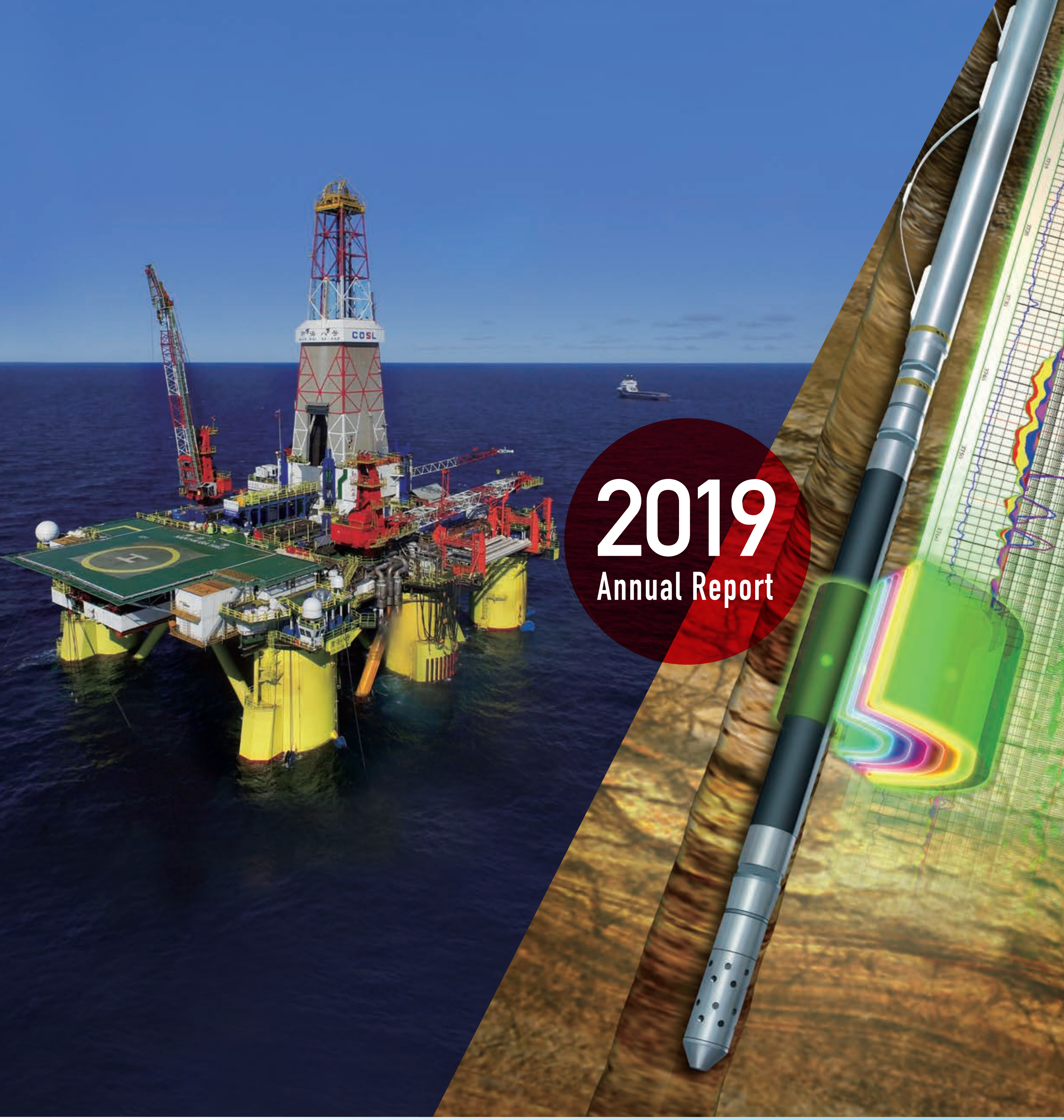


2019
Annual Report

Step Forward
Strengthen Pursuit

COSL
CHINA OILFIELD SERVICES LIMITED
(STOCK CODE H-share : 2883 ; A-share : 601808)

Company Profile

INTRODUCTION

China Oilfield Services Limited (the "Company", the "Group" or "COSL"), listed on Hong Kong Stock Exchange (HK stock code: 2883) and Shanghai Stock Exchange (Shanghai stock code: 601808), is one of the leading integrated oilfield services providers in the world. Its services cover each phase of oil and gas exploration, development and production.

OUR PERFORMANCE

In 2019, COSL provided clients with single, bundled, integrated and general contracting business services in each phase of exploration, development and production of oil and gas through business in four main segments (drilling services, well services, marine support services and geophysical acquisition and surveying services). Furthermore, the Company's performance in some broaden operating aspects such as society and environment has also fulfilled its expectation (details please refer to Financial Statements and Sustainability Report).

PROSPECT

The Company has steady market share in the China market and actively expands the overseas markets in the regions including Asia Pacific, Middle East, America, Europe, Africa and the Far East, which provides a sturdy platform for continuous business development.

Oilfield service industry has made us facing challenges and risks varies from place to place, including uncertain political and legal environment as well as the risks coming from deepwater and overseas operation. COSL has rich experiences in oilfield services. With a better understanding on China market, and strict risk management policy, we believe that we will seize the opportunities and overcome the challenges.

STRATEGIC TARGET

COSL aims at becoming an international first-class oilfield services provider. To achieve this, the Company insists on working in a sustainable operating model, targets on balancing the development of economic, society and environment endeavors to provide our clients with safe, high quality, effective and eco-friendly services, striving for a win-win benefit with our shareholders, clients, staff and business partners.

CORPORATE GOVERNANCE

Corporate governance of COSL includes not only those set out in the Corporate Governance Code of Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Company Law of PRC and the Articles of Association of the Company, but also stricter and self-established standards.

Content

Business Overview

COSL not only provides oilfield services of single operation for the customers, but also offers integrated project and one-stop solution services.

DOMESTIC

The Company maintains the leading position in China oilfield services market and provides services in drilling, well services, marine support and geophysical acquisition and surveying.

2019 PERFORMANCES

Total revenue for the year:
RMB31,075.8 million

Profit from operations:
RMB3,895.2 million

Profit for the year:
RMB2,528.0 million

Basic earnings per share:
RMB52.44 cents/share

Total assets: RMB76,101.8 million

Total equity: RMB36,910.3 million

INTERNATIONAL

In 2019, the Company achieved breakthroughs in exploring new businesses, markets and customers on the basis of the traditional international operation markets.

Asia Pacific region: Businesses involve geophysical services, drilling, logging, directional drilling, cementing, drilling & completion fluids, well completion, work-over services, stimulation, marine support services and product sales.

Middle East region: Businesses involve drilling, logging, directional drilling, cementing, drilling & completion fluids, well completion, work-over services, stimulation, geophysical services and product sales.

America region: Businesses involve drilling, cementing, drilling & completion fluids, logging, geophysical services and marine support services.

Europe region: Businesses involve drilling services and related services.

Africa region: Businesses involve drilling services and geophysical services.

The Far East region: Businesses involve drilling services and related services.

Financial Highlights

Unit: RMB million

	2019	2018	Change %
Revenue			
Domestic revenue	24,159.9	16,225.5	48.9
International revenue	6,915.9	5,661.1	22.2
Total	31,075.8	21,886.6	42.0
Operating expenses	(27,532.7)	(21,527.2)	27.9
Profit from operations	3,895.2	643.5	505.3
Profit before tax	3,472.2	706.3	391.6
Income tax expense	(944.2)	(617.7)	52.9
Profit for the year	2,528.0	88.7	2,750.1
Basic earnings per share (cent/share)	52.44	1.48	3,443.2
Net assets per share (RMB/share)	7.7	7.3	5.5
Ratio			
Return on equity (%)	7.1	0.3	
Return on asset (%)	3.4	0.1	
Gearing ratio (%)	47.7	49.8	
Price/Earnings ratio	20.9	398.4	
Dividend yield (%)	1.5	1.2	
Dividend payout ratio (%)	30.5	471.8	

Notes:

1. *Return on equity = Net profit for the year/(total equity in the beginning of the period + total equity at the end of the period)/2*
2. *Return on asset = Net profit for the year/Average total assets*
3. *Gearing ratio = Net debt at the end of the period/(total capital at the end of the period + net debt at the end of the period)*
4. *Price/Earnings ratio = Closing share price of H shares on the last trading day of the year/Earnings per share*
5. *Dividend yield = Dividends per share/Closing share price of H shares on the last trading day of the year*
6. *Dividend payout ratio = Dividends/Earnings attributable to ordinary equity holders of the Company during the year*

FIVE-YEAR FINANCIAL POSITION REVIEW

Unit: RMB million

Major financial data and indicators	2019	2018	Change over the same period last year (%)	2017	2016	2015
Revenue	31,075.8	21,886.6	42.0	17,458.6	15,085.5	23,174.2
Profit/(loss) from operations	3,895.2	643.5	505.3	1,468.0	(11,367.7)	1,631.5
Profit/(loss) for the year	2,528.0	88.7	2,750.1	80.9	(11,459.5)	1,108.7
Basic earnings/(loss) per share (cent/share)	52.44	1.48	3,443.2	0.90	(240.09)	22.51
	As at the end of 2019	As at the end of 2018	Change over the end of the same period last year (%)	As at the end of 2017	As at the end of 2016	As at the end of 2015
Total equity	36,910.3	34,677.4	6.4	34,687.5	35,296.4	46,828.7
Total assets	76,101.8	74,687.0	1.9	73,941.3	80,544.1	93,525.1

Chairman's Statement

Qi Meisheng
Chairman

Dear Shareholders,

In 2019, expenditure invested in upstream exploration development around the world was continuously increased and exploration in China intensified, driving a continuous recovery in the oilfield service market. The Company grasped these market opportunities while putting its "technical and international development" strategy into practice. With a focus on incremental profitability and stable high-quality development, the Company achieved higher growth in its operating results during the year and its market value surpassed that of its peers, creating a promising return for shareholders.

1. IMPROVING CORPORATE GOVERNANCE AND UPGRADING RISK CONTROL

In 2019, the Company adapted to changed regulations, was attentive to the compliance performance of directors, and encouraged directors to fulfill their duties. The Board improved the overseas risk assessment matrix and reinforced the frontline business' risk control and management in order to avoid operating risks. It also executed various organisational reforms and enhanced lean management. In 2019, due to the expiry of terms of office for directors and supervisors, our directors were re-elected and supervisors were changed. The Company's current Board composition is in line with the principle of director diversity, and our directors possess sufficient experience in the industrial, financial and legal sectors to give due consideration when decision-making on significant matters. The Board operates at a highly efficient pitch. Three independent directors serve as chairmen of several professional committees, which ensures effective corporate governance and makes an important contribution to the Board's compliance operation.

2. SUSTAINABLE DEVELOPMENT AND FULFILLING SOCIAL RESPONSIBILITIES

The Company has always pursued sustainable development, and to this end, it continues to make health, safety and environmental improvements in compliance with all relevant regulations as well as the 10 Principles of the United Nations' Global Compact. In 2019, the Company was named "Excellent Enterprise of Sustainable Development of the Year" by Sina Finance, and was included as a constituent stock in the Hang Seng (China A) Corporate Sustainability Benchmark Index for the eighth consecutive year and as a constituent stock in the Hang Seng Corporate Sustainability Benchmark Index for the sixth consecutive year. It was honoured as the "Best Innovative Listed Company" by the 14th Competitiveness and Credibility Ranking for China Listed Companies, named as a "China Star Enterprise" by the 19th China Top 100 Listed Companies Summit Forum, and won the "Outstanding Technological Innovation Enterprise Award" at the China Financing Award in 2019. These honours amply demonstrate the capital market's recognition of the Company's sustainable development.

3. IMPLEMENTATION OF MEDIUM- TO LONG-TERM STRATEGY, AND HIGH-QUALITY DEVELOPMENT

In 2019, the Company upheld its technical and international development strategy, strengthened its own technical research and development as well as technical storage, and upgraded its service and production capabilities. In 2020, the Company will continue along the same strategic path while implementing the national safe energy strategy, ensuring energy security and contributing to industrial upgrading and leapfrog development. First, the Company will further accelerate the serialisation and industrialisation of technical products, realise equipment and technology synergies, and establish a complete technique and service system. Second, the Company will speed up research and development and the transformation of core technologies, emphasising the leading role of technological innovation development. Third, the Company will reinforce its corporate governance, risk control and management ability, cultivate an excellent global management and operation team, and develop a low-cost advantage. These will ultimately contribute to a comprehensive enhancement of the Company's competitiveness.

With the increased investment in domestic and overseas exploration and development, the entire oilfield services market is on a recovery trend. With technological innovation as its core driver, the Company will capture emerging opportunities, maintain a high-quality expansion and development of its global businesses, and pursue high-quality development. The Board and management will closely monitor changes in the industry and enhance the Company's risk-remedial capacity and competitive strengths. In light of the recent international macro situations and the drastic movement in commodity prices, the Company's operation faces new challenges. The Board members and I will take appropriate measures to timely cope with the new situation, and we firmly believe in the Company's ability to create higher returns for its shareholders, customers and society using its extensive industry experience and core competitiveness.

Qi Meisheng
Chairman
25 March 2020

Chief Executive Officer's Report

Cao Shujie
Chief Executive Officer and President of COSL

Dear shareholders,

In 2019, global capital expenditure on upstream exploration and development increased significantly, driving an overall recovery of the oilfield service market. Large investments in exploration and development in China's domestic market have also continued. In this operating environment, under the Board's leadership, the management and staff brought the Company into new period of development and strove for continuing reform and enhanced competitiveness. Leveraging its innovative technological research and development, optimised equipment, enhanced international competitive strength and improved risk control and management, in 2019 the Company achieved the largest profitability growth and the best operating efficiency since prior to the industry's decline.

CONTINUOUS IMPROVEMENT TO QHSE MANAGEMENT, MAINTAINING STABLE SAFETY AND ENVIRONMENTAL PROTECTIONS

In 2019, the Company continued to consolidate QHSE management, implemented QHSE risk management, upheld the principle of "people, machines, equipment, legal and environmental protection", and accelerated the internationalisation and industrialisation of QHSE. The Company insisted on green production and maintaining a healthy ecosystem, and continued to strengthen its unique culture of work safety culture. During the period under review, the Company continuously improved the quality of its management. The OSHA recordable incident occurrence rate was 0.108 and equipment availability was 99.52% which was a better level in history and no material equipment incidents occurred as well as the production safety is generally under control.

ENHANCING INTERNATIONAL OPERATING MANAGEMENT CAPABILITY AND COMPREHENSIVE COMPETITIVENESS

Facing new industrial conditions, the Company has adjusted its management approach and focus accordingly, though while continuing its innovation reforms, quality and efficiency increment, and enhancements of international operating management capability. The Company also endeavoured to optimise resource allocation and reform internal divisions to further improve its standard of governance. The Company became a sophisticated enterprise, and by abiding with international business rules, could cultivate operations in foreign regions, improve the quality of equipment and operation, and apply its own technologies to its businesses, boosting its international brand reputation.

The Company continued to explore a new management model for overseas development, reinforce its ability to integrate global resources, and intensify its market maintenance and development. In addition to protecting its leading position in China among the offshore markets, the Company pursued the high-quality development of overseas businesses and achieved breakthroughs in various regions, equipment fields and technological sectors. For example, in Asia-Pacific the Company won a bid for jack-up drilling rig, wireline logging and perforation and marine support services, as well as a high-temperature and high-pressure drilling and completion fluids project, a regular well drilling and completion fluids project, and cementing, acidising and fracturing projects. In the Middle East, the Company won bidding for drilling and completion contractor and completion and stimulation contractor projects. In Africa and the Americas, the drilling service contract was proceeding smoothly and respectively completed the two-dimensional and three-dimensional seismic surveys.

CONTINUOUSLY STRENGTHENING CORE TECHNOLOGIES BREAKTHROUGH AND APPLYING TECHNICAL ACHIEVEMENTS

In 2019, the Company put its innovative strategies into practice, promoted the reform of scientific mechanisms, and made large investments in scientific research and development of core technologies. The majority of Company-developed technologies for which it owns intellectual property rights were widely applied, demonstrating increasingly rapid serialisation and industrialisation of scientific technologies. Focusing on customer demands, the Company sped up the application of its scientific developed products and recorded further improved operating results. For example, HQI-Seis®II solid streamer acquisition equipment completed several two-dimensional seismic survey operations in China and demonstrated both high quality and high efficiency; the high-temperature cable logging and perforation well reached a maximum temperature of 178℃ in operation, representing a breakthrough in the offshore sector; BIODRILL A, a biodegradable and environmentally friendly water-based drilling fluid system, was successfully applied to promote the green development of offshore oilfields; oil stabilisation and water control technologies such as supramolecular microsphere flooding, FSG sand control and water shutoff, and green biological nano-injection, were successfully applied in domestic offshore zones, effectively increasing the collection rate of oilfields.

OUTLOOK

Looking ahead to 2020, the oilfield service industry will still face significant change in the macro and industrial environment. Adapting to new market trends, the Company will continue its strategy of "technical and international development" and exploration and development. Comprehensive improvements to its governance system and capabilities and leveraging reform and innovation will drive the Company to achieving high-quality development in a new era.

