	**1,513,081**	**(71,884)**	**1,441,197**
Geophysical acquisition and surveying services	**999,157**	**–**	**999,157**
Revenue from contracts with customers	**13,762,800**	**(200,001)**	**13,562,799**

(B) For the six month ended 30 June 2018 (Unaudited)

	For the six month ended 30 June 2018				
	Drilling services *RMB'000*	Well services *RMB'000*	Marine support services *RMB'000*	Geophysical acquisition and surveying services *RMB'000*	Total *RMB'000*
Timing of revenue recognition					
A point in time	–	15,003	–	–	15,003
Over time	3,006,248	3,388,516	1,243,652	486,589	8,125,005
Total	3,006,248	3,403,519	1,243,652	486,589	8,140,008

Set out below is the reconciliation of the revenue from contracts with customers with the amounts disclosed in the segment information.

	For the six month ended 30 June 2018		
	Segment revenue *RMB'000*	Adjustments and eliminations *RMB'000*	Consolidated *RMB'000*
Drilling services	3,040,143	(33,895)	3,006,248
Well services	3,445,513	(41,994)	3,403,519
Marine support services	1,279,122	(35,470)	1,243,652
Geophysical acquisition and surveying services	486,589	–	486,589
Revenue from contracts with customers	8,251,367	(111,359)	8,140,008

6. PROFIT/(LOSS) BEFORE TAX

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

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Gains arising from lease modifications	**74,004**	–
(Loss)/gain on disposal of plant and equipment, net	**(15,030)**	207,313
Gain on disposal of intangible assets	**–**	34,420
Other gains and losses	**58,974**	241,733
Provision for impairment of inventories	**(3,251)**	(3,478)
Income from investments in floating rate corporate wealth management products and liquidity funds related investments	**65,237**	19,984
Income from investments in fixed rate corporate wealth management products, and treasury bond related investments	**108,647**	73,674
Cost of inventories recognised as an expense	**(1,955,456)**	(950,098)

7. INCOME TAX EXPENSE

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.

Under the Corporate Income Tax Law of the PRC (the "CIT"), the statutory tax rate of the Company, subsidiaries and its key joint ventures in Mainland China is 25%.

According to the High-New Technical Enterprise ("HNTE") certificate renewed by the Company in October 2017, the CIT rate of the Company is to be 15% for the period from 2017 to 2019.

List of other corporate income tax rates applicable to the Group's activities:

Countries and regions	Six months ended 30 June 2019	2018
Indonesia	**25%**	25%
Mexico	**30%**	30%
Norway	**22%**	23%
The United Kingdom	**19%**	19%
Iraq	**Withholding tax based on 7% of revenue generated in Iraq**	Withholding tax based on 7% of revenue generated in Iraq
United Arab Emirates	**Not subject to any income tax**	Not subject to any income tax
Singapore	**17%**	17%
The United States of America	**21%**	21%
Canada	**Net federal corporate income tax of 15% and provincial income tax ranging from 10% to 16%, depending on the province and the size of the business**	Net federal corporate income tax of 15% and provincial income tax ranging from 10% to 16%, depending on the province and the size of the business
Malaysia	**24%**	24%
Saudi Arabia	**20%**	20%
Myanmar	**Withholding tax based on 2.5% of revenue generated in Myanmar**	Withholding tax based on 2.5% of revenue generated in Myanmar
Brazil	**34%**	34%
Cameroon	**Withholding tax based on 15% of revenue generated in Cameroon**	Withholding tax based on 15% of revenue generated in Cameroon
New Zealand	**28%**	Not applicable

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

	Six months ended 30 June **2019** ***RMB'000*** **(Unaudited)**	 2018 *RMB'000* (Unaudited)
Overseas income taxes:		
Current	**93,347**	61,760
Deferred	**(5,251)**	(7,095)
PRC corporate income taxes:		
Current	**422,674**	185,644
Deferred	**(183,970)**	(78,157)
Under/(over) provision in prior year	**68,967**	(5,533)
Total tax charge for the period	**395,767**	156,619

A reconciliation of the income tax expense applicable to loss before tax at the statutory rate for Mainland China, where the Company, certain subsidiaries and its key joint ventures 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			
	2019	**%**	2018	%
	RMB'000		*RMB'000*	
	(Unaudited)		(Unaudited)	
Profit/(loss) before tax	**1,382,122**		(206,643)	
Tax at the statutory tax rate of 25% (six months ended 30 June 2018: 25%)	**345,531**	**25.0**	(51,661)	25.0
Tax effect as an HNTE	**(221,075)**	**(16.0)**	(126,194)	61.1
Tax effect of income not subject to tax	**(33,085)**	**(2.4)**	(21,444)	10.4
Tax effect of expense not deductible for tax	**13,310**	**1.0**	13,968	(6.8)
Tax benefit for qualifying research and development expenses	**(34,853)**	**(2.5)**	(20,642)	10.0
Effect of non-taxable profit and different tax rates for overseas subsidiaries	**236,958**	**17.1**	291,220	(140.9)
Tax effect of tax losses and deductible temporary differences unrecognised	**85,721**	**6.2**	62,252	(30.1)
Utilisation of tax losses previously not recognised	**(6,181)**	**(0.4)**	–	–
Under/(over) provision in respect of prior year	**68,967**	**5.0**	(5,533)	2.6
Recognised deductible temporary differences previously not recognised	**(72,065)**	**(5.2)**	(4,805)	2.3
Translation adjustment (a)	**5,123**	**0.4**	1,863	(0.9)
Others	**7,416**	**0.4**	17,595	(8.5)
Total tax charge at the Group's effective tax rate	**395,767**	**28.6**	156,619	(75.8)

(a) The translation adjustment mainly relates to the tax effect of difference between the profit before tax determined on the tax basis in NOK and that determined on the accounting basis of some group companies in Norway in US dollars, the functional currency of these companies.

8. DIVIDENDS PAID AND PROPOSED

During the current interim period, a final dividend of RMB0.07 per ordinary share of the Company comprising 4,771,592,000 ordinary shares existed as at 31 December 2018 (2017: RMB0.06 per ordinary share of the Company comprising 4,771,592,000 ordinary shares existed as at 31 December 2017) 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 RMB334,011,000 (2018: RMB286,296,000).

The board of directors has proposed that no dividend will be declared in respect of the current interim period.

9. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic loss per share attributable to owners of the Company is based on the following data:

	Six months ended 30 June	
	2019	2018
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Profit/(loss)		
Profit/(loss) for the purposes of basic loss per share (profit/(loss) for the period attributable to owners of the Company)	**973,043**	(375,004)

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Number of shares		
Number of ordinary shares for the purpose of basic loss per share	**4,771,592,000**	4,771,592,000

No diluted earnings/(loss) per share is presented for the six-month periods ended 30 June 2019 and 2018 as the Group had no dilutive potential ordinary shares in issue during those periods.

10. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group acquired certain machinery equipment, motor vehicles and drilling rigs with an aggregate cost amounting to approximately RMB610,072,000 (six months ended 30 June 2018: RMB3,481,264,000), of which approximately RMB223,327,000 was transferred from construction in progress (six months ended 30 June 2018: RMB3,354,460,000). Additions of construction in progress amounting to approximately RMB526,674,000 were recognised during the current interim period (six months ended 30 June 2018: RMB361,337,000). Machinery and equipment with an aggregate net carrying amount of RMB15,059,000 (six months ended 30 June 2018: RMB116,535,000) were disposed during the current interim period, resulting in a loss on disposal of RMB15,030,000 (six months ended 30 June 2018: gain on disposal of RMB207,313,000).

Out of the total finance costs incurred, no finance costs (six months ended 30 June 2018: RMB2,721,000) was capitalised in property, plant and equipment in the current interim period.

During the current interim period, due to slow recovery of oil price, the Directors carried out the review of the recoverable amounts of certain property, plant and equipment as there were impairment indicators of these assets during the current interim period. Those assets are used in the Group's drilling services segment, marine support services segment and geophysical acquisition and surveying services segment. No impairment loss has been recognised in current interim period.

During the six months ended 30 June 2018, impairment loss of RMB122,962,000 was recognised in respect of the Group's certain plant and machinery. The recoverable amount of the relevant assets, each of which was identified as a cash-generating unit within the drilling services segment, has been determined based on the higher of fair value less costs of disposal and value in use.

The fair value less costs of disposal is arrived at on the basis of valuation carried out by an independent property agent. The fair value of relevant assets are determined based on a variety of valuation methods, including income approach and market approach, and the reasonableness of the assumptions and range of estimates indicated by those valuation methods were also considered by the Group. The income approach is by reference to the projected discounted cash flows over the remaining economic life of relevant assets. The market approach is by reference to the value that would be received from selling the asset in an orderly transaction between market participants at the measurement date. The above estimates of fair value required to use significant unobservable inputs representative of a level 3 fair value measurement, including historical contracted sales prices for similar assets, nonbinding quotes from brokers and/or indicative bids, estimated utilization rates, service prices, cost level and capital requirements.

In assessing value in use, the estimated future cash flows are discounted to their present value. The cash flow projection was based on financial budgets covering a five-year period approved by senior management. The cash flow beyond the five-year period is estimated based on the market trend and by reference to the relevant market trend report. The discount rate applied to the cash flow projection is 8%-8.9% (six months ended 30 June 2018: 8%). The discount rate used is a long-term weighted-average cost of capital, which is based on the management's best estimation of the investment returns that market participants would require for the relevant assets. Other key assumptions for the value in use calculations reflect management's judgments and expectation regarding the past performance of the relevant assets, as well as future industry conditions and operations, including estimated utilization rates, day rates, cost level and capital requirements.

11. GOODWILL

Goodwill was generated in the acquisition of COSL Holding AS in 2008, which was combined into CNA by merger during the year ended 31 December 2016 (collectively referred to as the "CNA"), and was allocated to a group of the drilling services cash-generating units under the drilling services segment for impairment testing. The Group impaired the goodwill in full in 2016.

12. ACCOUNTS RECEIVABLE/NOTES 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 1 year to its trade customers with good trading history in overseas.

The following is an aged analysis of accounts receivable net of allowance for doubtful debts, as at the end of the reporting period, presented based on the invoice dates.

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Outstanding balances aged:		
Within six months	**12,693,377**	7,793,152
Six months to one year	**690,709**	128,266
One to two years	**162,889**	91,835
Over two years	**487**	2,060
	13,547,462	8,015,313

As at 30 June 2019, total notes received amounting to RMB1,000,000 (31 December 2018: RMB208,164,000) are held by the Group for settlement of accounts receivable. All notes received by the Group are with a maturity period of less than one year.

As at 30 June 2019 and 31 December 2018, there were no notes receivable endorsed or discounted by the Group which were still not expired.

13. OTHER CURRENT ASSETS/LIABILITIES AND OTHER NON-CURRENT ASSETS

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Investments in fixed rate corporate wealth management products	**2,843,538**	6,536,532
Value-added tax to be deducted and prepaid	**179,780**	29,122
Value-added tax recoverable	**45,963**	35,581
Other current assets	**3,069,281**	6,601,235
Output value-added tax to be recognised	**(521,151)**	(183,648)
Other current liabilities	**(521,151)**	(183,648)
Deposits paid for the acquisition of property, plant and equipment	**210,559**	24,086
Deposits paid for the addition of right-of-use assets	**80,000**	–
Value-added tax recoverable	**73,991**	33,294
Tax recoverable	**29,369**	40,436
Other non-current assets	**393,919**	97,816

14. TRADE AND OTHER PAYABLES

The aged analysis of trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2019	31 December 2018
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Outstanding balances aged:		
Within one year	**7,084,022**	8,007,466
One to two years	**558,240**	125,212
Two to three years	**97,645**	61,491
Over three years	**111,371**	80,883
	7,851,278	8,275,052

15. LOAN FROM A RELATED PARTY

During the current interim period, the Group obtained a loan of US$150,000,000, equivalent to approximately RMB1,017,120,000, from a fellow subsidiary, which is repayable on demand and carries effective interest rate of LIBOR+0.5% per annum. The proceeds were used to finance CNA's daily operations.

During the six months ended 30 June 2019, the Group did not obtain any new loans from related parties.

16. INTEREST-BEARING BANK BORROWINGS

During the current interim period, the Group repaid bank borrowings of US$42,100,000, equivalent to approximately RMB281,540,000 (six months ended 30 June 2018: US$42,100,000, equivalent to approximately RMB266,451,000) and bank borrowings of RMB9,100,000 (six months ended 30 June 2018:Nil).

No bank borrowings obtained during the six months ended 30 June 2019 and 2018, respectively.

The weighted average effective interest rate of bank borrowings for the six months ended 30 June 2019 was 4.65% per annum (six months ended 30 June 2018: 3.29% per annum) and the borrowings are repayable in instalments over a period of 1 to 17 years.

17. LONG TERM BONDS

	Year of maturity	**30 June 2019** *RMB'000* **(Unaudited)**	31 December 2018 *RMB'000* (Audited)
Corporate bonds (a)	2022	**1,508,400**	1,542,000
2016 Corporate Bonds			
(Type I of the First Tranche Issue as defined below) (b)	2019	**–**	2,037,117
(Type II of the First Tranche Issue as defined below) (b)	2026	**3,009,053**	3,070,343
(Type I of the Second Tranche Issue as defined below) (b)	2019	**2,144,242**	2,111,430
(Type II of the Second Tranche Issue as defined below) (b)	2021	**2,965,099**	2,916,132
Senior unsecured USD bonds (c)	2022	**6,925,820**	6,910,254
Guaranteed medium term notes			
First Drawdown Note (d)	2020	**3,483,120**	3,474,852
Second Drawdown Note (d)	2025	**3,484,419**	3,477,285
		23,520,153	25,539,413
Current		**2,419,005**	4,469,521
Non-current		**21,101,148**	21,069,892
		23,520,153	25,539,413

(a) On 18 May 2007, the Group issued 15-year corporate bonds, with a nominal value of RMB100 per bond, amounting to RMB1,500,000,000. The bonds carry effective interest rate of 4.48% per annum (2018: 4.48% per annum), and the redemption or maturity date is 14 May 2022.

(b) On 26 May 2016, the Group issued its first tranche (the "First Tranche Issue") of domestic corporate bonds ("2016 Corporate Bonds") with an aggregate amount of RMB5,000,000,000. The First Tranche Issue includes two types of bonds. The first type of bonds with a principal amount of RMB2,000,000,000 (the "Type I of the First Tranche Issue") carries effective interest rate of 3.19% per annum and the maturity date is 27 May 2019. The second type of bonds with a principal amount of RMB3,000,000,000 (the "Type II of the First Tranche Issue") carries effective interest rate of 4.12% per annum and the maturity date is 27 May 2026. During the current interim period, the Group repaid Type I of the First Tranche Issue of RMB 2,000,000,000.

On 21 October 2016, the Group issued its second tranche (the "Second Tranche Issue") of 2016 Corporate Bonds with an aggregate amount of RMB5,000,000,000. The Second Tranche Issue includes two types of bonds. The first type of bonds with a principal amount of RMB2,100,000,000 (the "Type I of the Second Tranche Issue") and is repayable on 24 October 2021. The Group has the right to unadjust or adjust the coupon rate for the fourth and fifth year at the end of the third year on 24 October 2019 by giving a notice to the bondholders. The bondholders may accordingly at their option to require the Group to redeem the Type I of the Second Tranche Issue at a redemption price equal to 100% of the principal plus accrued and unpaid interest to such redemption date. The remaining bonds will be subject to the interest rate offered by the Group at the end of the third year until the maturity date. The effective interest rate of the Type I of the Second Tranche Issue is 3.13% per annum. The second type of bonds with a principal amount of RMB2,900,000,000 (the "Type II of the Second Tranche Issue") is repayable on 24 October 2023. The Group has the right to unadjust or adjust the coupon rate for the sixth and seventh year at the end of the fifth year on 24 October 2021 by giving a notice to the bondholders. The bondholders may accordingly at their option to require the Group to redeem the Type II of the Second Tranche Issue at a redemption price equal to 100% of the principal plus accrued and unpaid interest to such redemption date. The remaining bonds will be subject to the interest rate offered by the Group at the end of the fifth year until the maturity date. The effective interest rate of the Type II of the Second Tranche Issue is 3.38% per annum.

(c) On 6 September 2012, COSL Finance (BVI) Limited, a subsidiary of the Company, issued 10-year senior unsecured bonds, with a US$1,000,000,000 principal amount. The redemption or maturity date is 6 September 2022. The effective interest rate of the senior unsecured bonds is 3.38% per annum.

(d) On 20 July 2015, COSL Singapore Capital Ltd., a wholly-owned subsidiary of the Company, established the Euro medium term note programme (the "EMTN Programme"). Under the EMTN Programme, COSL Singapore Capital Ltd. may issue drawdown notes in tranches up to an aggregate principal amount of US$3,500,000,000.

On 30 July 2015, COSL Singapore Capital Ltd. issued the first tranche of drawdown note under the EMTN Programme with nominal amount of US$500,000,000 (the "First Drawdown Note"). The effective interest rate was 3.61% per annum after taking into consideration of initial transaction costs. The principal of the First Drawdown Note will be repaid on 30 July 2020. On 30 July 2015, COSL Singapore Capital Ltd. issued the second tranche of drawdown note under the EMTN Programme with nominal amount of US$500,000,000 (the "Second Drawdown Note"). The effective interest rate is 4.58% per annum after taking into consideration of initial transaction costs. The principal of the Second Drawdown Note will be repaid on 30 July 2025.

18. REVIEW OF INTERIM RESULTS

The interim results for the six months ended 30 June 2019 have been reviewed with no disagreement by the Audit Committee of the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

INDUSTRY OVERVIEW

In the first half of 2019, the international oil price fluctuated sharply, with a volatility of nearly US$20 per barrel. Compared with the same period of 2018, global oil and gas companies' capital expenditure has grown and bidding activities have increased, especially the demand for exploration and development of the China offshore increased significantly. Oilfield services market has recovered: in the large equipment segment, the utilisation rate continued to increase, but the overall surplus of equipment without fully alleviated. The operation volume of the technical segment continued to increase and the operation status of the integrated oilfield service company improved.