Cao Shujie
CEO and President
25 March 2020

Management Discussion and Analysis

Drilling Services

INDUSTRY DEVELOPMENT OVERVIEW FOR 2019

In 2019, the structure of world energy continued to optimized. The downward pressure on the world economy increased while global economic and trade frictions were intensifying, which led to the slowdown of global oil demand growth. International oil prices were affected by supply and demand as well as geopolitical influences. The crude oil market was turbulent throughout the year, forming a pattern of high price in the first half of the year with a steady rebound in the second half of the year. The average prices of Brent oil for the whole year were US$64.23 per barrel, representing a decrease of 11% as compared with 2018, but higher than the average price of US$54 per barrel in 2017. This symbolized the momentum of the recovery and growth of international oil prices for three consecutive years has ended, declining under pressure and oscillating around the new price center.

In 2019, the global upstream exploration and development investment continued to recover and the market size of oilfield services was basically the same as in 2018, and offshore oil and gas exploration and development became a hot spot. The oilfield service industry continued to adopt measures to reduce production and service costs as well as management cost, and a new competitive landscape for the oilfield services industry was in the process of forming. As reflected from the research report of Spears & Associates, an institution for the industry information, the major decline in professional lines such as hydraulic fracturing in 2019 was mainly due to the decline in the heat of the shale oil and gas market in North America. At the same time, the growth trend of geophysical services and Logging While Drilling maintained a good growth trend, with a growth rate of more than 10%. In 2019, the size of the global offshore drilling market increased by 1.00% to US$24.0 billion as compared to 2018, and the size of the geophysical prospecting market increased by 14% to US$8.7 billion as compared to last year, while the size of the shipping market increased by 5% to US$5.0 billion as compared to last year. The size of the well services market (only including wireline logging, directional well, cementing, slurry and well completion) increased by 4.26% to US$47.3 billion as compared to last year.

DRILLING SERVICES SEGMENT

The Group is the largest offshore drilling contractor in China and one of the internationally well-known drilling contractors. It mainly provides relevant drilling and well completion services such as jack-up drilling rigs, semi-submersible drilling rigs, module rigs and land drilling rigs. At the end of 2019, the Group operated and managed a total of 54 drilling rigs (of which 40 are jack-up drilling rigs, and 14 are semi-submersible drilling rigs), and 5 module rigs, etc.

In 2019, revenue from drilling services amounted to RMB10,824.8 million, representing an increase of 39.7% as compared with RMB7,749.9 million of 2018.

In 2019, the international oil and gas price wandered at middle-low level, but the investment of global upstream exploration and development continued to recover. At the same time, in order to ensure energy security, China implemented "Seven-Year Action Plan" and the demands in market increased significantly as the increased promotion of reserve and production and investment in exploration and development. On the one hand, the Group insist on the oversea deployment is needed for international strategic development, on the other hand, actively respond to national policy calls for rational allocation of resources, surrounding the overall goal of high-quality development and the establishment of international first-class oilfield service provider with global competitiveness to improve the capabilities in equipment management and technical services, solid QHSE risk management, deepen the reformation of personal and asset institutions. The Group has obtained a decent performance by adhering to green and low-carbon development strategy and improving management operational capability.

During the period, the Group obtained various major drilling service contracts over the world, which resulted in the increase in the utilization rate of equipment and operation volume. In the Middle East, the service contracts with "Oriental Dragon" and "Oriental Phoenix" were officially signed, operations are expected to be commenced one by one by the end of 2020, and the first oil testing of "COSLGift" successfully ignited for release. The "COSLHunter" successfully started a new round of service. In Oceania, the "COSLBoss" began the first high-end drilling service project for jack-up drilling rigs. In Southeast Asia, "COSLPower" successfully awarded drilling service contract. The newly leased rigs "Asian Endeavour 1" also successfully obtained drilling service contract.

By the end of 2019, the Group had 29 drilling rigs operating in the China Sea, 10 rigs operating overseas, 12 were standby and 3 were being maintained in the shipyard.

In 2019, the Group's drilling rigs operated for 14,737 days, representing a year-on-year increase of 3,599 days which increased by 32.3%.

In which, the Group's jack-up drilling rigs operated for 11,135 days, representing a year-on-year increase of 2,864 days; semi-submersible drilling rigs operated for 3,602 days, representing a year-on-year increase of 735 days. It was mainly due to the operational management capability improved as the demand for work increases.

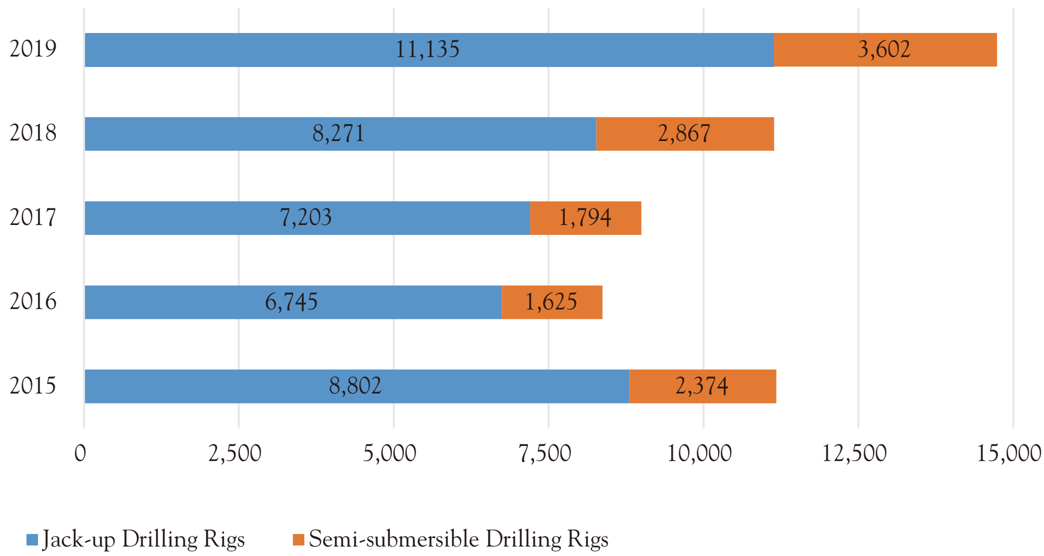
Drilling Services

Operational details of jack-up and semi-submersible drilling rigs of the Group in 2019 are as follows:

	2019	2018	Change	Percentage Change
Operating days (day)	14,737	11,138	3,599	32.3%
Jack-up drilling rigs	11,135	8,271	2,864	34.6%
Semi-submersible drilling rigs	3,602	2,867	735	25.6%
Available day utilization rate	81.4%	72.5%	Up 8.9 percentage points	
Jack-up drilling rigs	83.9%	72.0%	Up 11.9 percentage points	
Semi-submersible drilling rigs	74.6%	73.9%	Up 0.7 percentage points	
Calendar day utilization rate	78.5%	66.8%	Up 11.7 percentage points	
Jack-up drilling rigs	81.0%	66.6%	Up 14.4 percentage points	
Semi-submersible drilling rigs	71.4%	67.5%	Up 3.9 percentage points	

Five module rigs operated in the Gulf of Mexico for 1,440 days, representing an increase of 566 days over the same period last year. The calendar day utilization rate increased by 31.0 percentage points to 78.9%.

NUMBER OF OPERATING DAYS FOR DRILLING RIGS IN RECENT YEARS (DAY)



In 2019, the average day income of the drilling rigs of the Group increased slightly compared with the same period of 2018, details as follows:

Average day income (ten thousand US$/day)	2019	2018	Change	Percentage Change
Jack-up drilling rigs	6.9	6.5	0.4	6.2%
Semi-submersible drilling rigs	17.2	17.3	(0.1)	(0.6%)
Drilling rigs average	9.4	9.3	0.1	1.1%

Note: (1) Average day income = Revenue/operating days.
(2) USD/RMB exchange rate was 1:6.9762 on 31 December 2019 and 1:6.8632 on 28 December 2018, respectively.

Well Services

WELL SERVICES SEGMENT

The Group is the main provider of China offshore well services together with the provision of onshore well services. Through the continuous input in technology research and development, advanced technological facilities and an excellent management team, the Group provides comprehensive professional well services, including but not limited to logging, drilling & completion fluids, directional drilling, cementing, well completion, well workover, stimulation etc.

In 2019, revenue from the well service segment increased by 53.5% from RMB9,792.6 million in the same period in 2018 to RMB15,030.0 million.

In 2019, the Group vigorously promoted the reform of technical systems and mechanisms, continuously input more effort in technology research and development and technology innovations and promoted industrialization incentive fund projects in the technology series. Various reform measures have been implemented effectively and the technology development has achieved outcomes, which accelerated the process of industrialization and commercialization of the product series. As the competitive advantages has become significant and obtained high recognition from the market, the operation results have recorded a historical new record.

In terms of outcomes, the Group's self-developed well log analysis software obtained the DLIS document ID, making the Group the first enterprises in domestic counterparts to have done so. The Group was invited to participate in the 2019 ISO International Standards Writing Conference International Meeting and jointly prepared a new standard for ISO-Oilfield Salt Water Standards, which is recognized by the ISO Technical Committee. In the field of scientific research and application, a large batch of new technologies with owned intellectual property rights went into operation in four seas and constantly refreshed operation records, including high-end drilling fluids, deep-water high temperature and high pressure well cementing, pressure testing and sampling in modular system, 205℃ high temperature slam, Outline While Drilling and Pressure-measuring While Drilling. The operational performance indicators surpassed the advanced level of international counterparts, broke the foreign technology monopoly position, and continued to create value for customers. In the field of market expansion, the Group successfully received well cementing, work-over, drilling and completion fluid and wireline logging service contract in the Asia-Pacific region. The Group awarded land conventional well cementing and stimulation contract and renewed offshore well cementing contract. The wireline logging and perforating services project made the logging service return to the Myanmar market. In Americas, the Group obtained a cased hole service project in Canada and wireline logging service contract in Mexico, which achieved a breakthrough for wireline logging services in Americas onshore market.

Marine Support Services

MARINE SUPPORT SERVICES SEGMENT

The Group operates and manages the largest offshore operation fleet with the most comprehensive functions in China offshore, with over 140 vessels including AHTS vessels, platform supply vessels and oilfield standby vessels. The Group can provide comprehensive support and services, including anchor handling for different water level, towing of drilling rigs/engineering barges, offshore transportation, standby, firefighting, rescue, oil spill assisting, for offshore oil and gas exploration, development, construction and oil/gas field production, which can fulfill different needs of clients.

In 2019, the Group's marine support services segment adhered to grasp the foundation, focus on coordinating, and strengthen the building for production safety and management capability on equipment. The annual average equipment availability achieved 99.9% with continuing positive operational management growth. In China, as the demands on petroleum exploration and development increased significantly, the Group scientifically saved resources, reasonably North-South redeployment, optimized market deployment to make every effort to secure the production demands are satisfied. In overseas, HYSY614 awarded the first long-term project in Mexico market through independent operation. The Group also awarded with a four-year long-term contract in Indonesia with ten years of quality service. The Group shared social responsibility by actively participating in marine rescue while satisfying safety production. 12 environmentally-friendly LNG power guard supply vessels which invested and built in the implementation of the green development went into operation.

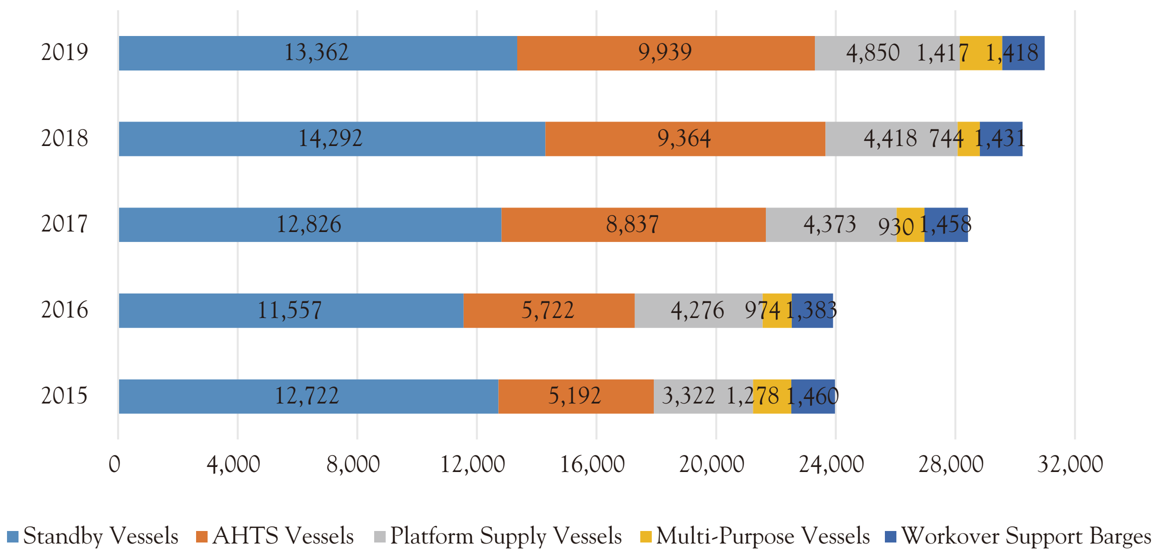
In 2019, revenue of marine support services business grew by 13.1% to RMB3,052.9 million from RMB2,698.1 million in 2018. The chartered vessels operated 15,266 days in total in 2019, increased by 54.3% compared to last year, generating revenue of RMB929.5 million, and increased 70.0% from RMB546.7 million in the same period in 2018.

The calendar day utilization rate of self-owned utility vessels was 94.3% in 2019, representing an increase of 4.1 percentage points as compared with last year.

Self-owned utility vessels of the Group operated 30,986 days in 2019, representing an increase of 737 days as compared with last year. Details are as follows:

Operating days (day)	2019	2018	Change	Percentage Change
Standby vessels	13,362	14,292	(930)	(6.5%)
AHTS vessels	9,939	9,364	575	6.1%
Platform supply vessels	4,850	4,418	432	9.8%
Multi-purpose vessels	1,417	744	673	90.5%
Workover support barges	1,418	1,431	(13)	(0.9%)
Total	30,986	30,249	737	2.4%

NUMBER OF OPERATINGS DAYS FOR SELF OWNED UTILITY VESSELS IN RECENT YEARS (DAY)



Geophysical Acquisition and Surveying Services

GEOPHYSICAL ACQUISITION AND SURVEYING SERVICES SEGMENT

The Group is a major supplier for China offshore geophysical acquisition and surveying services and a solid competitor and a provider of effective and high quality service in the global geophysical. At the end of 2019, the Group owns 5 towing streamer seismic vessels, 1 professional source vessel, 2 ocean bottom cable teams, 5 integrated marine surveying vessels and 2 support vessels for operation in deep water. Services for clients include but not limited to providing integrated services of wide azimuth, broadband, high density seismic acquisition services, submarine cable and submarine node multi-component seismic acquisition services, also integrated offshore surveying services.

In 2019, revenue of geophysical acquisition and surveying services segment increased to RMB2,168.1 million, representing an increase of 31.7% compared with RMB1,646.0 million of 2018, of which, the surveying services recorded revenue of RMB386.3 million, representing an increase of 1.9% as compared with RMB379.2 million over 2018.

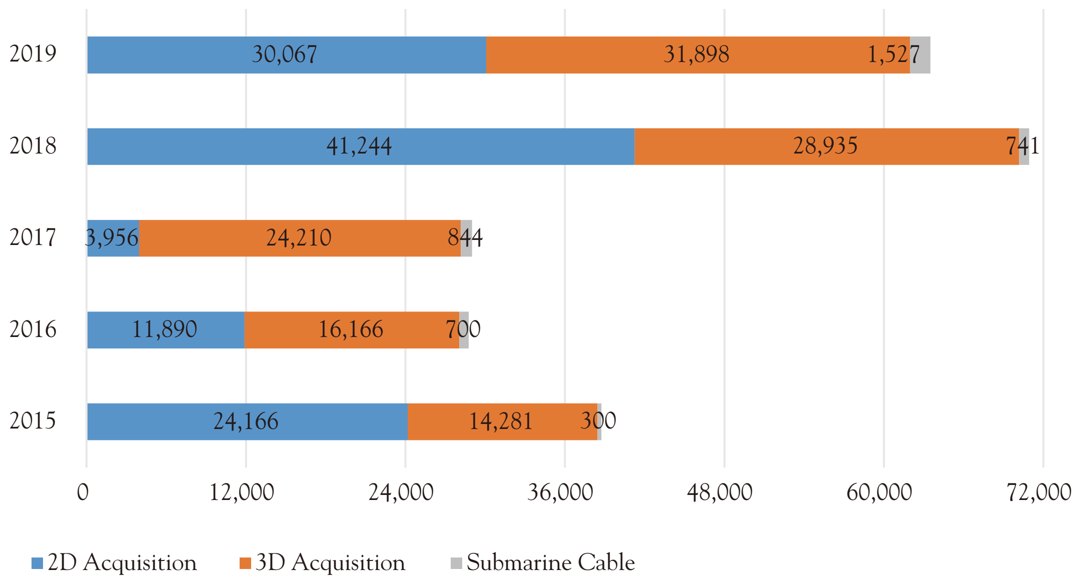
In 2019, the geophysical acquisition and surveying services business organized production carefully, adhered to safety management, paid close attention to quality construction and vigorously expand its market by obtaining several acquisition contracts in Canada and so on, which indicates the continuous significant effectiveness of the market expansion on offshore wind power surveying. The Group had technological innovation breakthroughs and actively participated in the domestic and international exchange of academic papers and achieved excellent results. By reasonably integrating external resources and expand production capacity, the Group had continuously refreshed domestic single-day production records and carried out the first domestic marine geophysical exploration on seismic acquisition using three vessels with random seismic source, broadband and wide-azimuth equipment. The Group secured the significant increase in the annual operation volume while achieved safety production and zero incident.