BUSINESS REVIEW

In the first half of 2019, throughout the global oil service market, where challenges and opportunities coexist. International oil prices fluctuated in a wide range. The international geopolitical situation was complicated and economic growth rate was weak, while the crude oil demand was weakened. At the same time, according to joint research by domestic oil and gas enterprises organised by national ministries and commissions, a strategic action plan for the next seven years was formed. This will drive a continuous rise of domestic upstream exploration and development capital expenditure, and is expected to usher in a long-term economic cycle. The Group grasped at opportunities to restore domestic exploration and development demand. It strengthened its "technological and international development" strategy, followed a sustainable mode of operation, focused on improving profitability and practiced low carbon environmental protection. The Group achieved positive business results in domestic and international market development and technological development. Through these efforts, the Group's jack-up and semi-submersible drilling rigs and the operation volume and utilisation rates for vessels continued to increase in the first half of the year. The technology segment's operation volume and revenue was greatly improved. In the first half of 2019, the Group's revenue was RMB13,552.1 million, representing an increase of RMB5,424.2 million compared with the same period of last year. Net profit was RMB986.4 million, compared with RMB-363.3 million in the same period of last year, representing a year-on-year turnaround and achieving substantial growth.

Drilling Services Segment

Revenue for the drilling services segment in the first half of the year was RMB4,489.2 million, representing a 49.5% increase compared with RMB3,003.5 million from the same period of last year.

In the first half of 2019, the upstream company increased its investment in exploration and development capital. Domestic operation demand is further increased and the industry recovered slowly. The Group seized market opportunities, optimized resource allocation and rationally deployed resources. On the one hand, the Group added leased rig to expand production capacity and on the other hand, two rigs were deployed to return to China for operation. At the same time, due to the Group tightening up its cost management and control and risk management and the ability of continue market development, the Group successfully obtained multiple service projects. In the first half of the year, "COSLBoss" entered New Zealand and began the first high-end drilling service project for jack-up drilling rigs. The module rig “COSL1” continued to install production trees in Mexico after its removals, and its high-quality and efficient operation was greatly appreciated by the employer. “COSLPower” was awarded a three-year drilling service contract in Indonesia. The newly leased “Exploration IV” began the first joint project operation. “NH10” officially entered the Far East to carry out drilling tasks. “HYSY932” refreshed the Bohai oilfield coring and exploration well record.

As of the end of June 2019, the Group operated and managed a total of 52 drilling rigs (including 38 jack-up drilling rigs and 14 semi-submersible drilling rigs). Of these, 32 were operating in coastal areas of China and 10 in international regions such as Norway, England, Mexico and Indonesia, while nine were on standby and one in towage. During the first half of the year, operating days for the Group’s drilling rigs totalled 6,913, representing an increase of 1,747 days or 33.8% compared with the same period of last year. The calendar day utilisation rate of drilling rigs was 76.6%, representing an increase of 12.5 percentage points compared with the same period of last year due to the decrease in standby days.

Operation details for the Group’s jack-up drilling rigs and semi-submersible drilling rigs during the first half of 2019:

	For the six months ended 30 June		
Drilling Services	**2019**	2018	Change
Operating days (day)	**6,913**	5,166	33.8%
Jack-up drilling rigs	**5,177**	3,893	33.0%
Semi-submersible drilling rigs	**1,736**	1,273	36.4%
Available day utilisation rate	**80.0%**	66.9%	Up 13.1 percentage points
Jack-up drilling rigs	**81.8%**	65.9%	Up 15.9 percentage points
Semi-submersible drilling rigs	**74.9%**	70.4%	Up 4.5 percentage points
Calendar day utilisation rate	**76.6%**	64.1%	Up 12.5 percentage points
Jack-up drilling rigs	**78.9%**	64.6%	Up 14.3 percentage points
Semi-submersible drilling rigs	**70.4%**	62.5%	Up 7.9 percentage points

As of 30 June 2019, operating days for the Group’s jack-up drilling rigs totalled 5,177, representing an increase of 1,284 days compared with the same period of last year. Operating days for semi-submersible drilling rigs amounted to 1,736, representing an increase of 463 days compared with the same period of last year. This was mainly due to increased operating demand and the Group’s new leased equipment during the period.

During the first half of 2019, the average daily revenue for the Group's drilling rigs increased in comparison with the same period of last year. Details are as follows:

Average daily revenue (US$10,000 per day)	For the six months ended 30 June **2019**	2018	Change	Percentage change
Jack-up drilling rigs	**6.8**	5.7	1.1	19.3%
Semi-submersible drilling rigs	**15.1**	14.6	0.5	3.4%
Subtotal of drilling rigs	**8.7**	7.9	0.8	10.1%

Notes: (1) Average daily revenue = revenue/operating days;
(2) USD/RMB exchange rate was 1:6.8747 on 28 June 2019 and 1:6.6166 on 29 June 2018, respectively.

Well Services Segment

In the first half of the year, the Group had a significant increase in the operation volume of main lines in the well services segment. Its overall revenue was RMB6,624.2 million, representing an increase of 95.0% compared with RMB3,396.6 million of the same period of last year.

In the first half of the year, the Group continued to increase the speed of its technological development, invest vigorously in scientific and technological innovation and serialization of technology products. Industrialisation of technology products was steadily accelerated, and technology revenue and profitability were greatly improved. Notably, the Group achieved a number of scientific research results through its innovation technology development mechanism. Its self-developed EGPS well testing data analysis software obtained the DLIS document ID assigned by the international organisation Energistics, making the Group the first oil service enterprises in China to have done so. The Group also developed a variety of key admixtures with independent intellectual property rights, such New Anti-high Temperature Isolation Agent, High Temperature Suspension Stabiliser and Liquid Reducer, which enabled material breakthroughs in the two key technologies: high pressure and high temperature and deep water, in term of material. After the "INP and picture" trademark for the Logging While Drilling Tool was approved and registered by The Chinese Trademark Office, the Group obtained the trademark right. Applications for nine invention patents, such as "Shear, Cut and Valve Mud Pulse Generator Working System and Its Working Mode" and "Connection Structure Formed By Data Rod, Drill Collar and Internal Short Joint, and Logging While Drilling" were granted by the State Intellectual Property Office. The new variable density perforation technology also realised its initial application.