In 2019, as affected by the changes in market demand, the Group continued to promote multi-client acquisition and adjust operation types. 2D operation volume decreased while 3D and submarine cable had a substantial growth, which have more competitiveness.

The details of operation volume are as follows:

Businesses	2019	2018	Change	Percentage Change
2D acquisition (km)	30,067	41,244	(11,177)	(27.1%)
of which: multi-client	1,350	16,091	(14,741)	(91.6%)
3D acquisition (km^2)	31,898	28,935	2,963	10.2%
of which: multi-client	6,485	5,593	892	15.9%
Submarine cable (km^2)	1,527	741	786	106.1%

THE OPERATING VOLUME OF GEOPHYSICAL SERVICE FLEET IN RECENT YEARS (KM/KM^2)



MAJOR SUBSIDIARIES

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

As at 31 December 2019, the total assets of China Oilfield Services (BVI) Limited amounted to RMB3,325.6 million and equity was RMB526.6 million. China Oilfield Services (BVI) Limited realized revenue of RMB2,583.2 million in 2019, representing an increase of RMB479.5 million or 22.8% as compared with last year, mainly due to the slow recovery of the market and the increase in operation volume. The net profit amounted to RMB252.6 million, representing an increase of RMB124.2 million or 96.7% as compared with last year.

As at 31 December 2019, the total assets of CNA amounted to RMB11,903.5 million and equity was RMB-1,284.4 million. CNA realized revenue of RMB2,049.7 million in 2019, representing an increase of RMB121.7 million or 6.3% as compared with last year. The net profit amounted to RMB-686.1 million, representing an increase in loss of RMB94.3 million as compared with last year. Taking into account the utilization rate of large-scale equipment and the fact that the operating price has not yet recovered to a normal level as well as the risk of recovery of accounts receivable, the asset impairment loss for the year amounted to RMB210.0 million and credit impairment loss for the year amounted to RMB95.7 million.

As at 31 December 2019, the total assets of COSL Singapore Limited amounted to RMB27,481.5 million and equity was RMB-598.3 million. COSL Singapore Limited realized revenue of RMB2,248.9 million in 2019, representing an increase of RMB545.3 million or 32.0% as compared with last year. The net profit amounted to RMB-1,761.5 million, representing a decrease in loss of RMB617.9 million as compared with last year. Thereinto, COSL DRILLING STRIKE PTE.LTD., COSL PROSPECTOR PTE.LTD. are major platform subsidiaries of COSL Singapore Limited.

As at 31 December 2019, the total assets of COSL DRILLING STRIKE PTE.LTD. amounted to RMB4,330.1 million and equity was RMB-2,889.7 million. The Company had provided financial support for COSL DRILLING STRIKE PTE.LTD. in order to make sure it will be able to continue as a going concern. COSL DRILLING STRIKE PTE.LTD. realized revenue of RMB156.0 million in 2019, representing a decrease of RMB212.3 million or 57.6% as compared with last year. The net profit amounted to RMB-654.0 million, representing a decrease in loss of RMB273.4 million as compared with last year.

As at 31 December 2019, the total assets of COSL PROSPECTOR PTE.LTD. amounted to RMB9,207.4 million and equity was RMB-4,010.3 million. The Company had provided financial support for COSL PROSPECTOR PTE. LTD. in order to make sure it will be able to continue as a going concern. COSL PROSPECTOR PTE.LTD. realized revenue of RMB512.9 million in 2019, representing an increase of RMB269.7 million or 110.9% as compared with last year. The net profit amounted to RMB-1,102.3 million, representing a decrease in loss of RMB202.4 million as compared with last year.

FINANCIAL REVIEW

1. Analysis on Consolidated Statement of Profit or Loss

1.1 Revenue

For the year 2019, revenue of the Group amounted to RMB31,075.8 million, representing an increase of RMB9,189.2 million or 42.0% as compared with last year. The detailed analysis is set out below:

Analysis by business segment

Unit: RMB million

Business segments	2019	2018	Change	Percentage change
Drilling services	10,824.8	7,749.9	3,074.9	39.7%
Well services	15,030.0	9,792.6	5,237.4	53.5%
Marine support services	3,052.9	2,698.1	354.8	13.1%
Geophysical acquisition and surveying services	2,168.1	1,646.0	522.1	31.7%
Total	31,075.8	21,886.6	9,189.2	42.0%

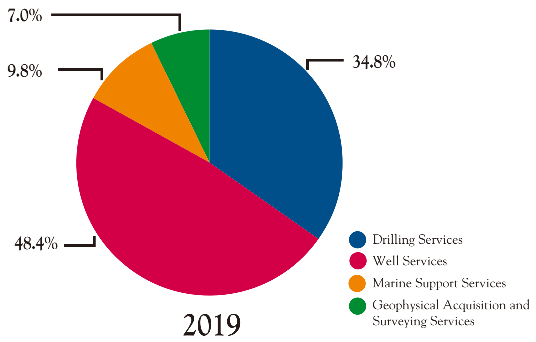
- Revenue generated from drilling services increased by 39.7% as compared with last year. The main reason was that the resources were rationally allocated, production capacity was improved, market development was strengthened and both utilization rate and operation volume of drilling rigs increased.

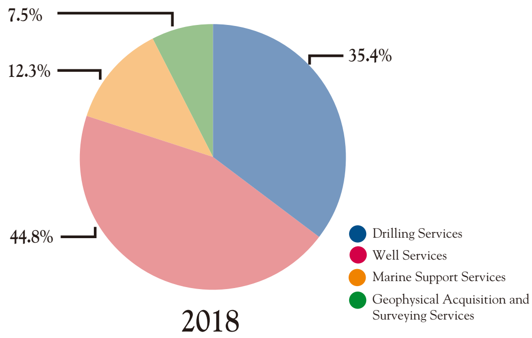
- Revenue of well services increased by 53.5% as compared with last year, which was mainly due to the market recognition received as a result of the Group's upgrade on the technical services capability and the increase in operation volume of technical services.

- Revenue from marine support services increased by 13.1% as compared with last year, which was mainly due to the increase in the operation volume of self-owned vessels and chartered vessels.

- Revenue from geophysical acquisition and surveying services increased by 31.7% as compared with last year, which was mainly due to the significant increase in submarine cable operations during the year.

Revenue analysis – by business





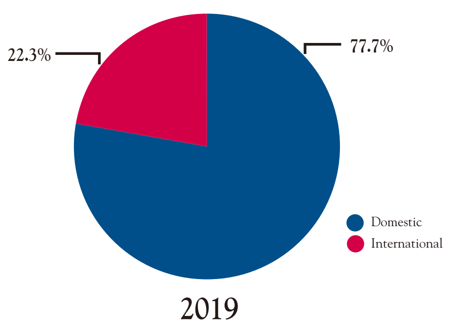
Analysis by operation area

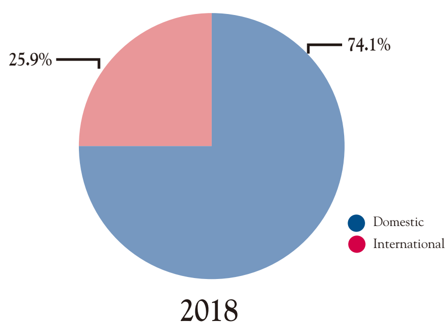
Unit: RMB million

Region	2019	2018	Change	Percentage change
Domestic	24,159.9	16,225.5	7,934.4	48.9%
International	6,915.9	5,661.1	1,254.8	22.2%
Total	31,075.8	21,886.6	9,189.2	42.0%

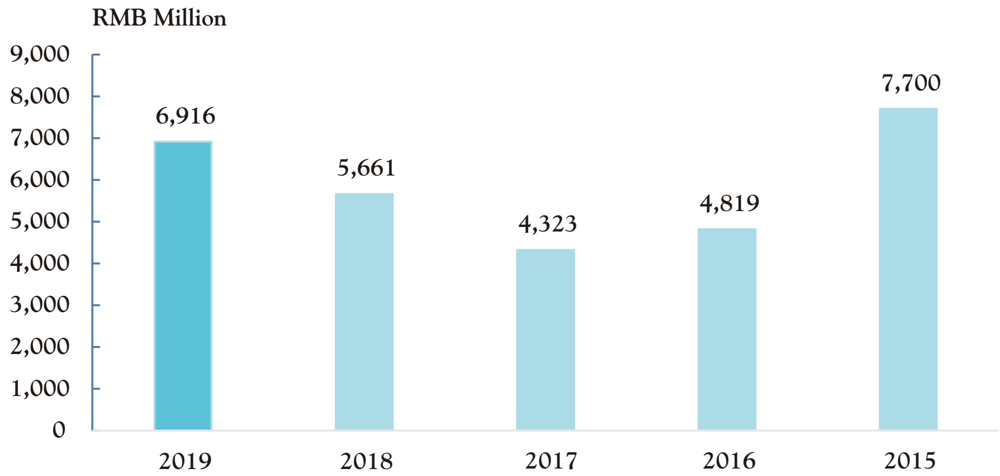
In terms of operation area, the Group's main source of revenue was from offshore China, accounting for 77.7% of the Group's total revenue. In 2019, the Group's international business recorded revenue of RMB6,915.9 million (compared with RMB5,661.1 million over last year, representing an increase of 22.2% as compared with last year), accounting for 22.3% of the Group's revenue for the year.

Revenue from international business





The Latest Five Years' International Revenue



1.2 Operating expenses

For the year 2019, operating expenses of the Group amounted to RMB27,532.7 million, representing an increase of RMB6,005.5 million or 27.9% as compared with RMB21,527.2 million of last year.

The table below shows the operating expenses of the Group in 2019 and 2018:

Unit: RMB million

	2019	2018	Change	Percentage change
Depreciation of property, plant and equipment and amortisation of intangible assets and multiclient library	4,372.8	4,262.8	110.0	2.6%
Depreciation of right-of-use assets	589.3	–	589.3	100.0%
Employee compensation costs	5,808.0	5,026.1	781.9	15.6%
Repair and maintenance costs	691.3	523.8	167.5	32.0%
Consumption of supplies, materials, fuel, services and others	6,933.2	4,954.2	1,979.0	39.9%
Subcontracting expenses	5,943.9	3,578.9	2,365.0	66.1%
Lease expenses	1,287.7	1,126.2	161.5	14.3%
Other operating expenses	1,348.7	1,516.8	(168.1)	(11.1%)
Impairment loss of property, plant and equipment	241.5	123.0	118.5	96.3%
Impairment loss under expected credit loss model, net of reversals	316.3	415.4	(99.1)	(23.9%)
Total operating expenses	27,532.7	21,527.2	6,005.5	27.9%

Depreciation of property, plant and equipment and amortization of intangible assets and multiclient library increased by RMB110.0 million as compared with last year.

Due to the adoption of HKFRS 16, the depreciation of right-of-use assets for the year amounted to RMB589.3 million.

The global market was recovering slowly during the year. The Group persisted in market development and operation capacity improvement, while the volume of operations in major business lines increased. Repair and maintenance costs, consumption of supplies, materials, fuel, services and others as well as subcontracting expenses and operating lease expenses increased to varying degrees following the operation volume growth.

Repair and maintenance costs increased by RMB167.5 million as compared with last year, which was mainly due to the increase of the maintenance days.

Consumption of supplies, materials, fuel, services and others increased by RMB1,979.0 million as compared with last year, which was mainly due to the fact that the operation volume increased during the period, which resulted in the increase of consumption of supplies. Meanwhile, the price of raw materials increased.

Subcontracting expenses increased by RMB2,365.0 million, mainly due to market recovery and subcontracting expenses increased as a result of increased work demand.

Lease expenses for the year was RMB1,287.7 million, which was mainly due to increased operation demand, representing an increase of RMB161.5 million.

Impairment loss of property, plant and equipment amounted to RMB241.5 million during the year, representing an increase of RMB118.5 million as compared with last year, which was mainly due to the fact that the utilization rate and service price of the large-scale equipment of the Group have not returned to normal levels, and the impairment recognised for the period was RMB241.5 million.

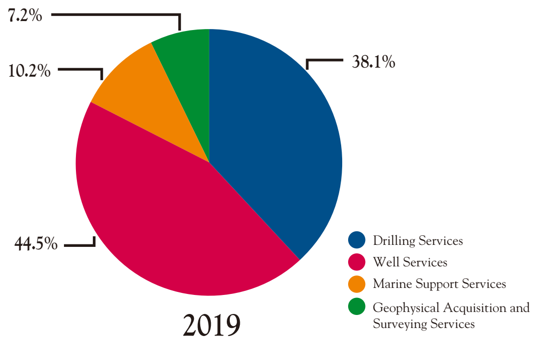
Credit impairment loss for the year was RMB316.3 million, which was mainly due to credit impairment loss recognised for the recoverable risk of receivables and other receivables, representing a decrease of RMB99.1 million.

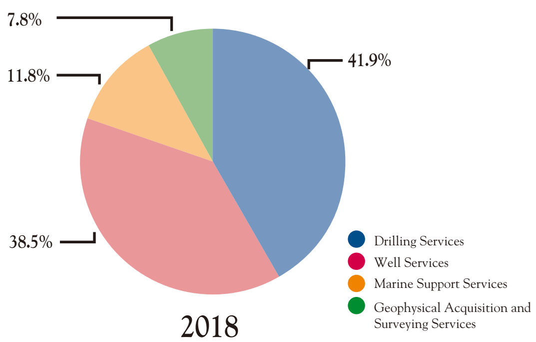
The operating expenses for each segment are shown in the table below:

Unit: RMB million

Business segments	2019	2018	Change	Percentage change
Drilling services	10,493.2	9,023.5	1,469.7	16.3%
Well services	12,247.3	8,283.7	3,963.6	47.8%
Marine support services	2,814.1	2,543.8	270.3	10.6%
Geophysical acquisition and surveying services	1,978.1	1,676.2	301.9	18.0%
Total	27,532.7	21,527.2	6,005.5	27.9%

Analysis of operating expenses – by business





1.3 Profit from operations

For the year 2019, the Group's profit from operations amounted to RMB3,895.2 million, representing an increase of RMB3,251.7 million as compared with RMB643.5 million of the same period of last year.

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

Unit: RMB million

Business segments	2019	2018	Change	Percentage change
Drilling services	442.8	(1,255.4)	1,698.2	135.3%
Well services	2,938.2	1,635.9	1,302.3	79.6%
Marine support services	256.2	226.0	30.2	13.4%
Geophysical acquisition and surveying services	258.0	37.0	221.0	597.3%
Total	3,895.2	643.5	3,251.7	505.3%

1.4 Financial expenses, net

Unit: RMB million

	2019	2018	Change	Percentage change
Exchange gain, net	(111.9)	(358.6)	246.7	(68.8%)
Finance costs	1,118.8	1,082.5	36.3	3.4%
Interest income	(67.5)	(107.6)	40.1	(37.3%)
Financial expenses, net	939.4	616.3	323.1	52.4%

The exchange gain decreased by RMB246.7 million as affected by the change of exchange rates during the year. Due to changes in the deposit structure, interest income decreased by RMB40.1 million as compared with last year.

1.5 Investment income

For the year 2019, the Group's investment income amounted to RMB218.2 million, representing an increase of RMB53.5 million or 32.5% as compared with RMB164.7 million of last year, which was mainly attributable to the increase in investment income of fixed income wealth management products.

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

The gains arising from financial assets at fair value through profit or loss of the Group in 2019 amounted to RMB-38.8 million, representing a decrease of RMB88.2 million from RMB49.4 million of the same period last year. This was mainly due to the redemption of monetary fund and the expiration of floating income wealth management products in the year.

1.7 Share of profits of joint ventures, net of tax

For the year 2019, the Group's share of profits of joint ventures amounted to RMB320.5 million, representing an increase of RMB136.2 million as compared with RMB184.3 million of last year. This was mainly attributable to the significant improvement of profitability of joint ventures as compared with the same period of last year.

1.8 Other gains and losses

In 2019, the Group's other gains and losses amounted to RMB16.5 million, representing a decrease of RMB264.2 million or 94.1% from RMB280.7 million in the same period last year, mainly due to the net income from disposal of non-current assets of RMB315.9 million last year.

1.9 Profit before tax

The profit before tax generated by the Group was RMB3,472.2 million in 2019, representing an increase of RMB2,765.9 million as compared with RMB706.3 million of last year.

1.10 Income tax expense

The income tax expense of the Group in 2019 was RMB944.2 million, representing an increase of RMB326.5 million as compared with RMB617.7 million of 2018, which was mainly due to the increase of the profits of the Company during the year.

1.11 Profit for the year

For the year 2019, profit of the Group was RMB2,528.0 million, representing an increase of RMB2,439.3 million as compared with RMB88.7 million of last year.

1.12 Basic earnings per share

For the year 2019, the Group's basic earnings per share were approximately RMB52.44 cents, representing an increase of approximately RMB50.96 cents as compared with approximately RMB1.48 cents of last year.