In the first half of the year, the well service business broke through with the application of various technical achievements and won wide recognition among customers in the international market. The Group completed the first far-detecting sonic operation for offshore wind power projects and applied high-end well logging technology for geological exploration in new energy and other fields. The new ultrasonic Lamb wave logging tool independently developed by the Group successfully completed its first drilling operation, with the well logging effect being fully verified and highly praised by users. The large-scale "Snake" system independently researched and developed by the Group completed a highly challenging 3D horizontal well landing operation, showing that its inclining ability has reached international first-class level. Film-filled polymer particle filling process technology was applied for the first time in offshore oilfields, and the gravel packing operation for super-large displacement wells was successfully completed. The multifunctional ultrasonic imaging logging tool successfully completed leakage and well testing in terrestrial oilfield high temperature wells. The Group received a two-year well cementing and repairing service contract in Indonesia. The Group and The Thai Oil Co. renewed their offshore well cementing contract in Myanmar. The Group awarded a three-year land conventional well cementing and increased well productivity service contract in Indonesia. The Group was also awarded a three-year wireline logging service contract and a two-year wire service contract in Indonesia, and was awarded wireline logging and perforating services for Myanmar offshore projects, representing the return of logging services to the Myanmar market. The Group obtained a cased hole logging service project for local customers in Canada. The Group obtained a two-year wireline logging service contract in Mexico and achieved a substantial breakthrough for technical services in the Mexican market.

Marine Support Services Segment

In the first half of 2019, in comparison with the same period of last year, revenue from the Group's marine support services business increased by 15.9% to RMB1,440.2 million, of which RMB391.4 million was revenue from chartered vessels.

In the first half of the year, the Group's marine support services segment benefited from the growth of mining effect, actively improved operational efficiency, followed safety management concepts, and formulated a number of management and control measures to enhance the safety awareness of crew members and contractors, to provide a strong guarantee for production safety. Through effective technological innovation and enhanced skills of workers, the Group reduced equipment failure rates, improved equipment operation and maintenance capabilities and improved service quality. In the face of fierce market competition, the marine support services segment effectively used resources to ensure an absolute advantage in the domestic market, open up the international market and implement green development at the same time. The Group's two new 5,000 horsepower LNG power guard supply vessels officially went into operation in Dalian.

As of 30 June 2019, operating days for self-owned vessels from the Group's marine support services business amounted to 15,438, representing an increase of 538 days compared with the same period of last year. The calendar day utilisation rate increased by 5.5 percentage points to 94.8% compared with the same period of last year, boosted by increases of the operation volume and utilisation rate of AHTS vessels, platform supply vessels and multipurpose vessels. In addition, due to increased market demand for the period, the number of chartered vessels increased and the operation volume also increased, with 6,805 days of operation, representing an increase of 45.8% compared with the same period of last year. Details are in the following table:

	For the six months ended 30 June		
Marine Support Services (self-owned vessels)	**2019**	2018	Percentage change
Operating days (day)	**15,438**	14,900	3.6%
Standby vessels	**6,642**	7,071	(6.1%)
AHTS vessels	**4,994**	4,630	7.9%
Platform supply vessels	**2,432**	2,165	12.3%
Multipurpose vessels	**687**	314	118.8%
Workover support barges	**683**	720	(5.1%)

Geophysical Acquisition and Surveying Services Segment

Revenue for the Group's geophysical acquisition and surveying services segment was RMB998.5 million for the first half of the year, representing an increase of RMB512.8 million or 105.6% compared with the same period of last year. The increase was mainly due to increases in revenue from the surveying, data acquisition and submarine cable businesses during the period.

During the first half of 2019, the geophysical acquisition and surveying services segment continued to strengthen its development of overseas markets. The Group obtained 2D acquisition contracts in Canada and Namibia. The Group's outstanding performance in international projects such as Brazil and Canada has been cited by customers. At the same time, in an environment of increased investment in exploration and development in China, the Group strove for breakthroughs in domestic production capacity and carrying out the first domestic marine geophysical exploration on seismic acquisition using three vessels with random seismic source, broadband and wide-azimuth equipment.

During the first half of the year, the operation volume of the Group's 2D acquisition business was 15,404 km. Due to the conversion of the working area across the international sea area, the operation volume of the 2D acquisition business decreased compared with the same period of last year. The operation volume of 3D acquisition was 17,718 km^2, representing an increase of 11.9% compared with same period of last year. This was due to the recovery of market and close connection between working area. The submarine cable business led an increase in chartered equipment due to the growth of customer demand, with an operation volume of 702 km^2, representing an increase of 146.3%. Details are as follows:

	For the six months ended 30 June		
Geophysical Acquisition and Surveying Services	**2019**	2018	Percentage change
2D			
Acquisition (km)	**15,404**	16,091	(4.3%)
of which: multi-client acquisition (km)	**2,700**	16,091	(83.2%)
3D			
Acquisition (km^2)	**17,718**	15,836	11.9%
of which: multi-client acquisition (km^2)	**4,189**	5,593	(25.1%)
submarine cable (km^2)	**702**	285	146.3%

FINANCIAL REVIEW

1. Analysis of condensed consolidated statement of profit or loss

1.1 Revenue

In the first half of 2019, operation volume of the main business lines of four major business segments of the Group increased to different extent, revenue increased by RMB5,424.2 million, or 66.7% as compared with the same period of last year. Details of analysis are as follows:

Revenue of each of the business segments in the first half of 2019:

Unit: RMB million	**For the six months ended 30 June**			
Business segments	**2019**	2018	Change	Percentage change
Drilling services	**4,489.2**	3,003.5	1,485.7	49.5%
Well services	**6,624.2**	3,396.6	3,227.6	95.0%
Marine support services	**1,440.2**	1,242.1	198.1	15.9%
Geophysical acquisition and surveying services	**998.5**	485.7	512.8	105.6%
Total	**13,552.1**	8,127.9	5,424.2	66.7%

- Revenue of drilling services business increased by 49.5% over the same period of last year. The major reason was that both utilization rate and operation volume of drilling rigs increased.

- Revenue of well services business increased by 95.0% over the same period of last year, which was mainly due to the significant increase in operation volume of each business lines.

- Revenue of marine support services business increased by 15.9% over the same period of last year, mainly due to the operation volume of self-owned vessels and chartered vessels increased during the period.

- Revenue of geophysical acquisition and surveying services business increased by 105.6% as compared with the same period of last year, mainly due to the recovery of market demand during the period and the increase in revenue from the surveying, data acquisition and submarine cable businesses during the period.

1.2 Operating expenses

In the first half of 2019, the operating expenses of the Group amounted to RMB11,981.9 million, representing an increase of RMB3,512.9 million or 41.5% from RMB8,469.0 million for the same period of last year.