1.13 Dividend

For the year 2019, the Board of the Company proposed a final dividend of RMB0.16 per share (tax inclusive), totaling about RMB763.5 million. If approved by the general meeting, the final dividends are expected to be paid on or before 30 June 2020.

In accordance with the Enterprise Income Tax Law of the People's Republic of China and its implementation regulations which came into effect on 1 January 2008, the Company is required to withhold and pay enterprise income tax at the rate of 10% on behalf of the non-resident enterprise shareholders whose names appear on the register of members for H share of the Company when distributing final dividends to them. For H shares of the Company registered other than in the name(s) of individual(s), including HKSCC Nominees Limited, other nominees, trustees, or other organizations or groups, shall be deemed to be shares held by non-resident enterprise shareholder(s). On the basis, enterprise income tax shall be withheld from dividends payable to such shareholder(s).

2. Analysis on Consolidated Statement of Financial Position

As at 31 December 2019, the total assets of the Group amounted to RMB76,101.8 million, representing an increase of RMB1,414.8 million or 1.9% as compared with RMB74,687.0 million as at the end of 2018. The total liabilities amounted to RMB39,191.5 million, representing a decrease of RMB818.1 million or 2.0% as compared with RMB40,009.6 million as at the end of 2018. Total equity amounted to RMB36,910.3 million, representing an increase of RMB2,232.9 million or 6.4% as compared with RMB34,677.4 million as at the end of 2018.

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

Unit: RMB million

Items	2019	2018	Change	Percentage change	Reasons
Assets					
1 Right-of-use assets	1,200.6	–	1,200.6	100.0%	During the year, the Group recognized the right-of-use assets due to the application of HKFRS 16.
2 Other intangible assets	62.1	289.5	(227.4)	(78.5%)	As a result of the application HKFRS 16, leasehold land originally recorded in other intangible assets were reclassified to right-of-use assets.
3 Multi-client library	279.7	139.7	140.0	100.2%	Increase in the expenses capitalised of multi-client library during the year.
4 Contract costs (non-current)	91.5	172.9	(81.4)	(47.1%)	Mobilization costs for the year decreased with amortization of operations.

Items		2019	2018	Change	Percentage change	Reasons
5	Other non-current assets	247.0	97.8	149.2	152.6%	The deposit paid for the construct of property, plant and equipment increased this year.
6	Deferred tax assets	92.5	65.9	26.6	40.4%	Mainly due to the increase in deductible differences and the increase in deferred tax assets.
7	Notes receivable	44.2	208.2	(164.0)	(78.8%)	Mainly due to the cash was recovered as a result of the notes due.
8	Receivables at fair value through other comprehensive income	40.6	24.7	15.9	64.4%	The increase in bank acceptance bills at the end of the period.
9	Financial assets at fair value through profit or loss	4,511.2	1,749.7	2,761.5	157.8%	The increase in floating wealth management products during the year.
10	Contract assets	262.6	–	262.6	100.0%	Due to the drilling services completed and not billed because the rights are conditioned on customers' acceptance of the work.
11	Contract costs (current)	–	53.0	(53.0)	(100.0%)	Amortization of short-term contract costs was completed during the year.
12	Other current assets	2,577.0	6,601.2	(4,024.2)	(61.0%)	Due of the fixed wealth management products.
13	Pledged deposits	102.2	27.7	74.5	269.0%	Mainly due to the increase in pledged deposits held at the end of the year.
14	Fixed deposits with maturity of over three months	–	145.1	(145.1)	(100.0%)	Withdrew fixed deposits with maturity of over three months in the year.

Items		2019	2018	Change	Percentage change	Reasons
Liabilities						
1	Notes payable	3.5	50.3	(46.8)	(93.0%)	Mainly due to the payment of the notes payable.
2	Tax payable	612.8	373.6	239.2	64.0%	Due to increase in profit and income tax payable of the Group this year.
3	Loan from a related party	2,443.9	1,374.8	1,069.1	77.8%	Mainly due to new borrowings from a related party of US$150 million during the year.
4	Lease liabilities (current liabilities)	597.8	–	597.8	100.0%	During the year, the Group recognized the lease liabilities due to the application of HKFRS 16.
5	Contract liabilities (current liabilities)	255.3	154.4	100.9	65.3%	Mainly due to the increase of the advance payment for operation during the year.
6	Deferred tax liabilities	62.7	286.6	(223.9)	(78.1%)	Mainly due to the increase in deferred tax assets, resulting in the decrease of deferred income tax liabilities after offset.
7	Interest-bearing bank borrowings (non-current liabilities)	201.0	787.6	(586.6)	(74.5%)	Mainly due to the interest-bearing bank borrowings due within one year reclassified to current liabilities.
8	Lease liabilities (non-current liabilities)	547.6	–	547.6	100.0%	During the year, the Group recognized the lease liabilities due to the application of HKFRS 16.
9	Contract liabilities (non-current liabilities)	192.7	308.0	(115.3)	(37.4%)	Mainly due to the amortisation of mobilization revenue for the year.

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. During 2019, the net cash inflows from operating activities amounted to RMB6,965.6 million; net cash outflows from investing activities amounted to RMB1,151.7 million; net cash outflows from financing activities amounted to RMB5,651.8 million and the impact of foreign exchange fluctuations resulted in an increase of cash of RMB31.9 million. As at 31 December 2019, the Group's cash and cash equivalents amounted to RMB3,363.6 million.

3.1 Cash flows from operating activities

As at 31 December 2019, net cash inflows from operating activities of the Group amounted to RMB6,965.6 million, representing an increase of 67.8% as compared with last year. This was mainly attributed to an increase in the cash received for services provided and products sold during the year.

3.2 Cash flows from investing activities

As at 31 December 2019, net cash outflows generated from investing activities of the Group amounted to RMB1,151.7 million, representing a decrease of RMB5,884.1 million as compared with last year, which was mainly attributed to the increase of RMB292.9 million in the cash outflows of the acquisition of property, plant and equipment and other intangible assets as compared with last year, the decrease of RMB3,500.0 million in the cash outflows of the purchase of corporate wealth management products, monetary funds and treasury bond related repurchase as compared with last year, the increase of RMB3,240.9 million in the cash inflows received from the disposal of matured corporate wealth management products and monetary fund related investments as compared with last year, the decrease of RMB381.3 million in the cash inflows received from the disposal of property, plant and equipment as compared with last year, no fixed deposits for more than three months for the year which led to the decrease of RMB1,094.4 million in cash outflow as compared with the same period last year, cash inflows drawn from fixed deposits over three months decreased by RMB885.3 million as compared with last year, and the total decrease of cash inflows of RMB391.7 million in other investment activities.

3.3 Cash flows from financing activities

As at 31 December 2019, net cash outflows from financing activities of the Group amounted to RMB5,651.8 million, representing an increase of outflows of RMB2,591.3 million as compared with last year. This was mainly attributable to new borrowing from related parties in 2019, which resulted in the increase of RMB1,017.1 million in the cash inflows arising from financing activities as compared with last year, the decrease of RMB1,032.8 million in the cash outflows as compared with last year due to no repayment of loans to related parties, the increase of RMB3,998.1 million in the cash outflows as compared with last year due to the repayment of long-term bonds, the increase of RMB637.8 million in the cash outflows as compared with last year due to the repayment of lease liabilities, and the total increase of cash outflows of RMB5.3 million in other financing activities.

3.4 The effect of foreign exchange fluctuations on cash during the year was an increase of cash of RMB31.9 million.

3.5 The Group provides operation capital mainly through cash and interest bearing borrowings from operating activities, investment activities and financing activities. For details of the Group's borrowings for the year ended 31 December 2019, please refer to Note 38 to the consolidated financial statements of this report.

4. Capital expenditure

In 2019, the capital expenditure of the Group amounted to RMB3,172.6 million, representing an increase of RMB774.7 million or 32.3% as compared with last year.

The capital expenditure of each business segment is as follows:

Unit: RMB million

Business segments	2019	2018	Change	Percentage change
Drilling services	912.0	1,252.4	(340.4)	(27.2%)
Well services	1,180.9	642.1	538.8	83.9%
Marine support services	421.1	200.6	220.5	109.9%
Geophysical acquisition and surveying services	658.6	302.8	355.8	117.5%
Total	3,172.6	2,397.9	774.7	32.3%

The capital expenditure of the drilling services segment was mainly used for the renewal and construction of drilling rigs. The capital expenditure of the well services segment was mainly used for the construction and acquisition of technical service-related equipment. The capital expenditure of the marine support services segment was mainly used for the construction of utility vessels. The capital expenditure of the geophysical acquisition and surveying services segment was mainly used for update and transformation of equipment and the commencement of a multi-client database.

BUSINESS PLAN

In 2020, the overall competition in the oilfield services market is still fierce. The Company will focus on cost control, and strive to improve the Company's profitability through systematic cost reduction measures such as strengthening QHSE management, institutional reform, management process optimization, and boosting labor productivity. The cash flow of the Company is overall secure in 2020. The Company will continue to strictly follow the practices of prudent capital investment, speeding up the optimization and upgrade of its operation model with the support of capital expenditure, and adhere to the Company's development idea and transformation of business model to asset-light and technology-heavy. It is estimated that the capital expenditure of the Company in 2020 will be approximately RMB4.8 billion, which will be mainly used for construction of production bases, renovation of the facilities, machinery and equipment. As guided under the new development idea, the Company will speed up the research and development and innovation of green and environmental-friendly low-carbon technology; enhance its core competitiveness through technological and industry upgrade; allocate equipment resources flexibly in various ways such as self-owned assets, leases and management to timely respond to the change in the market; and pay attention to shareholders' return and actively safeguard the interests of investors.

2020 BUSINESS OUTLOOK

According to the estimated data of IHS Markit in December 2019, an institution for international information services, it is estimated that in 2020, the investment in upstream exploration and development around the world will increase by 0.54% from US$552.0 billion in 2019 to US$555.0 billion in 2020; while the investment in the offshore exploration and development in 2020 will increase by 15.00% from US$116.0 billion in 2019 to US$133.0 billion in 2020. As oil companies will continue to focus on cost control and efficiency improvement, the services prices will be in slow recovery. Meanwhile, the competition in the market will remain fierce in view of the excessive resources of the services companies, and the overall profitability of the industry cannot be enhanced rapidly. The oilfield service industry needs to rely more on its own innovation to cope with changes in the industry. The Company will pay attention to the trend of oil prices and the investment situation of upstream exploration and development, and make corresponding business adjustment. In 2020, the COVID-19 epidemic has had a certain negative impact on the global economy. The Company will formulate measures in a timely manner based on the new situation by continuously paying attention to the development of global economy, the trend of international oil prices and the investment of upstream exploration and development.

Corporate Governance Report

As a domestic and overseas listing company, the Company has reviewed the compliance with the Corporate Governance Code (hereafter referred to as the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") (hereafter referred to as the "Listing Rules") and the regulatory documents on listed companies issued by China Securities Regulatory Commission. Upon the review, the Board is of the view that the corporate governance of the Company has generally met the requirements set out in the Code and the regulations during the reporting period. During the 12 months ended 31 December 2019, the Company has strictly complied with the principles and code provisions as set out in the Corporate Governance Code in Appendix 14 of the Listing Rules.

The Board is of the view that the improvement in corporate governance in 2019 was mainly reflected in the following aspects:

1. The Company continued to improve the overseas business risk assessment system for implementing the full-process risk assessment of the Company's business and further standardized the assessment process by updating the assessment results regularly and conducting dynamic tracking and assessment of high-risk areas.

2. The Company optimized its internal control management system and management standards, improved the internal control management level of the Company, optimized the allocation of auditing resources, made prudent decisions on significant issues in accordance with domestic and overseas regulations and regulatory requirements in order to ensure the effective operation of the supervision and management system, and facilitated and warranted the efficient commencement of the Company's domestic and overseas businesses.

3. According to the development and management needs of its operation, the Company optimized the internal organization and delivered management value and accelerated the implementation of the Company's development strategies by strengthening business collaboration and information construction. Improvements were made on the strategic functions of the Company's planning and financial systems enabling the systems to have more decision-making support by revising the "Planning Financial System", while further strengthening investment risk control and defining the approval process and authority of capital expenditure by revising the "Development Planning and Investment Management System".

4. Constructing a channel for sharing information with independent Directors, organizing independent Directors to conduct in-depth onsite research and participate in the annual market meeting of the Company, and assisting independent Directors to perform their duties diligently, so that corporate governance and production and operation are more closely integrated.

5. Continuously improving information disclosure and investor relationship. According to the industry environment and actual operation situation, the Company timely made risk alerts to investors in its regular report, expressing the sincerity to be accountable to investors and the idea of offering maximum protection to small and medium investors.

In 2019, the stock of the Company was included in the Hang Seng (China A) Corporate Sustainability Benchmark Index for eight consecutive years and was included in the Hang Seng Corporate Sustainability Benchmark Index for six consecutive years. During the year, the Company was enlisted in the A-share Listed Company IR Interactive Activity List of 2018, awarded "2019 Outstanding Brand Image" at the 8th China Finance Summit, appraised as "2019 Honorable Two-star Enterprise" by Fair Wealth, enlisted as the "Best Innovative Listed Company" in the 14th China Listed Companies' Competitiveness and Reputation List, won the title of "Enterprise with Excellent Corporate Governance" and "Excellent Enterprise of Sustainable Development of the Year" by the 2019 Sina Gold Kirin Forum. In the 15th Board of Directors of China Listed Companies Golden Roundtable Award, it was the winner of "Board of Directors' Value Creation Award" and won the title of "China Star Enterprise Award" at the 19th China Top 100 Listed Companies Summit, and at the "2019 China Financing Award" organised by China Financing, it was granted the "Outstanding Technological Innovation Enterprise Award". All of the above showed the recognition of its corporate governance standards by the capital market.

(I) DIRECTOR'S INVOLVEMENT IN SECURITIES TRANSACTIONS

Following specific enquiries with all directors, the Board confirmed that during the 12 months ended 31 December 2019, the provisions of the Model Code for Securities Transaction by Directors of Listed Issuers ("the Model Code") set out in Appendix 10 to the Listing Rules were observed. The Company currently has adopted a code of conduct for securities transactions by directors that is stricter than the provisions set out in the Model Code. In addition, directors, supervisors and senior management of the Company confirmed that during the 12 months ended 31 December 2019, they complied with the "Management Rules with regard to the Holding of and Changes in Company Shares by Directors, Supervisors and Senior Management of Listed Companies" regulated by the China Security Regulatory Commission.

(II) PERFORMANCE OF THE BOARD OF DIRECTORS

1. Composition of the Board of Directors

The composition of the Board of Directors during 2019 and on the date of this report is as follows:

Chairman:	Qi Meisheng (reappointed at the 2018 AGM)
Executive directors:	Qi Meisheng Cao Shujie
Non-executive directors:	Meng Jun Zhang Wukui
Independent non-executive directors:	Law Hong Ping, Lawrence Fong Chung, Mark Wong Kwai Huen, Albert (reappointed at the 2018 AGM)

2. The Roles of the Board of Directors and the Management

The Articles of Association of the Company clearly define the duties and functions of the Board of Directors and the Management. The division of functions is consistent with those disclosed in the Corporate Governance Report 2018 (for details, please search our website for Articles of Association of the Company or Annual Report 2018).

The duty and authority of the Board in the Articles of Association of the Company are consistent with those disclosed in the Corporate Governance Report 2018 (for details, please search our website for Articles of Association of the Company or Annual Report 2018).

Besides, the Company has a specified system to divide responsibilities between the Board and the management towards making investment decisions: all equity investment shall be approved by the Board (approval from shareholders is required if such investment exceeds a certain amount); traditional fixed-asset investment projects with an investment amount of more than RMB300 million (inclusive) or non-traditional fixed-asset investment projects with an investment amount of more than RMB100 million (inclusive) may be approved by the Board and other investments may be approved by the management.

3. Board Meetings

The Board of Directors convened five on-site meetings during the year. Please see Table I of this Report for details of Board meeting attendance and general meeting attendance of directors. For other items not within the scope of the regular Board meeting's agenda and require approval from the Board, the Chairman may serve to the members of the Board the proposed resolutions in written form in accordance with the related requirements of the Articles of Association, and the items will become valid resolutions upon signing by the directors which meets the quorum as stated in the Articles of Association. To create more opportunities for the independent non-executive directors to express their views and make recommendation in respect of the Company's affairs, the Chairman hold several meetings with independent non-executive directors in the absence of executive directors every year so as to listen to the advice of independent directors in respect of the corporate governance and management (this practice has adopted the Code provision A.2.7). In the year of 2019, two meetings were held in such regard. The Board is of the view that meeting proceedings and resolutions of the Board complied with requirements of laws, regulations and the Articles of Association, which ensured prudent discussion by directors before making decisions on material items, and performance of integrity and due diligence and act in the interests of the Company and shareholders as a whole by directors in the related decision making process. Please see Table II for detailed resolutions adopted by the Board in the year of 2019.

4. Performance of Independent Directors

The Board currently has three independent non-executive directors, all of them have rich professional experience in the fields of accounting, law and finance, and are very familiar with the operation of board of directors and duties of independent directors of listed companies. During the reporting period, the independent directors effectively performed their due diligent and attentive responsibilities as directors, and provided various professional advices to the Company, especially in the review of financial reports, the review of connected transactions, the management of risks, among which, please see section VII of this report for details of related reviews of financial reports and the internal control system, as well as sections V and VI of this report for other relevant work. In 2019, the independent directors also reviewed the resolution on the revision of the annual cap of the continuing connected transactions of 2019 under the Master Services Framework Agreement for years 2017-2019 and the annual caps of the continuing connected transactions for the upcoming three years (2020-2022) and expressed their independent opinions. Please see the section headed "Summary of General Meetings" of this annual report for the details of the independent directors' attendance of the general meetings during the reporting period. Please see Table I of this report for details of Board meetings and professional committee meeting attendance of independent directors.

During the reporting period, independent directors did not have any objection to resolutions of the Board for the year or any other items (other than resolutions of the Board) of the Company.

5. Policy on Diversification of Board Composition

The Board of Directors held discussion with regards to the diversification policy of Board composition, and considered it could play a positive role for the Company in recruiting different types of talents, improving corporate governance level and achieving sustainable development to the largest extent. The Board considered that the Company should have different perspectives at the time of selecting directors (measurable objectives include but not confined to factors of educational background, professional experience, age, gender, location and race, etc.), so as to achieve and maintain a policy of diversification among the directors. The Board will endeavour to implement the policy of diversification. Each year, the Nomination Committee of the Company will be responsible for monitoring the implementation of this policy and making recommendations to the Board on assessing the implementation process at an appropriate time. The Company carried out the nomination and election of directors in 2019 (Mr. Qi Meisheng was re-appointed as executive director of the Company, Mr. Wong Kwai Huen, Albert was re-appointed as independent non-executive director of the Company), and the Nomination Committee considered that when the Company handled the director nomination process, the policy of diversification of directors was adequately considered.

6. Internal control and risk management

The Company has established and continuously improved the risk management and internal control systems to prevent that the Company may face. The Company has established a hierarchical organizational structure for the Board and its affiliated audit committee, headquarter departments and direct units to ensure the effective operation of internal control and risk management. The Board is responsible for the risk management and internal control systems, and has the responsibility to review the effectiveness of the systems and conduct a review of the risk management and internal control systems once a year.

In terms of internal control, the Company has established 14 internal control systems from the headquarters of the Company to the second and third-tier units in combination with the "Basic Norms for Internal Controls of Enterprises" and "Guidelines for Enterprise Internal Control Support" jointly issued by the former five national ministries and commissions, and the requirements for listing supervision. Since 2012, the Company has checked and evaluated the effectiveness of internal control operations through daily internal control inspections and annual internal control evaluations. The Board meeting held by the Company in early 2020 evaluated the effectiveness of the 2019 internal control evaluation. The Board assessed that the Company's internal control system was sound and its implementation was effective, and no major defects in the design or implementation of the Company's internal control were found.

In terms of risk management, the Company formulated the "Comprehensive Risk Management Measures", established a sound risk management and control mechanism, and also established a risk management organization system, further realized the dynamic tracking management of risk matters. For the insider information that may be caused by major risks, the process has been optimized and improved. The Company organizes annual risk identification and assessment and submits the "Annual Comprehensive Risk Management Report" to the Board, while organizing the comprehensive risk identification and assessment and submitting the "Quarterly Comprehensive Risk Management Report" to the Board. For major and material risks, formulating risk management strategies and control measures, regularly tracking and reviewing the management and control situation, and reflecting them in the "Quarterly Comprehensive Risk Management Report". Closed-loop management of material risks is achieved through the identification, evaluation, response and assessment of major and material risks.

7. Directors and General Meetings

Particulars of General Meetings convened by the Board and the particulars of the participation of directors during the reporting period were set out in the section "Summary of General Meetings" of this annual report. In the opinion of the Board, the Company complied with all requirements of resolution of the General Meeting during the reporting period. The Board reviewed the implementation of the resolution passed at the of General Meeting by the Company, and considered there was no problem occurred in the implementations of the resolution of General Meeting.

8. Other Matters

During the reporting period, the number and qualifications of independent non-executive directors of the Company were in compliance with Rule 3.10 (1) and (2) and Rule 3.10 (A) of the Listing Rules and the independence of the current independent non-executive directors of the Company is in compliance with the requirements set out in Rule 3.13 of the Listing Rules. Apart from working relationship, there is no material relationship between the Directors, supervisors and senior management of the Company in relation to financial, business, family or other aspects.

The Board is responsible for the corporate governance functions of the Company, and regularly reviews the corporate governance practices to ensure that the Board fully performs the corporate governance responsibilities contained in the Code provision D.3.1.

(III) CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The functions of the Chairman and the Chief Executive Officer of the Company are clearly defined and such positions are at present separately held by two persons, Mr. Qi Meisheng as the Chairman and Mr. Cao Shujie as the Chief Executive Officer.

(IV) TERMS OF OFFICE OF NON-EXECUTIVE DIRECTORS

The term of office of Mr. Meng Jun is three years since the 2017 first EGM. The term of office of Mr. Zhang Wukui is three years since the 2017 AGM. The terms of office of Mr. Law Hong Ping, Lawrence is three years since the 2016 AGM. The term of office of Mr. Fong Chung, Mark is three years since the 2017 AGM. The term of office of Mr. Wong Kwai Huen, Albert is three years since the 2018 AGM.

(V) DIRECTORS' REMUNERATION

1. The Composition and Functions of the Remuneration and Appraisal Committee

(1) The Remuneration and Appraisal Committee of the Company consists of four members, all of them are non-executive directors, namely Wong Kwai Huen, Albert, Law Hong Ping, Lawrence, Fong Chung, Mark and Meng Jun. Three of them are independent non-executive directors. Wong Kwai Huen, Albert acts as Chairman.

(2) The functions of this committee are to formulate the standard for assessing the performance of directors, supervisors and senior management and to conduct such assessment, formulate and review the remuneration policy and scheme for directors, supervisors, and the senior management. The committee studies and discusses the above matters and makes recommendations to the Board, and the Board reserves the final decision in respect of the above matters (please refer to documents of relevant Terms of Reference under the section of Corporate Governance on the Company's website).

2. The work of the Remuneration and Appraisal Committee during the year

During the reporting period, the committee held three meetings (please see Table I for meeting summaries) to review and approve the key performance assessment of the management in 2018, review and approve the Key Performance Indicators for the management of the Company in 2019 and the remuneration of directors, supervisors and senior management for the year 2018 as disclosed in the 2018 annual report of the Company, and listened to the report on the performance evaluation of management in 2019.

(VI) NOMINATION OF DIRECTORS

1. The Composition and Functions of the Nomination Committee

(1) To ensure that the members of the Board possess of the professional experience and educational background as required for the business development of the Company and achieve and maintain the diversity of the Board, the Company established the Nomination Committee which would assess the implementation of policies and provide advices to the Board in due course. The Nomination Committee of the Company consists of three members, namely Law Hong Ping, Lawrence, Qi Meisheng and Wong Kwai Huen, Albert, and Law Hong Ping, Lawrence acts as Chairman.

(2) Major functions of the committee are to select and recommend candidates for directors and senior management of the Company and to recommend the standards and procedures for selecting such candidates (please refer to documents of relevant Terms of Reference under the section of Corporate Governance on the Company's website).

2. The work of the Nomination Committee during the year

During the reporting period, the Nomination Committee held two meetings (for details of the meetings, please see Table I), during which the nomination of directors and the nomination of Board secretary (and Company secretary) were discussed, the independence of the independent directors was recognized, the diversity policy and nomination policy of the directors were discussed.

(VII) THE AUDIT COMMITTEE

1. The Composition and Functions of the Audit Committee

(1) The Audit Committee consists of three members, namely Fong Chung, Mark, Law Hong Ping, Lawrence and Wong Kwai Huen, Albert. All of them are independent non-executive directors, and Fong Chung, Mark acts as Chairman.

(2) The functions of the Audit Committee are to review the accounting policy, financial position and financial reporting procedures of the Company; to review the internal control structure; to recommend and engage external auditing firm; and to be primarily responsible for the communication, supervision and review of the internal and external audits of the Company (please refer to documents of relevant Rules of Procedure under the section of Corporate Governance on the Company's website).

2. The work of the Audit Committee during the year

During the reporting period, the Audit Committee held four meetings, for details of the meetings, please see Table I. The major work of the Audit Committee for the year is as follows:

(1) Reviewed the annual financial results of 2018, the first quarterly report, the interim financial results and the third quarterly report of 2019 of the Company. During the review process, the members performed sufficient and necessary communication with the Company's external auditors and the management of the Company and fulfilled the committee's duties in ensuring the Company's compliance with regulations, completeness and accuracy of the operating results disclosed by the Company.

(2) Reviewed, discussed and optimized the work for internal audit and risk management of the Company and considered and approved the 2018 annual internal audit report and the 2019 internal audit proposal of the Company. During the reporting period, the committee adopted the internal audit working report and the 2019 comprehensive risk management report, required the Company to strengthen the risk control of front-end business and the prevention of overseas business risks, and enhancing the internal audits participation in business development while strengthening the focus on internal control risk points.

(3) Reviewed the connected transactions of the Company. Enquired about the progress of the 2019 daily connected transactions and reviewed the revision of the annual cap of the continuing connected transactions of 2019 under the Master Services Framework Agreement for years 2017-2019 and the annual caps of the continuing connected transactions for the upcoming three years (2020-2022).

(4) Regarding the re-appointment of the auditors, the committee unanimously approved the recommendations on re-appointing Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu as domestic and international auditors of the Company for 2019.

(VIII) TRAINING FOR DIRECTORS

The trainings of Directors during the year 2019 were as follows: In May, all the Directors of the Company attended the training on the Directors', Supervisors' and Senior Management's performances and the information disclosure key points in Yanjiao of Hebei Province. In November, Law Hong Ping, Lawrence, Fong Chung, Mark and Wong Kwai Huen, Albert (all of them are Independent Non-Executive Directors of the Company) went to the Company's drilling platform operation site for work investigation.

(IX) BOARD SECRETARY

Wu Yanyan, the Board Secretary (and the Company Secretary) was appointed by the Board in August 2019, biography of whom was set out in the section "Directors, Supervisors, Senior Management and Employees" in this Annual Report. The Board Secretary of the Company reports to the Chairman and Chief Executive Officer and makes recommendation to the Board in respect of corporate governance. For the year 2019, Ms. Wu Yanyan has confirmed that she has taken not less than 15-hour relevant and professional training.

(X) PROTECTION ON THE SHAREHOLDERS' INTERESTS

In respect of the protection on the shareholders' interests, shareholders of the Company may obtain relevant information in accordance with the requirements under the Articles of Association, including the personal information of the directors, supervisors and senior management of the Company, share capital of the Company, record of general meetings, Board resolutions, resolutions of Supervisor Committee and financial reports, and so on. The Company provides its contacts in regular reports and on the Company's website to facilitate smooth communication with its shareholders. Also, the Company makes a clear explanation for the procedures of calling an EGM or a class meeting by shareholders in the Articles of Association. For details of which, please refer to the Articles of Association published on the Company's website.

During the reporting period, the Company made an amendment to the Articles of Association. For details, please refer to the announcements of the Company dated 27 March 2019 and 30 May 2019.

(XI) THE REMUNERATION OF AUDITORS

In 2019, the Company re-appointed Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu as domestic and international auditors of the Company for 2019, and authorized the Board to fix their remuneration. The fees for the audit work provided by the auditors to the Company during the reporting period was as follows:

Auditing – The audit fees totaled RMB15.48 million for audit/review of the annual and interim financial statements in 2019 and internal control.

(XII) RESPONSIBILITIES UNDERTAKEN

The Board of Directors acknowledges its responsibilities of preparing the account of the Company and the auditors have also explained their reporting responsibilities in the financial reports; the Board of Directors undertakes the responsibilities for the effectiveness of internal control of the Company and its subsidiaries and has completed the relevant review and assessment during the reporting period, and concluded that there were no material weaknesses in the internal controls of the Company and its subsidiaries; the Board of Directors confirms that, unless otherwise stated in this annual report, there are no major events and circumstances of uncertainty which may affect the operation of the Company as a going concern.

Table I: Board Meetings & Professional Committee Meetings

Meeting	Time	Place	Attendant	Moderator	Notes
First Meeting of Board of Directors	27 March 2019	Shenzhen	Qi Meisheng, Cao Shujie, Meng Jun, Zhang Wukui, Law Hong Ping, Lawrence, Fong Chung, Mark, Wong Kwai Huen, Albert	Qi Meisheng	Three supervisors attended as non-voting delegates
Second Meeting of Board of Directors	26 April 2019	Beijing	Qi Meisheng, Cao Shujie, Meng Jun, Zhang Wukui, Law Hong Ping, Lawrence, Fong Chung, Mark, Wong Kwai Huen, Albert	Qi Meisheng	Two supervisors attended as non-voting delegates
Third Meeting of Board of Directors	21 August 2019	Shenzhen	Qi Meisheng, Cao Shujie, Meng Jun, Zhang Wukui, Law Hong Ping, Lawrence, Fong Chung, Mark, Wong Kwai Huen, Albert	Qi Meisheng	Three supervisors attended as non-voting delegates
Fourth Meeting of Board of Directors	30 October 2019	Yanjiao	Qi Meisheng, Cao Shujie, Meng Jun, Zhang Wukui, Law Hong Ping, Lawrence, Fong Chung, Mark, Wong Kwai Huen, Albert	Qi Meisheng	Three supervisors attended as non-voting delegates
Fifth Meeting of Board of Directors	17 December 2019	Yanjiao	Qi Meisheng, Cao Shujie, Meng Jun, Zhang Wukui, Law Hong Ping, Lawrence, Fong Chung, Mark, Wong Kwai Huen, Albert	Qi Meisheng	Three supervisors attended as non-voting delegates
First Meeting of Audit Committee	26 March 2019	Shenzhen	Fong Chung, Mark, Law Hong Ping, Lawrence,Wong Kwai Huen, Albert	Fong Chung, Mark	Two supervisor attended as non-voting delegate
Second Meeting of Audit Committee	25 April 2019	Beijing	Fong Chung, Mark, Law Hong Ping, Lawrence,Wong Kwai Huen, Albert	Fong Chung, Mark	One supervisors attended as non-voting delegates
Third Meeting of Audit Committee	20 August 2019	Shenzhen	Fong Chung, Mark, Law Hong Ping, Lawrence, Wong Kwai Huen, Albert	Fong Chung, Mark	One supervisors attended as non-voting delegates
Fourth Meeting of Audit Committee	29 October 2019	Yanjiao	Fong Chung, Mark, Law Hong Ping, Lawrence, Wong Kwai Huen, Albert	Fong Chung, Mark	Two supervisor attended as non-voting delegate
First Meeting of Remuneration and Appraisal Committee	26 March 2019	Shenzhen	Wong Kwai Huen, Albert, Fong Chung, Mark, Law Hong Ping, Lawrence, Meng Jun	Wong Kwai Huen, Albert	
Second Meeting of Remuneration and Appraisal Committee	26 April 2019	Beijing	Wong Kwai Huen, Albert, Fong Chung, Mark, Law Hong Ping, Lawrence, Meng Jun	Wong Kwai Huen, Albert	
Third Meeting of Remuneration and Appraisal Committee	17 December 2019	Yanjiao	Wong Kwai Huen, Albert, Fong Chung, Mark, Law Hong Ping, Lawrence, Meng Jun	Wong Kwai Huen, Albert	
First Meeting of Nomination Committee	26 March 2019	Shenzhen	Law Hong Ping, Lawrence, Qi Meisheng, Wong Kwai Huen, Albert	Law Hong Ping, Lawrence	
Second Meeting of Nomination Committee	21 August 2019	Shenzhen	Law Hong Ping, Lawrence, Qi Meisheng, Wong Kwai Huen, Albert	Law Hong Ping, Lawrence	

	Participation in Board Meetings					Participation in Shareholders Meetings
	No. of Board Meetings Participations for This Year	No. of In-person Attendance	No. of Participation by Communication	No. of Delegated Attendance	No. of Absences	No. of Shareholders Meetings Participations
Qi Meisheng	5	5	0	0	0	4
Cao Shujie	5	5	0	0	0	4
Law Hong Ping, Lawrence	5	5	0	0	0	4
Fong Chung, Mark	5	5	0	0	0	1
Wong Kwai Huen, Albert	5	4	1	0	0	4
Meng Jun	5	4	0	1	0	0
Zhang Wukui	5	5	0	0	0	0

Table II: Particulars of the Board resolutions

Meeting	Matters considered
First Meeting of Board of Directors	1. Approving the resolution of the audited 2018 Financial Report of the Company 2. Approving the proposal to re-appoint Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu as domestic and international auditors of the Company at the general meeting, and to authorize the Board of Directors to approve their remunerations 3. Approving the resolution of the dividend distribution plan of the Company for the year 2018 4. Approving the proposal for the Directors' Report and Corporate Governance Report of the Company for the year 2018 5. Approving the resolution of the Sustainability Report of the Company for the year 2018 6. Approving the resolution of the 2018 Assessment Report on Internal Control of the Company 7. Approving the resolution of disclosure of results of the Company for the year 2018 8. Approving the proposal to authorize the Board to further issue 20% of H shares at the general meeting 9. Approving the proposal to authorize the Board to repurchase 10% of A shares and 10% of H shares at the general meeting 10. Approving the Management Performance Assessment 11. Approving the resolution of the provision of guarantees for other parties 12. Approving the resolution of nominating Mr. Qi Meisheng as candidate for executive director of the Company 13. Approving the resolution of nominating Mr. Wong Kwai Huen, Albert as candidate for independent non-executive director 14. Approving the proposal to the change of accounting policies 15. Approving the proposal to amend the Articles of Association 16. Approving the proposal for convening Annual General Meeting and Class Meeting