The table below shows the breakdown of operating expenses of the Group in the first half of 2019:

Unit: RMB million	**For the six months ended 30 June**			
	2019	2018	Change	Percentage change
Depreciation of property, plant and equipment and amortization of intangible assets	**2,167.2**	2,039.0	128.2	6.3%
Depreciation of the right-of-use assets	**314.7**	–	314.7	100.0%
Employee compensation costs	**2,651.7**	2,030.6	621.1	30.6%
Repair and maintenance costs	**171.2**	141.8	29.4	20.7%
Consumption of supplies, materials, fuel, services and others	**2,986.9**	1,789.2	1,197.7	66.9%
Subcontracting expenses	**2,643.9**	1,349.2	1,294.7	96.0%
Lease expenses	**557.3**	513.4	43.9	8.6%
Impairment of property, plant and equipment	–	123.0	(123.0)	(100.0%)
Impairment losses under expected credit loss model, net of reversal	**(2.5)**	0.1	(2.6)	(2,600.0%)
Other operating expenses	**491.5**	482.7	8.8	1.8%
Total operating expenses	**11,981.9**	8,469.0	3,512.9	41.5%

Depreciation of property, plant and equipment and amortization of intangible assets for the period increased RMB128.2 million as compared with the same period of last year, mainly due to increase in equipment for the period.

The Group added depreciation of the right-of-use asset for the period amounting to RMB314.7 million with application of HKFRS 16.

Affected by an increase in equipment and operation volume, employee compensation costs were RMB621.1 million higher as compared with the same period of last year.

Repair and maintenance costs for the period increased RMB29.4 million as compared with the same period of last year, mainly due to increases in the repair and maintenance days of vessels and drilling rigs.

Consumption of supplies, materials, fuel, services and others for the period increased RMB1,197.7 million as compared with the same period of last year, mainly due to an increase in operation volume for the period, an increase in demand for materials consumption and rising raw material prices.

Subcontracting expenses for the period increased RMB1,294.7 million as compared with the same period of last year, mainly due to recovery of the market and an increase in subcontracting expenses caused by an increase in demand for work.

Due to the increase in demand for work, lease expenses for the period increased RMB43.9 million as compared with the same period of last year.

The table below shows the operating expenses of each of the business segments in the first half of 2019:

Unit: RMB million	**For the six months ended 30 June**			
Business segments	**2019**	2018	Change	Percentage change
Drilling services	**4,256.5**	3,685.4	571.1	15.5%
Well services	**5,437.9**	2,926.6	2,511.3	85.8%
Marine support services	**1,301.9**	1,166.0	135.9	11.7%
Geophysical acquisition and surveying services	**985.6**	691.0	294.6	42.6%
Total	**11,981.9**	8,469.0	3,512.9	41.5%

1.3 Profit/(loss) from operations

The profit from operations of the Group during the first half of 2019 amounted to RMB1,601.1 million, representing an increase of RMB1,840.9 million as compared with the loss from operations amounting for RMB239.8 million for the same period of last year.

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

Unit: RMB million **Business segments**	**For the six months ended 30 June** **2019**	 2018	 Change
Drilling services	**252.4**	(664.7)	917.1
Well services	**1,189.7**	518.9	670.8
Marine support services	**140.7**	88.7	52.0
Geophysical acquisition and surveying services	**18.3**	(182.7)	201.0
Total	**1,601.1**	(239.8)	1,840.9

1.4 Financial expenses, net

In the first half of 2019, the net financial expenses of the Group were RMB522.3 million, representing an increase of RMB141.0 million or 37.0% as compared to RMB381.3 million for the same period of last year, mainly due to the increase in finance costs by RMB72.2 million and decrease in exchange gain by RMB42.1 million.

1.5 Investment income

In the first half of 2019, investment income of the Group amounted to RMB173.9 million, representing an increase of RMB80.2 million or 85.6% from RMB93.7 million for the same period of last year, mainly due to the increase in the income from wealth management products and liquidity funds.

1.6 Gains arising from financial assets at fair value through profit or loss

In the first half of 2019, gains arising from financial assets at fair value was RMB-49.4 million, representing a decrease of RMB73.8 million as compared to RMB24.4 million for the same period of last year, mainly due to redemption of liquidity funds and maturity of floating income wealth management products during the period.

1.7 Share of profits of joint ventures, net of tax

In the first half of 2019, the Group's share of profits of joint ventures amounted to RMB119.9 million, representing an increase of RMB65.2 million as compared with RMB54.7 million for the same period of last year, mainly due to the increase in profits of joint ventures for the period.

1.8 Other gains and losses

There was no significant net gains from disposal of non-current assets in the first half of 2019. The net gain from disposal of non-current assets in the same period of last year was RMB241.7 million.

1.9 Income tax

In the first half of 2019, the income tax expense of the Group was RMB395.8 million, representing an increase of RMB239.2 million as compared with RMB156.6 million for the same period of last year, mainly due to profits of the Company increased during the period.

1.10 Profit for the period

In the first half of 2019, profit of the Group was RMB986.4 million as compared with RMB-363.3 million for the same period of last year.

1.11 Basic earnings per share

In the first half of 2019, the Group's basic earnings per share was RMB20.39 cents as compared with basic loss per share of RMB7.86 cents for the same period of last year.

2. Analysis on condensed consolidated statement of financial position

As of 30 June 2019, total assets of the Group amounted to RMB75,423.1 million, representing an increase of RMB736.1 million or 1.0% as compared with RMB74,687.0 million as at the end of 2018. Total liabilities were RMB40,145.4 million, representing an increase of RMB135.8 million or 0.3% as compared with RMB40,009.6 million as at the end of 2018. Shareholders' equity was RMB35,277.6 million, representing an increase of RMB600.2 million or 1.7% as compared with RMB34,677.4 million as at the end of 2018.