Meeting	Matters considered
Second Meeting of Board of Directors	1. Approving the 2019 First Quarterly Report of the Company, and authorizing the Secretary to the Board to disclose according to regulation
Third Meeting of Board of Directors	1. Approving the 2019 Interim Report of the Company 2. Approving the disclosure of the 2019 Interim Results of the Company 3. To consider and approve the change of Board Secretary of the Company
Fourth Meeting of Board of Directors	1. Approving the 2019 Third Quarterly Report of the Company, and authorizing the Secretary to the Board to disclose according to regulation 2. Approving the resolution of revising the annual cap of the continuing connected transactions of 2019 under the Master Services Framework Agreement for years 2017-2019 3. Approving the resolution of the annual caps of the continuing connected transactions for the upcoming three years 4. Approving the resolution of the US dollar loan by the overseas subsidiary, COSL MIDDLE EAST FZE, and the provision of guarantee by the Company 5. Approving the resolution of the issuance of US dollar bonds by an overseas subsidiary in 2020 6. Approving the resolution of the provision of guarantee by the Company for the issuance of US dollar bonds by an overseas subsidiary 7. Approving the resolution of convening an extraordinary general meeting
Fifth Meeting of Board of Directors	1. Approving the resolution of the 2020 wealth management amount of the Company

Summary of General Meetings

Session and No. of Meeting	Date	Name of Proposals	Resolutions	Designated websites on which resolutions were published
AGM 2018	30 May 2019	**As ordinary resolutions:** 1. To consider and approve the audited financial statements and the auditor's report for the year ended 31 December 2018; 2. To consider and approve the proposed profit distribution plan and annual dividend plan for the year ended 31 December 2018; 3. To consider and approve the Report of Directors of the Company for the year ended 31 December 2018; 4. To consider and approve the Supervisory Committee Report of the Company for the year ended 31 December 2018; 5. To appoint Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu as the domestic and international auditors of the Company for 2019 respectively and the Board was authorised to determine their remunerations; 6. To consider and approve the provision of guarantees by the Company for other parties; 7. To consider and approve the re-appointment of Mr. Qi Meisheng as an executive director of the Company; 8. To consider and approve the re-appointment of Mr. Wong Kwai Huen, Albert as an independent non-executive director of the Company; **As special resolutions:** 1. To consider and approve the resolution of granting the Board a mandate to issue further H shares representing up to 20% of the aggregate amount of the H shares in issue during the relevant period; 2. To consider and approve the resolution of granting the repurchase rights on 10% A shares and 10% H shares to the Board; 3. To consider and approve the amendments to the Articles of Association.	The convening of this meeting was in compliance with the Company Law and other relevant laws, administrative regulations and Articles of Association. There were 12 shareholders (including on-site attendance and online voting) in attendance either in person or by proxy at the AGM, representing 3,609,103,567 shares or 75.64% of the voting shares. The aforesaid resolutions were approved by way of on-site and online voting by poll. Non-executive directors, Mr. Meng Jun, and Mr. Zhang Wukui, independent non-executive director, Mr. Fong Chung, Mark could not attend the meeting due to other business while all other directors and supervisors of the Company attended the AGM.	www.sse.com.cn www.hkex.com.hk

Session and No. of Meeting	Date	Name of Proposals	Resolutions	Designated websites on which resolutions were published
2019 First A Share Class Meeting	30 May 2019	**As special resolution:** 1. To consider and approve the resolution of granting the repurchase rights on 10% of A shares and 10% of H shares to the Board.	The convening of this meeting was in compliance with the Company Law and other relevant laws, administrative regulations and Articles of Association. There were 11 shareholders (including on-site attendance and online voting) in attendance either in person or by proxy at the meeting, representing 2,435,902,297 shares or 82.28% of the A voting shares. The aforesaid resolution was approved by way of on-site and online voting by poll. Non-executive directors, Mr. Meng Jun and Mr. Zhang Wukui, independent non-executive director, Mr. Fong Chung, Mark could not attend the meeting due to other business while all other directors and supervisors of the Company attended the Class Meeting.	www.sse.com.cn www.hkex.com.hk
2019 First H Share Class Meeting	30 May 2019	**As special resolution:** 1. To consider and approve the resolution of granting the repurchase rights on 10% of A shares and 10% of H shares to the Board.	The convening of this meeting was in compliance with the Company Law and other relevant laws, regulations and Articles of Association. There was 1 shareholder in attendance either in person or by proxy at the meeting, representing 1,173,201,270 shares or 64.78% of the H voting shares. The aforesaid resolution was approved by way of on-site voting by poll. Non-executive directors, Mr. Meng Jun and Mr. Zhang Wukui, independent non-executive director, Mr. Fong Chung, Mark could not attend the meeting due to other business while all other directors and supervisors of the Company attended the Class Meeting.	www.sse.com.cn www.hkex.com.hk

Session and No. of Meeting	Date	Name of Proposals	Resolutions	Designated websites on which resolutions were published
EGM 2019	18 December 2019	**As ordinary resolutions:** 1. To consider and approve the resolution in relation to the revision of the annual cap of the continuing connected transactions of 2019 under the Master Services Framework Agreement for years 2017-2019; 2. To consider and approve the resolution in relation to the annual caps of the continuing connected transactions for the upcoming three years; 3. To consider and approve the resolution in relation to the US dollar loan by the overseas subsidiary, COSL MIDDLE EAST FZE, and the provision of guarantee by the Company; 4. To consider and approve the resolution in relation to the provision of guarantee for the issuance of US dollar bonds by an overseas subsidiary. **As special resolution:** 1. To consider and approve the resolution in relation to the issuance of US dollar bonds by an overseas subsidiary in 2020.	The convening of this meeting was in compliance with the Company Law and other relevant laws, administrative regulations and Articles of Association. There were 8 shareholders (including on-site attendance and online voting) in attendance either in person or by proxy at the meeting, representing 3,643,225,720 shares or 76.35% of the voting shares of the Company. The aforesaid resolutions were approved by way of on-site and online voting by poll. Non-executive directors, Mr. Meng Jun and Mr. Zhang Wukui, chairman of the Supervisory Committee, Mr. Wu Hanming, employee supervisor, Mr. Zhao Bi could not attend the meeting due to other business while all other directors and supervisor of the Company attended the EGM.	www.sse.com.cn www.hkex.com.hk

About This Report

This is the 14th annual report on sustainable development released by China Oilfield Services Limited (hereinafter referred to as "COSL", "the Company" or "we"). It discloses the performance of COSL in terms of the economy, the environment, society, etc, during the period of 1 January 2019 to 31 December 2019. Portions of the content and data exceed the above timeframe.

● Statement by the Board of Directors

The China National Offshore Oil Corporation (CNOOC) is a member of the UN Global Compact; by extension, as a member of CNOOC, COSL will comply with the UN Global Compact's 10 principles. The Board of Directors will facilitate the Company to fulfill its responsibilities, including the disclosure obligations of related information.

● References and Guarantee of Reliability

References for the preparation of this report include "Sustainability Reporting Standards" issued by the Global Reporting Initiative (GRI), the UN Global Compact's 10 Principles, the "Environmental, Social and Governance Reporting Guide" within Listing Rules and relevant consultation papers of provisions of the Listing Rules of Hong Kong Stock Exchange, the "Guidelines of Environmental Information Disclosure for Listed Corporations" issued by the Shanghai Stock Exchange, and the "Guide for Social Responsibility Report of China (CASS-CSR4.0)" from the Chinese Academy of Social Sciences.

The Company affirms that the report does not contain any knowingly false representations, misleading statements or material omissions.

● Sources of Information and Descriptions

All information used in the report was obtained from official Company documents and statistical reports. Unless otherwise stated, all financial information in the report is stated in RMB.

● Preparation Process

The information presented in this report aims to be objective, consistent, true and transparent, as substantiated by analysis of domestic and international business standards for sustainable development, comparison with other enterprises' sustainability reports, and review and approval by the Management and Board of Directors.

● Languages

This report is released in Chinese and English. The Chinese version shall prevail in case of any discrepancy.

● Access to the Report

This report is available in printed and electronic versions. For the electronic version, please visit the Company's official website (http://www.cosl.com.cn).

For information on COSL's corporate governance system, measures and results, please refer to the "COSL 2019 Annual Report – Corporate Governance Report".

About COSL

Company Profile

China Oilfield Services Limited is one of the world's leading integrated oilfield services providers. The Company is listed on the Hong Kong and Shanghai stock exchanges, and has more than 50 years of experience in offshore oil and gas exploration, development and production. Its business currently encompasses the core service segments of geophysical and surveying, drilling, wells services and marine support. As well as providing single-operation services to customers, COSL also offers one-stop solution services using the best offshore oilfield technology in Asia-Pacific. COSL's business has expanded to Asia-Pacific, the Middle East, the Americas, Europe, Africa and the Far East, with activities taking place in more than 40 countries and regions around the globe.

Corporate Culture

Corporate Spirit	Performance Guideline	Core Value	Code of Conduct
Always Do Better	Do Everything Diligently	Win-win with shareholders, customers, employees and partners	Integrity, dedication, team work and self-discipline

Corporate Strategies

In the new era of emerging opportunities, the Company studied and evaluated industry development trends, comprehensively analysed current operational and management conditions, and determined two major strategies: technological development and international development in 2018. To this end, it has created a clear vision for a technological transfer from heavy to light assets, and has given great emphasis to the transfer from the domestic market to both domestic and overseas markets. In 2019, COSL continued to adhere to both technological and international development, put great effort in innovation development and accelerate its business expansion, for the purpose of striving for becoming a world-class international oilfield service provider.

Development of domestic business

As an enterprise closely liuised with CNOOC Limited, the Company continued to guarantee the supply of high-quality equipment, technology and labour force and made more efforts to introduce innovations to further improve the efficiency of oilfield exploration and development and reduce customers costs. It seized development opportunities in onshore markets and focused on exploration and development in northwestern regions and on unconventional businesses in China.

Expansion of overseas business

The Company thoroughly considered the maturity of regional development and implemented differentiated management and control models consistent with the operation of entities and project systems. It also focused on building the capacity of five ancillary systems, namely business, operations, finance, technological development and overall management. It fully leveraged on investment, mergers, joint ventures, partnerships, cooperation, strategic alliances and other means to consolidate and rapidly expand overseas businesses and achieve efficient global operations.

Technological development

The Company allocated research and development resources around the world, further improved its technological research and development platform, expanded its channels and means of obtaining technology, and enhanced the efficiency of its research and development. It focused on developing soft strength in geology and oil deposits, project design, comprehensive data processing and interpretation. It also promoted the deep integration of informationisation, digitalisation and artificial intelligence with business to develop new drivers for economic growth.

Development of large equipment

By focusing on light assets and fully leveraging on social resources through leasing, cooperation and custody, the Company further optimised the equipment structure, enhanced the quality of its design and operation, and focused on developing integrated service abilities for deep waters and special environments.

Promoting environmental protection and new energy services

The Company promoted new and environmentally friendly drilling technology and vigorously expanded to wind power, hydrate and other clean energy industries to bring new drivers to economic growth.

Honours in 2019

2019.7

In July 2019, the Company was honoured with the title "Outstanding Award" for its outstanding results during activities organised by the Quality Management Group on National Petroleum and Chemical Industry in 2019.

2019.7

In July 2019,the "quality and efficiency improvement project of dynamic cyclic triaxial testing" of our Geophysical Department was awarded the highest level prize of the 4th National Quality Innovation Competition: Level OIC-V.

2019.7

In July 2019, the Company won the "Outstanding Technological Innovation Enterprise Award" in the China Financing Award in 2019.

2019.9

In September 2019, the Company won the title "2019 Honourable 2-Star Enterprise" in the Fair Wealth Star Firm 2019.

2019.10

In October 2019, the Company received the "Best Innovative Listed Company" in the 14th Competitiveness and Credibility Ranking for China Listed Companies.

2019.11

In November 2019, the Company was awarded the "Outstanding Governance Enterprise" and "Outstanding Annual Sustainable Developing Corporate" in 2019 Sina Jin Qilin Forum.

2019.11

In November 2019, the Company was awarded the "Outstanding Leading Enterprise" prize in the Technological Innovation and High Quality Development and Advanced Corporate Award Ceremony of the Tianjin Innovation Zone.

2019.12

In December 2019, the Company was honoured with the "China Star Enterprise" in 19th China Top 100 Listed Companies Summit Forum.

Business Development

Business Presence

Asia-Pacific: Singapore, Indonesia, Malaysia, Myanmar, Bangladesh, Timor-Leste, Cambodia, Brunei, Papua New Guinea, Australia, New Zealand
Middle East: Iraq, United Arab Emirates, Qatar, Saudi Arabia, Kuwait
Africa: Gabon, Nigeria, Cameroon, Uganda
Americas: Canada, Mexico, Brazil, Argentina
Europe: Norway, UK, Ireland
Far East: Far East

Business Scope

Geophysical and Surveying Services

- Offshore Seismic Acquisition Services
- Offshore Geo-surveying Services
- Seismic Data Processing & Interpretation
- Fundamental Construction

Drilling Services

- Offshore Drilling Rigs
- Modular Drilling Rigs
- Supporting Rigs
- Land Drilling Rigs
- Drilling Rig Management
- Oil Casing

Well Services

- Logging
- Drilling & Completion Fluids
- Directional Drilling
- Cementing
- Well Completion
- Workover
- Oilfield Production Optimisation
- Oilfield Waste Treatment

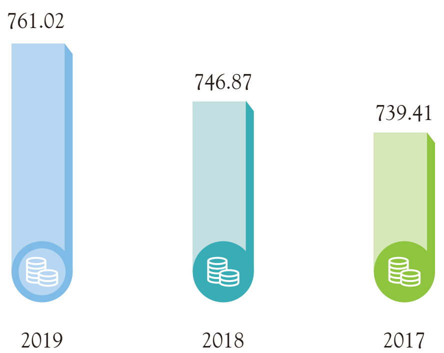
Marine Support Services

- Anchor Handling
- Towing
- Offshore Transportation
- Stand-by
- Oil Lifting
- Fire Fighting
- Rescue
- Oil Spill Assistance

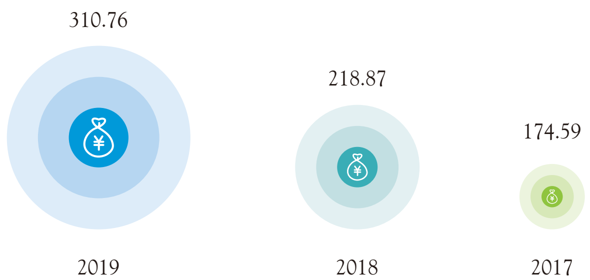
Key Performance

Market Performance

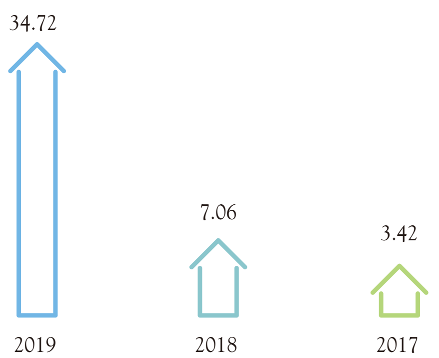
Total assets
(unit: RMB100 million)



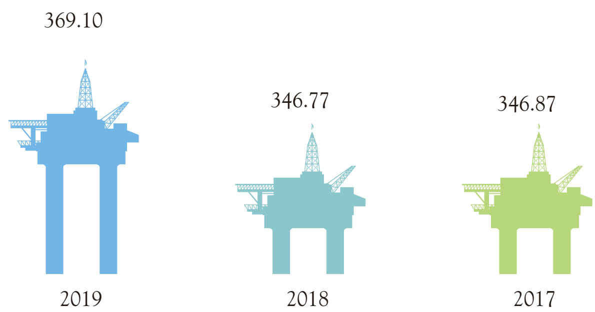
Operating revenue
(unit: RMB100 million)



Profit before tax
(unit: RMB100 million)



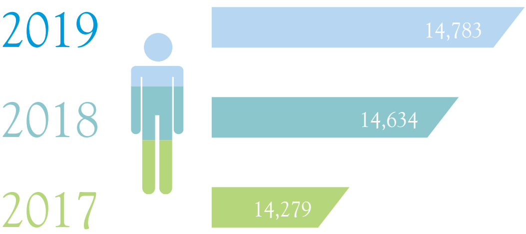
Total equity
(unit: RMB100 million)



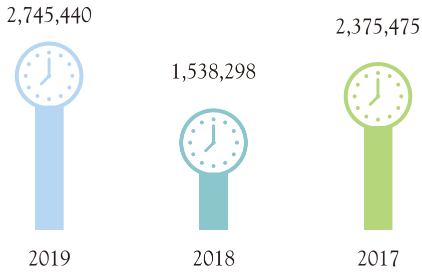
Market Performance	Unit	2019	2018	2017
Revenue from international business	RMB100 million	69.16	56.61	43.23
Percentage of revenue from international business	%	22	26	25
Total taxation	RMB100 million	23.36	13.78	10.76
Number of new patent	Item	97	91	74

Social Performance

Total number of employees
(unit: person)



Total time of employees' training
(unit: hours)

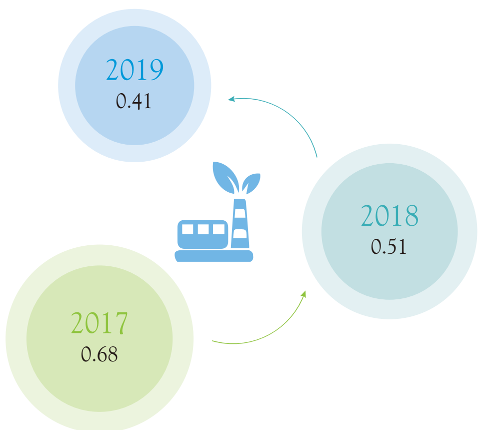


Social Performance	Unit	2019	2018	2017
Percentage of female employees	%	8.0	8.2	8.1
Social insurance coverage	%	100	100	100
Percentage of labour contracts signed	%	100	100	100
Staff turnover rate	%	1.6	2.6	2.2
Total donation & employee relief fund	RMB10,000	255	441.4	356.7
Number of maritime rescues and salvages	Times	16	25	26
Number of employees participating involunteer activities	Person	980	883	1,043

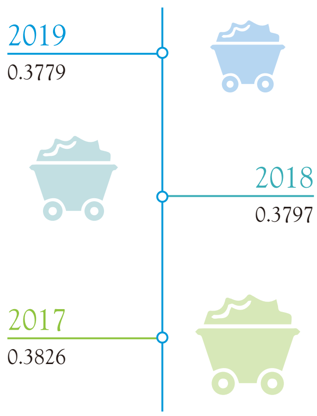
Environmental Performance

Investment in energy conversion and emissions reduction
(unit: RMB10,000)

Emissions of carbon dioxide for an output value of RMB ten thousand
(unit: Tonnes/RMB10,000)



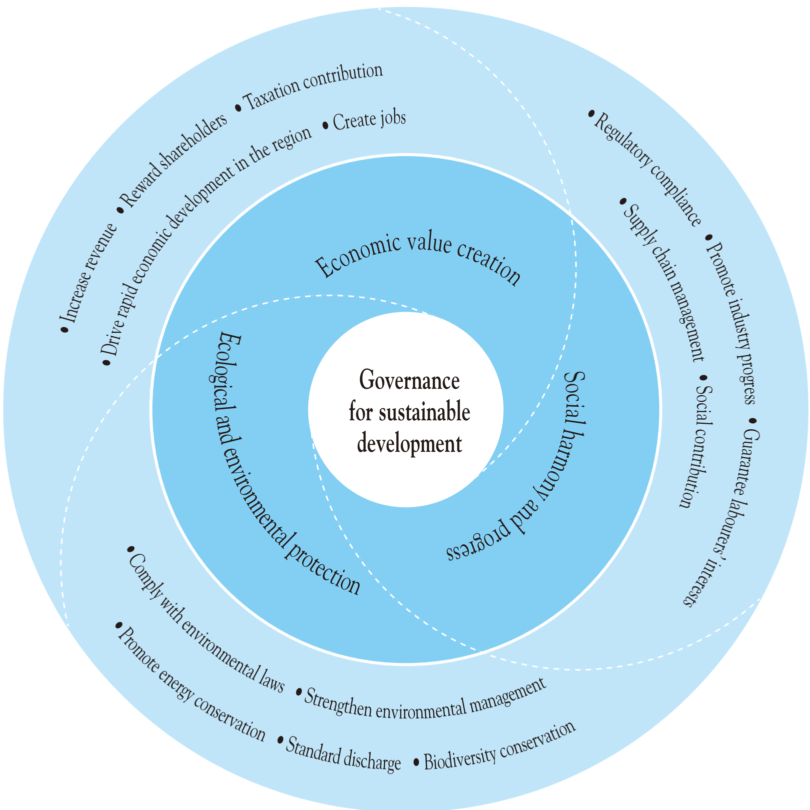
Energy consumption for an output value of RMB ten thousand
(Unit: Standard coal (Tonnes)/ RMB10,000)



Sustainable Development Management

Sustainable Development Governance

The Company continues to optimise its sustainable development management and incorporated its sustainable philosophy of "Always Do Better" into the enterprise development strategy and daily operations. The Company appoints a specific department to prepare and publish sustainability reports and carry out sustainable development training and exchanges. All departments and business units participate in promoting systematic and standardised management of sustainable development, combining its functions and responsibilities to achieve a combined governance for sustainable development and business management.



Communication with Stakeholders

The Company attaches great importance to communication with stakeholders. It routinely conducts in-depth research on stakeholders' concerns and expectations, and adopts their relevant demands as the Company objectives and incorporates them into plans and proposals for sustainable development. Through a variety of channels and platforms, the Company maintains ongoing communications on new developments of its capabilities and on its performance in meeting the reasonable expectations and demands of all parties.

Stakeholders	Concerns	Responses and measures
Regulatory authorities and government	Implementing macroeconomic policy Operation in compliance with law Paying taxation in accordance with the law	Promoting laws and regulations Paying taxation in accordance with the law Accepting supervision and evaluation Visiting and reporting
Employees	Protection of rights Career development Health and safety Employee participation Employee care	Equal employment policies Optimisation of pay and benefits Four-level training Respecting diversity Occupational health and safety management Employee representatives meetings Cultural and recreational activities Employee care
Shareholders	Improving corporate governance Value creation Guarding against operational risks Information disclosure	Regular reports General meetings Daily communication Publishing annual reports and sustainability reports
Customers	Provision of safe, high quality and efficient services Security of customer information Improvement of customer satisfaction	Development of quality management system Continuous innovation Providing professional solutions Visits and communications Protecting customer information Comprehensive improvement of work standards
Suppliers and contractors	Compliance with business ethics and laws and regulations Establish long-term partnerships Mutual benefit and win-win development	Business discussions and technology exchange Negotiation of contracts and daily exchange Electronic management platform
Financial institutions	Operating conditions Operational risks Corporate governance	Special sessions Information disclosure
Media	Fulfillment of sustainable development Corporate performance Major events, activities and initiatives	Information disclosure Multi-channel communication
Charity and non-governmental organisations	Maintaining close contact and information sharing Participation in social activities	Active participation in social welfare Information disclosure
Community and the public	Improving communication and exchange Carrying out social contribution activities Supporting public welfare	Philanthropy Targeted poverty alleviation Marine salvage Promoting employment Supporting education Community care Volunteering services
Environment	Compliance with environmental laws and regulations Environmental protection Conserving energy and reducing emissions	Establishment of environment management system Conduct environmental training and awareness Clean production Conservation of biological diversity Practicing environmental charity

Risk Management

Build solid development fundamentals

- Regulatory Compliance
- Internal Control and Risk Management
- Anti-fraud Initiatives

Regulatory Compliance

Compliance with Relevant Laws and Regulations

The Company strictly abides by relevant laws and regulations in its development to ensure legal operation. It maintains full compliance with the Labour Law and relevant regulations, respects and protects the legal rights of employees, complies with the Anti-unfair Competition Law and relevant regulations to promote fair competition and follows the Environmental Protection Law and relevant regulations. The Company endeavours to adapt to the changing environment and protect the ecological environment.

A Stronger System of Compliance

Based on its commitment to governance in respect to the law, the Company strengthened its system of lawful compliance by revising various internal control systems and continuing to improve its scientific, targeted and timely prevention, control and management of legal risks.

Internal Control and Risk Management

Internal Control Management

Strengthening its senior management mechanism and developing a global integrated comprehensive management system

Oriented to the Company's strategies and based on ISO standards and the international management mechanism including internal control management systems, we rationalised the core management elements comprehensively, developed a global integrated comprehensive management system and senior management mechanism in line with its international development.

Promoting system publicity and implementation and enhancing rectification of problems

The Company strengthened risk control management training and system publicity and implementation through various means, and promoted the exchange of advanced management experience at all levels to improve internal control ability and facilitate systems implementation. It intensified the rectification of audit problems, performed rectification responsibilities and optimised the application of rectification results to facilitate the continuous improvement of internal control systems and control risks from the source.

Expanding the coverage of internal control evaluation and improving the systems for management's awareness and abilities

To urge all divisions to enhance the internal control and management staudard, the internal control evaluation is modified to comprehensively cover aspects such as domestic and foreign units, selection of professional core management, system rationalising, assessment of the establishment and implementation of the Company's control mechanism, so as to encourage the employees from all positions to enhance their awareness on and abilities of system management, continue the optimisation of systems and enhance the efficiency of system management.

Risk Management

Improving the risk management system and establishing the long-term risk prevention mechanism

We establish an internal control compliance and risk management mechanism for each of the divisions to clearly arrange the duty allocation and strengthen the performance of responsibilities. Pursuant to the principles of management control in each hierarchy, we implement risk assessment and management control, reinforce our information sharing and continue to enhance the efficiency of synergic risk prevention and control mechanism.

Strengthening the risk identification for achieving high quality development

We identify risks in various business aspects thoroughly, expand our risk assessment coverage to include external environment,gather our labour from all positions, divisions and units to rationalize and study the risks, so as to provide a solid foundation for increasing profitability and protecting our high-quality development.

Preventing and mitigating material operational risks and enhancing abilities to reducing risks

Being adhered to its core spirit, the Company has prioritised its focus on mitigating material risks by carrying out projects to prevent and mitigate operational risks, identifying all material operational risks comprehensively and formulating management strategies and measures for each specific risk. It has also tried its best to prevent significant risks in key aspects and improve its abilities and standards of preventing and reducing material risks.

172

Number of internal control management training sessions

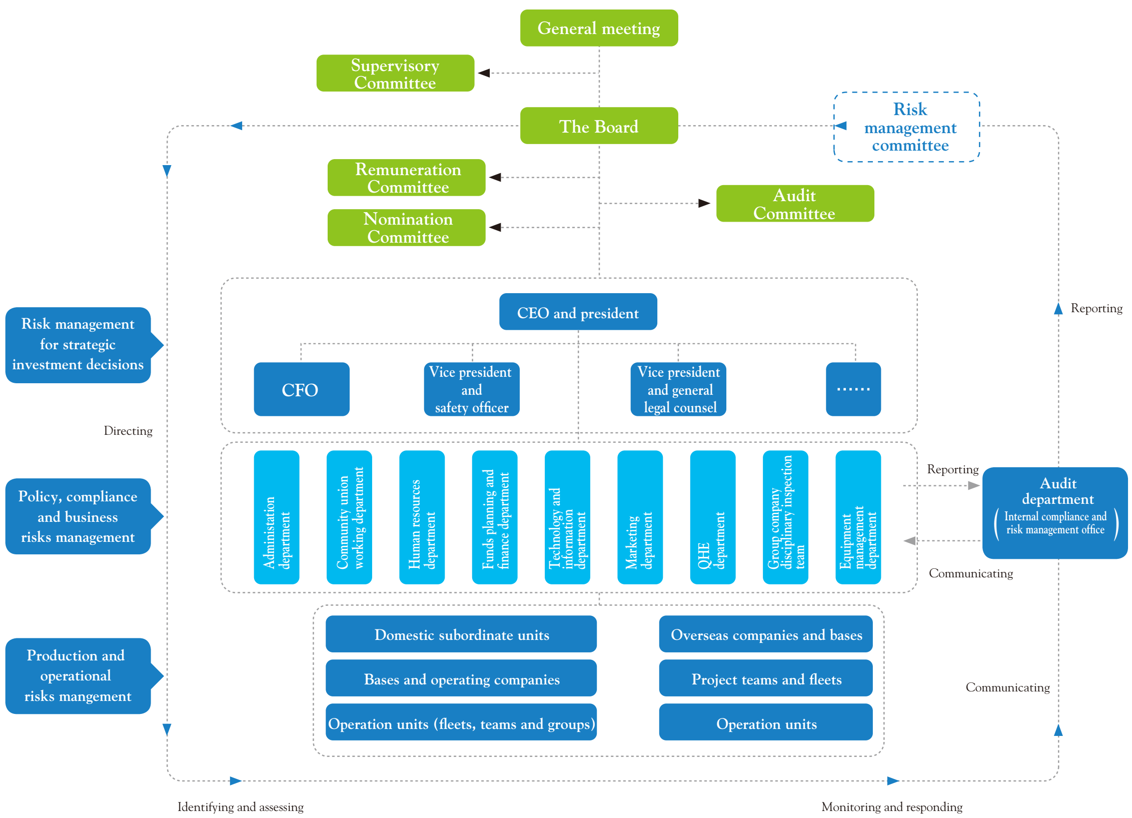
2,725

Number of participants in internal control management training

Internal control and risk management training performance table (2017-2019)

Indicator	Unit	2019	2018	2017
Number of internal control management training	Times	172	166	162
Number of participants in internal control management training	Person-times	2,725	2,512	2,362
Number of risk management training	Times	47	45	49
Number of participants in risk management training	Person-times	1,621	1,598	1,743

Risk Management Organisation Chart



Anti-fraud Initiatives

Preventing commercial corruption and bribery

The Company established provisions for the punishment of unlawful acts such as bribery and fraud. The Company adheres to the guidance of petition reports, inspections, internal audits and special inspections, and continues to carry out in-depth anti-corruption work. Organizations have conducted risk inspection of key businesses, improved the integrity risk bank, and improved the integrity risk control. Strengthening supervision and accountability, effectively preventing and controlling corruption, bribery, and insider trading. In 2019, no instances of corruption, fraud or money laundering were detected b the Company.

Preventing and controlling corruption and fraud risks on overseas institutes

The Company has turned the strengths of its mechanism into its corporate governance, implemented overseas ethics compliance management systems and developed training courses for ethic and compliance management and foreign laws and regulations in where it operates businesses as well as courses for anti-fraud education. In 2019, it sent a regulatory team and the selected supervisors for ethics compliance to the Americas, the Far East, Asia-Pacific, the Middle East and Europe, so as to continue to improve its overseas regulatory system and offer comprehensive supervision of its overseas businesses. It enabled overseas employees to enter the Letter of Commitment on Following Ethics and Code of Conduct to strengthen awareness of ethics compliance. Every direct overseas institution has now duly created tip-off email addresses and telephone numbers and opened channels for reporting ethics compliance issues.

Intensified anti-fraud and warning education

The Company has adhered to enforcing discipline in the workplace and kept an eye on the "critical minority". It attached high importance to key issues and set up a mechanism for monitoring the key persons-in-charge of various aspects around every festival. Besides, it strengthened the penalty and intensified the anti-fraud spirit by opening channels for reporting any fraud cases so as to create an ethical workplace with incorruptible culture and strong awareness of compliance. We launched a series of anti-fraud themed campaigns for our staff to encourage them to "undertake to act ethically and convey and promote the message of anti-fraud", which allowed our leaders to share their ethical stories and analyse any related risks. In 2019, the Company held 409 anti-fraud training sessions, for which there were 16,141 participants and, in particular, over 310 staff with key positions. The training courses further consolidated the ideological defence line and created an excellent atmosphere for the compliance operation of the Company.

409
Number of anti-fraud trainings sessions

16,141
Number of participants in anti-fraud training

Performance of internal control and risk management trainings (2017-2019)

Indicator	Unit	2019	2018	2017
Number of anti-fraud trainings	Times	409	397	496
Number of participants in anti-fraud training	Person-times	16,141	16,507	19,403

Improved Capacity

Procures Sustainable Development

- Quality Management
- Professional Services
- Technological Innovations
- Supply Chain Management

Quality Management

Through adherence to its policy of "impeccable credibility, equipment in good condition and quality assurance", the Company continuously improves the effectiveness of its management, the quality of its products and services, and its ultimate customer satisfaction.

Improving the Quality Management Organisation

The Company and its direct subsidiaries have established complementary organisational networks which unify the management and supervision of product and service quality.

Improving Quality Management Systems

As part of its efforts to continuously improve its quality management, all departments identified their deviations from the latest quality system versions and the Company's requirements for QHSE management and international and industrial management. The exercise led to continuous improvements in quality management system documentation. The relevance, effectiveness and operability of quality management systems were further enhanced through regular evaluation by supervisors, internal/external audit, and management appraisal and compliance evaluation of the Company.

Conducting Quality Training

The Company supported market exploration and the establishment of the API Q2 system to consistently enhance the capacity of the product quality review team. In 2019, it organised training for internal API Q2 reviewers with English materials on API standards. Eleven reviewers have obtained certification to date.

Advancing Laboratory CNAS Certification

In 2019, the Company continued to advance its ISO/IEC 17025 laboratory certification for international market access. The experimental centre at the production optimisation Department obtained the CNAS certificate.

Carrying out QC Team Activities

COSL carried out 240 QC team activities. The "D+W maintenance and Protection QC Group" differentiated itself from 1,375 competitors and was awarded the "Outstanding Award" for its outstanding results during activities organised by the Quality Management Group on National Petroleum and Chemical Industry in 2019.