An analysis of significant changes in account items on the condensed consolidated statement of financial position is as follows:

Unit: RMB million

Items	**30 June 2019**	31 December 2018	Percentage change	Reasons
Right-of-use assets	**1,280.4**	–	100.0%	The Group recognised right-of-use assets with application of HKFRS 16.
Other intangible assets	**58.4**	289.5	(79.8%)	Land use rights were reclassified to right-of-use assets with application of HKFRS 16.
Multi-client database	**225.7**	139.7	61.6%	Mainly due to the increase in multi-client database development expenditure during the period.
Other non-current assets	**393.9**	97.8	302.8%	Due to the increase in deposits paid for the acquisition of property, plant and equipment.
Accounts receivable	**13,547.5**	8,015.3	69.0%	With the recovery of the industry, operating revenue increased and the accounts receivable for the period rose.
Notes receivable	**1.0**	208.2	(99.5%)	Due to maturity of the notes.
Financial assets at fair value through other comprehensive income	**5.3**	24.7	(78.5%)	Mainly due to the maturity of bank acceptances.
Financial assets at fair value through profit or loss	–	1,749.7	(100.0%)	Redemption of liquidity funds and maturity of floating income wealth management products for the period.
Other current assets	**3,069.3**	6,601.2	(53.5%)	Maturity of fixed income wealth management products for the period.
Time deposits with maturity of over three months	–	145.1	(100.0%)	Recovery of time deposits with maturity over three months during the period.
Notes payable	**6.5**	50.3	(87.1%)	Mainly due to the settlement of payment for the due rig rental service amount.
Salary and bonus payables	**1,317.7**	909.2	44.9%	Mainly due to the increase in employee cost.
Contract liability (current liabilities)	**430.5**	154.4	178.8%	Due to the increase in operation volume, and higher mobilisation expenses.
Loan from a related party	**2,408.9**	1,374.8	75.2%	Increase in loan from a related party of US$150 million for the period.
Long term bonds (current liabilities)	**2,419.0**	4,469.5	(45.9%)	Maturity of part of the first tranche corporate bonds issued in 2016.
Lease liability (current liabilities)	**654.5**	–	100.0%	The Group recognised lease liabilities with application of HKFRS 16.
Other current liabilities	**521.2**	183.6	183.9%	The output value-added tax to be recognized increased during the period.
Deferred income tax liabilities	**97.4**	286.6	(66.0%)	Mainly due to the increase in deductible differences, causing a decrease in deferred income tax liabilities.
Interest-bearing bank borrowings (non-current liabilities)	**495.2**	787.6	(37.1%)	Mainly due to the repayment of interest-bearing bank borrowings.
Lease liability (non-current liabilities)	**621.4**	–	100.0%	The Group recognised lease liabilities with application of HKFRS 16.

3. Analysis of consolidated statement of cash flows

At the beginning of 2019, the Group held cash and cash equivalents of RMB3,169.6 million. Net cash outflows from operating activities for the period amounted to RMB1,132.5 million. Net cash inflows from investing activities were RMB3,988.1 million. Net cash outflows from financing activities were RMB2,563.9 million. The impact of foreign exchange fluctuations on cash was an increase of RMB4.3 million. As at 30 June 2019, the Group's cash and cash equivalents amounted to RMB3,465.6 million.

3.1 Cash flows from operating activities

As of 30 June 2019, the Group's net cash outflows from operating activities amounted to RMB1,132.5 million, the cash outflows from operating activities amounted to RMB849.3 million for the same period of last year, mainly due to the proceeds from the sales of goods and rendering of services.

3.2 Cash flows from investing activities

As of 30 June 2019, the net cash inflows from the Group's investing activities amounted to RMB3,988.1 million, while the net cash outflows from the Group's investing activities amounted to RMB1,992.5 million in the same period of last year. This was mainly due to the cash outflows paid for purchase of property, plant, and equipment and other intangible assets increased by RMB794.6 million as compared with the same period of last year; the cash outflows paid for the purchase of corporate wealth management products, liquidity funds and treasury bond related investments decreased by RMB3,500.0 million as compared with the same period of last year; the cash inflows received from the disposal of corporate wealth management products, liquidity funds and treasury bond related investments increased by RMB3,749.5 million as compared with the same period of last year; the cash outflows for placement of time deposits with maturity over three months decreased by RMB1,010.1 million as compared with the same period of last year; the cash inflows for withdrawal of time deposits with maturity over three months decreased by RMB770.0 million as compared with the same period of last year; and the total decrease of cash inflows from other investing activities was RMB714.4 million.

3.3 Net cash flows from financing activities

As of 30 June 2019, the Group's net cash outflows from financing activities amounted to RMB2,563.9 million, representing an increase of RMB1,416.3 million in cash outflows over the same period of last year. This was mainly due to the cash inflows from increase in loan from a related party for the period increased by RMB1,017.1 million as compared with the same period of last year; the cash outflows from the repayment of long term bonds increased by RMB2,000.0 million as compared with the same period of last year; the cash outflows from the repayment of lease liability increased by RMB354.6 million as compared with the same period of last year; and the increase in cash outflows of other financing activities was RMB78.8 million.

3.4 The impact of foreign exchange rate changes on cash during the period was an increase of RMB4.3 million.

4. Capital Expenditure

In the first half of 2019, the capital expenditure of the Group was RMB1,003.6 million, representing an increase of RMB408.3 million or 68.6% as compared with RMB595.3 million for the same period of last year.

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

Unit: RMB million	**For the six months ended 30 June**			
Business segments	**2019**	2018	Change	Percentage change
Drilling services	**352.5**	326.2	26.3	8.1%
Well services	**225.9**	78.3	147.6	188.5%
Marine support services	**245.2**	37.8	207.4	548.7%
Geophysical acquisition and surveying services	**180.0**	153.0	27.0	17.6%
Total	**1,003.6**	595.3	408.3	68.6%

The capital expenditure of the drilling services segment was mainly used for transformation and renovation of rigs equipment. 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 services segment was mainly used for construction of oilfield standby vessels. The increase in capital expenditure of geophysical acquisition and surveying services business was mainly used as multi-client database development expenditure.

5. Major Subsidiaries

China Oilfield Services (BVI) Limited, COSL Norwegian AS ("CNA") and COSL Singapore Limited are major subsidiaries of the Group engaged in drilling services and well services and relevant business.

As of 30 June 2019, China Oilfield Services (BVI) Limited's total assets amounted to RMB3,215.5 million and equity was RMB412.1 million. China Oilfield Services (BVI) Limited realised revenue of RMB1,441.3 million in the first half of 2019, representing an increase of RMB826.0 million or 134.2% compared with the same period of last year. The major reason for the revenue increase was an increased operation volume. Net profit amounted to RMB133.7 million, representing an increase of RMB103.4 million or 341.3% compared with the same period of last year.

As of 30 June 2019, the total assets of CNA amounted to RMB12,195.5 million and equity was RMB-810.0 million. CNA realised revenue of RMB1,033.6 million in the first half of 2019, representing an increase of RMB49.0 million or 5.0% compared with the same period of last year. Net profit amounted to RMB-224.6 million, representing a decrease in loss of RMB41.4 million compared with the same period of last year.

As of 30 June 2019, COSL Singapore Limited's total assets amounted to RMB27,442.8 million and equity was RMB263.6 million. COSL Singapore Limited realised revenue of RMB835.3 million in the first half of 2019, representing an increase of RMB215.6 million or 34.8% compared with same period of last year. Net profit amounted to RMB-890.7 million, representing an increase in loss of RMB6.5 million compared with same period of last year. COSL DRILLING STRIKE PTE. LTD. and COSL PROSPECTOR PTE. LTD. are major subsidiaries of COSL Singapore Limited.

As of 30 June 2019, the total assets of COSL DRILLING STRIKE PTE. LTD. amounted to RMB4,591.5 million and equity was RMB-2,452.1 million. COSL DRILLING STRIKE PTE. LTD. realised revenue of RMB59.4 million in the first half of 2019, representing a decrease of RMB121.0 million compared with the same period of last year. Net profit amounted to RMB-251.2 million, representing an increase in loss of RMB43.3 million compared with the same period of last year.

As of 30 June 2019, the total assets of COSL PROSPECTOR PTE. LTD. amounted to RMB9,300.6 million and equity was RMB-3,479.2 million. COSL PROSPECTOR PTE. LTD. realised revenue of RMB282.9 million in the first half of 2019, representing an increase of RMB199.3 million or 238.4% compared with same period of last year. Net profit amounted to RMB-621.4 million, representing a decrease in loss of RMB27.0 million compared with same period of last year.

PROSPECTS

Looking forward to the second half of 2019, the international political and economic situation is still facing many risks, which also makes the trend of international oil prices face more uncertainties. According to the estimated data of IHS Markit, an institution for international information services, it is estimated that in 2019, the investment in upstream exploration and development around the world will increase by 15.63% from US$408.3 billion in 2018 to US$472.1 billion in 2019. In the second half of 2019, the capital expenditure of oil and gas companies around the world and the overall size of the oilfield service industry will continue to expand. The recovery of the overall industry and intensified efforts to exploration and development by China and other factors will further bring opportunities for the Company's development.

SUPPLEMENTARY INFORMATION

AUDIT COMMITTEE

The audit committee comprises of three independent non-executive directors of the Company. The audit committee has reviewed the accounting principles and practices adopted by the Group as well as the risk management, internal control and financial reporting matters. The unaudited interim financial report for the six months ended 30 June 2019 has been reviewed by the audit committee.

CORPORATE GOVERNANCE CODE

During the six months ended 30 June 2019, the Company has complied with the code provisions of the Corporate Governance Code as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (hereinafter "Listing Rules").

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

Upon specific enquiry to all directors and supervisors by the Company, the directors and supervisors of the Company have confirmed that they have, for the six months ended 30 June 2019, complied with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules.

PURCHASE, SALE AND REDEMPTION OF OUR LISTED SECURITIES

Neither the Company nor its subsidiaries have purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2019.

PROGRESS OF BUSINESS PLAN

In the first half of 2019, due to the increase in domestic oil and gas development demand and the further expansion of the Company's overseas business, the Company achieved revenue of RMB13.56 billion and net profit of RMB990 million. The operating results improved significantly compared with the same period in 2018. The Company will seize the opportunity of the development of the domestic market. Under the premise of ensuring safe production, the Company will strive to improve operational efficiency, strictly control production costs and expenses and adhere to the strategic goals of "technical and international development". The Company continued to strengthen overseas market development, seek new profit growth points, increase investment in technology research and development, accelerate the cultivation of core technology capabilities and strive to achieve better operating results over the same period through a number of initiatives.

MISCELLANEOUS

In December 2016, COSL Offshore Management AS ("COM", a subsidiary of the Company) as a plaintiff filed a Statement of Claim (the "Claim") against Statoil (Statoil Petroleum AS, hereinafter "Statoil") with Oslo District Court of Norway (the "Court") through WIKBORG, REIN & CO. ADVOKATFIRMA DA, an international law firm based in Norway, as litigation agent. COM has claimed that Statoil's termination of the contract in respect of the drilling rig of COSLInnovator was unlawful and has claimed the contract to be maintained. If the contract cannot be maintained, COM has claimed that Statoil is obliged to cover COM's loss resulting from the unlawful termination, and the exact amount of damages will be subject to subsequent proceedings. Oslo City Court entered into a judgement on 15 May 2018. The judgement may be appealed by either party within one month following the date of legal notice of the judgement was served. Statoil has changed its corporate name to Equinor Petroleum AS (hereinafter "Equinor"). On 14 June 2018, Equinor appealed to Borgarting Court of Appeal being the relevant appeal court in Norway. On 14 June 2018, COM has subsequently filed an independent appeal concerning the cancellation for convenience, since COM is of the view that the cancellation for convenience is unlawful and COM should accordingly be entitled to damages for the loss suffered. For details, please refer to relevant announcements published by the Company on the website of HKSE (http://www. hkex.com.hk) and website of the Company (http://www. cosl. com.cn).

In January 2017, COM, a subsidiary of the Company as a plaintiff filed a Statement of Claim (the "Claim") against Statoil with the Court through WIKBORG REIN ADVOKATFIRMA AS, an international law firm based in Norway, as litigation agent. COM is of the view that Statoil shall pay the Claim for cost reimbursement and rate reductions happened in the period of year 2016 in an amount up to the equivalence of US$15,238,596 incurred as a consequence of the drilling rig of COSLPromoter's compliance with requirements of Statoil. For details, please refer to relevant announcements published by the Company on the website of HKSE (http://www. hkex.com.hk) and website of the Company (http://www.cosl.com.cn).

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 2018, 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
Jiang Ping
Company Secretary

21 August 2019

As at the date of this announcement, the executive directors of the Company are Messrs. Qi Meisheng (Chairman) and Cao Shujie; the non-executive directors of the Company are Messrs. Meng Jun and Zhang Wukui; and the independent non-executive directors of the Company are Messrs. Law Hong Ping, Lawrence, Fong Chung, Mark and Wong Kwai Huen, Albert.