COSL obtained the highest level prize of the 4th National Quality Innovation Competition

In July 2019,China Association for Quality held the 4th National Quality Innovation Competition, which attracted participants in more than 20 industries including aerospace, aviation, military, medicine, food, petroleum and communications and from 19 provinces with their new technologies, products and services business models as well as brand, procedures and management innovation projects. With its "quality and efficiency improvement project of dynamic cyclic triaxial testing", our surveying team of the Geophysical Department differentiated itself from 1,010 compeititors from various project categories and was awarded the highest level prize: Level OIC-V.

Professional Services

The Company has an integrated service chain covering oilfield surveying, development and production, with a team of outstanding professional experts who have worked in the industry for many years and have rich experience. This offers a strong technical support and protection to our integrated services, satisfies our clients' demands on lower operating costs and higher operational efficiency, controls better our risk exposures and expenses, provides clients with more professional services and creates higher economical efficiency.

Provision of Professional Services

Asia-Pacific

Myanmar: The Company won the bidding for TOTAL jack-up drilling rigs, cable logging and perforation services contracts in Myanmar and obtained a PTTEP three-year offshore cementing service contract.

Indonesia: The Company won the bidding for three-year jack-up drilling rigs service, PHE OSES 2+1 year drilling rigs service, 4-year work-over and marine support services for 5 vessels and offshore work-over and work-over rigs service. It also won the bidding for Medco onshore 3+1 year high temperature and high pressure drilling & completion fluids, regular drilling & completion fluids, cementing, acidizing and stimulation, as well as offshore jack-up drilling rigs service in Indonesia while introducing new AE1 rigs and entering into Indonesia WNEL and PHKT jack-up drilling rigs contracts and winning the bidding for Indonesia PHKT offshore 3-year drilling & completion fluids service project.

Malaysia: The Company obtained the slurry and maintenance, cementing technical services project for 17 wells of Petronas under the Malaysia umbrella contract and completed its first overseas integrated disposal projects. It also won the bidding for the integrated stimulation/disposal of work-over service of Petroliam Nasional Berhad.

Far East

Drilling and relevant services.

Middle East

Saudi Arabia: The Company continued to carry out the 2 jack-up drilling rigs service contracts of Saudi Aramco.

Kuwait: The Company obtained its first 3-year service contracts for two offshore jack-up drilling rigs in Kuwait.

Iraq: The Company won the bidding for the 6th drilling & completion contractor and well completion and stimulation contractor contract for 4 wells and completion and operation for 5 wells in the Missan Oilfield in Iraq.

Attracting new customers in Indonesia market with solid technology and excellent services

COSL expanded its business to Indonesia in 2002 and established PT. COSL INDO in 2005. PT. COSL INDO now has developed its business scopes in five aspects including drilling rigs, oil generating, oiling, oil technology and vessels, being one of the main oil gas service providers in Indonesia.

In 2019, the Company secured a new client, a subsidiary of Pertamina EP Asset1, leveraging its solid technology and excellent services and explored its first fracturing and stimulation service project in Rantau and Pangkalan zones located at Sumatra. It also won the bidding for a fracturing and stimulation service project in Pertamina Asset1 Lirik zone. This year, PT. COSL INDO has developed more than 30 projects and served a total of 103 clients, which mainly provided services in the top four islands in Indonesia and main offshore oil-generating zones. It received 8 appreciation letters from clients.

Africa ·······

Cameroon: The Company completed the Addax drilling rig service contracts in Cameroon.

Namibia: The Company completed the offshore 2-dimensional seismic survey operation in the new market of Namibia.

Europe ·······

Norway: The Company continued to carry out the Equinor drilling service contract in Norway.

Great Britain: The Company began the drilling service project of CNOOC International Ltd. in Great Britain.

Americas ·······

Canada: The geophysical vessel, HYSY760, completed the two-dimensional seismic survey of 12,865 kilometres.

Argentina: The Company obtained a two-dimensional survey contract of 8,000 kilometres.

Brazil: HYSY720 completed the three-dimensional survey programme of 8,000 square kilometres in Brazil and obtained an additional 2,000 square kilometres of work.

Mexico: The Company renewed the module rigs and drilling rigs service and jack-up drilling rigs service contracts respectively. HYSY614 obtained a 600-day marine support services contract.

Strengthening Communication with Customers

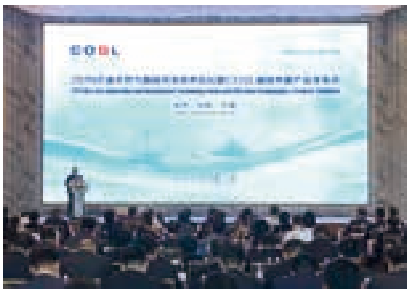
In 2019, the Company continues to focus on strengthening communications with core customers in key markets, actively launched promotional activities for new customers in new markets, and closely monitored customer demands and provided custom solutions, all of which enhanced the Company's brand influence.

COSL successfully held 2019 Oil & Gas Exploration and Development Technology Forum and COSL New Technologies & Product Exhibition

2019 Oil & Gas Exploration and Development Technology Forum and COSL New Technologies & Product Exhibition was successfully held in Shanghai in November 2019. With "GREEN • INNOVATION • WIN-WIN", as its theme, the forum focuses on the cutting-edge technologies in Oil & Gas exploration and development and aims to provide a platform for domestic and international oil companies, oilfield services companies and advisory services providers to exchange views, deepen energy related cooperation and jointly create a future of sustainable development in domestic sea areas and countries along the Belt and Road.

More than 100 representatives from around 50 domestic and international oil companies, partners, oil institutions and consultation and information research and study institutions and media attended the forum. It was the first time for COSL to launch a press release for its new technologies and new products through exhibition, speech, video, interactive discussion and many other means to demonstrate its breakthroughs and significant progress achieved in the technological field over the past two years, which have been highly recognised by all the participants. In the meantime, the Company's measures on seeking international high-end customers and exploring high-end markets also showed positive effectiveness. In particular, it was the first time for Saudi Aramco and the headquarter of TOTAL in France to send their representatives to attend the forum, where representatives of Saudi Aramco, Petronas and Medco have shared their feedbacks on maintaining business relationship with COSL and pointed out their expectations on the long-term cooperation.

In future, COSL will continue to uphold the spirit of "GREEN • INNOVATION • WIN-WIN" in enhancing communication with its customers, introducing its new technologies and products in a detailed way to its domestic and foreign clients and providing them with more professional services, so as to create enduring value.



Technological Innovation

Our technological strategies are always in line with the advanced technical trend. Based on our industrial need and with "putting technical strategies in high-speed and high-quality into practice" as our core task, we implement a technical mechanism thoroughly, continue to improve our technical research system and to enhance our ability to develop innovative techniques and accelerate to make investment in new techniques and products. In addition, we make an effort in increasing our productivity for keeping sufficient domestic oil gas storage, maintaining sustainable energy supply in the society and ensuring energy safety in China.

Continuing to increase scientific research inputs and consistently improving the quality of supply

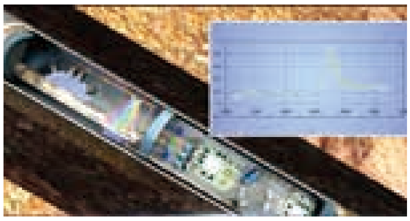
In 2019, the Company invested RMB1,073 million into scientific research and development and undertook 210 scientific research programmes at all levels. It was granted 97 patents during the year, of which 38 were invention patents. It was also granted 8 prizes for technology above the provincial and ministerial level, in particular, the "research and application of HYSY rotary steering drilling system" was awarded the Science and Technology Progress Award of Tianjin. The speed and quality of its technical achievements significantly improved, and it obtained remarkable breakthroughs in high-end technical aspects such as edge testing while drilling, pressure testing while drilling and spectrum analysis of formation.

RMB **1,073** million

Research and development expenses throughout a year

Key Performance Table for Technical Innovation of COSL (2017-2019)

Indicator	Unit	2019	2018	2017
Research and development expenses	RMB10,000	107,269	79,375	63,415
Number of new patents	Item	97	91	74
Number of new invention patents	Item	38	42	53



Formation spectrum analyzer

Upholding green development concepts and introducing oilfield development with "green technology"

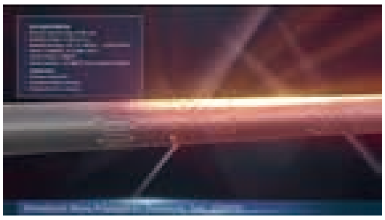
The Company promotes the green, recycling and low carbon development concepts by innovative technologies, strengthens its techniques and achieves technical breakthroughs in the research of harmless drilling fluid technique, research of recyclable water based drilling fluid technique and the separation and recycling of waste drilling fluid. It has developed the EPS integrated solution which can reduce emissions from source, eliminate waste volumes at sites and dispose onshore wastes. Such technology has two advantages in terms of environment protection and recycling. The average usage of the drilling fluid, which has significant influence to the green development of the oilfield in Bohai sea, reduced to 60% and the recycling rate of the filtered waste drilling fluid reached over 80%.

Accelerating research and development of key core technologies and working to ensure domestic offshore oil and gas exploration and development

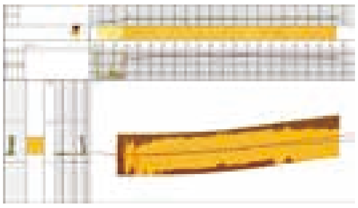
With the huge technical demand on increasing offshore oilfield storage and productivity as its target, the Company caters for the "seven-year action plan" of CNOOC, focuses on achieving breakthroughs in new technologies, accelerates to make investment in new products and provides high-quality oilfield services in the surveying and exploration of offshore oilfields. In particular, the maximum temperature of the high-temperature wireline logging in Bohai sea reached 178°C, which achieved a breakthrough in offshore high-temperature logging wells. The nanotechnology-based low temperature with early strength technique for deep water was successfully applied into more than 20 wells in the South China Sea, which further expanded the border of cementing wells in deep water. The deep hypertonic bands in the supramolecular microspheres regulating flooding system have insufficient plugging ability, which inspired us to set up measures for oil stabilization and water control in the Bohai's oilfield.

Reforming the project management models and establishing an integrated scientific project manager accountability mechanism for separating responsibilities and rights

The Company has actively reformed its scientific mechanism. The integrated scientific projects of "research, production and usage" are selected as pilot schemes and the Company has transferred a wide range of technical personnels to work on an incentive basis, in order to procure the implementation of "technological development" strategy. The scientific project manager accountability mechanism breaks many restrictions of the existing mechanism. Under the new mechanism, project managers are entitled to right of division of labour, acquisition right and financial right, which achieves the integration of "responsibilities and rights", being an important reform of the scientific mechanism for enhancing its corporate governance.



Part of spectrum of DWPR equipment and technical indicator



DWPR geosteering spectrum

Case 1 of innovative scientific achievements: edge testing with drilling oriented technology

The reservoir boundary detection based on DWPR is a breakthrough made in the geosteering technology field, which is a high-end equipment for enhancing high reservoir drilling rate.

DWPR is designed in an innovative double oblique orthogonal antenna shape with full component electromagnetic measurement capability. By measuring electrical resistivity information and directional geological signals, real-time inversion of stratigraphic boundary distances and azimuth information can realize the visual geological guidance of stratigraphic structures.

This technology can guide the drilling equipment to accurately penetrate through the thin and complex reservoirs and improve the reservoir drilling rate to maximize oil and gas production and minimize costs. The DWPR measurement is not affected by formation anisotropy. The detection depth of the oil and gas layer boundary reaches 22 feet, and the single-point inversion speed reaches only second level. It is the first domestic self-developed drilling edge equipment with its functions meeting advanced level in the industry.

In 2019, DWPR successfully implemented geological steering operations at 7 wells in the Bohai Oilfield. The results of the exploration are positive, and the reservoir drilling rate reached 96%. It guides the horizontal drilling, which provides a solid foundation for providing stable production and increasing productivity and gives a strong technical support to lowering development cost of the Bohai Oilfield.

Case 2 of innovative scientific achievements: the second generation of FLAT-PRO drilling fluid

The FLAT-PRO's "constant rheological" synthetic drilling fluid system is designed based on the viscosity-temperature characteristics of the dispersion medium, which successfully solved several technical problems such as poor low-temperature rheology, gas hydrate damage, instability of well walls and leakage and so on.

This system created the first highly-efficient emulsifier with flow pattern stabilization function, realizing the constant rheological characteristics of the system under large temperature differences, thereby minimizing the change in equivalent cycle density during operation, the system is resistant to 204°C and can be maintained its constant rheological properties at 2-160°C. The system is an originally innovative design, comprising the mechanism treatment agent and the technical system, and all treatment agents are domestically produced.

The FLAT-PRO drilling fluid system was successfully applied in 7 deep water/ultra-deep water drilling wells in the South China Sea, which created the shortest record of the deep-water construction cycle:19.13 days and refreshed a new record of the largest drilling depth in China and even Western Pacific: 2,619 metres, achieving zero accident rate and effectively procuring safe production in deep water and striving for highly-efficient drilling operation.

Supply Chain Management

According to the unified deployment of CNOOC, the Company completed the reform of the procurement system, established a procurement sharing centre, and integrated the Company's procurement and resource management business into the procurement sharing centre for management and work, realizing the goal of "Three Concentrations": concentrations of personnel, business and management; it also greatly improved the quality and efficiency of the supply chain management. In 2019, the Company continued to deepen global supply chain management in accordance with international development strategies, and further completed the construction of a global supply chain network in line with the Company's future development strategies.

Promoting the integration of domestic and overseas businesses

The Company further expanded the coverage of domestic annual agreement, explored the domestic annual agreement with comparative advantages in economic benefits and expanded the agreement to overseas business; it realised the sharing of domestic and overseas high-quality resources, and improved overseas procurement efficiency. Based on the international development strategies and the construction need of an international supply chain, it rationalised the overseas and procurement organisations, and evaluated the implementation risks of the existing procurement and material management system in mature overseas regions; it also established a risk database and strengthened the risk management of major procurement in overseas regions.

Strengthening logistics guarantee

The Company promoted the domestic "logistics integration" model, which enhanced the overall logistics efficiency and reduced the logistics costs; it further opened up the logistics channels that connected the domestic and international markets, established a global network, and consolidated the foundation of international logistics. Overseas procurement logistics centres in Houston, Norway, Dubai and Singapore possessed the geographical advantages as important international hubs; in this regard, it continued to improve the global logistics network planning, enhance the international logistics operation capabilities, and built 39 global logistics routes, covering over 30 countries in Europe, the United States, Africa, and Asia.

At the same time, based on the construction of the logistics system and the requirements of the countries in which it operates, it formulated logistics technology standards, transnational logistics operation regulations, international rules and standards, etc. to support the integrated logistics operations and improved the international logistics guarantee capabilities. Through the construction of the logistics technology system, precise matching of logistics supply and demand, and forward-looking planning for new areas of logistics, it provided practical and cost-effective international logistics guarantees.

The Company promoted the domestic "logistics integration" model

Over **30** countries

With business covering over 30 countries such as Europe, the United States, Africa, and Asia

Implementation of standardisation management for suppliers

In the global supply chain management system, the Company has established a complete dynamic management mechanism which covers access, use, review, information feedback and exit. In the course of the daily management of suppliers, it promoted compliance requirements to suppliers and required suppliers to meet high standards of honesty and trustworthiness, and to operate in compliance with laws and requirements for health, safety and environmental protection. In 2019, the Company continued to conduct in-depth supplier review, and the annual review coverage reached 100%.

100%

annual review coverage

COSL's Standardisation Management Mechanism for Service Suppliers

Supplier Access Approval Phase

Based on the characteristics of the relevant business unit, it formulates a differentiated access process and 7 key audit indicators, while paying attention to the supplier's legal compliance, HSE system certification, tax payment, bank credit rating, development prospects and the performance of social responsibility, and more.

Supplier's Qualification Pre-examination Phase

The Company launches compliance background investigations into suppliers. It also conducts risk assessments on the business environment in which the suppliers are located so as to understand the potential impact on the Company in terms of compliance, product quality, delivery cycle and QHSE of suppliers, and take appropriate measures for the procurement activities to prevent risks.

Supplier's Performance Appraisal Phase

The Company not only values product quality, prices, service capability, business ethics and corporate reputation, but also pays attention to its performance in fulfilling social responsibilities. It focuses on the plants, equipment and facilities, management systems, personnel capabilities, and related performance; it establishes nine differentiation evaluation models according to the types of products or services provided by the suppliers, and explores different types of high-quality supplier resources.

Number of suppliers by region (2017-2019)

Year	Total number of suppliers as at the end of the year	Overseas	Domestic	Major cities				
				Tianjin	Beijing	Guangdong	Shanghai	Others
2017	4,720	2,293	2,427	593	444	403	168	819
2018	6,653	3,569	3,084	682	497	448	185	1,272
2019	6,707	3,246	3,461	776	541	462	198	1,484

Safety and Environmental Protection

to Protect the Green Nature

- Operational Safety
- Occupational Health
- Environmental Protection

Operational Safety

HSE strategic objectives

- Zero harm to employees
- Zero pollution to environment
- Zero loss to property
- Zero influence to brand

QHSE policies:

- Safety First, Prevention Foremost, Comprehensive Control;
- People-oriented, Care for Health, Cherish Life;
- Protect the Environment, Boosting Energy Savings and Efficiency, Green Development;
- Reputation First, Complete Equipment, Quality Assurance.

The Company is committed to complying with applicable laws and regulations, and implementing industry standards and best practices in all aspects of its operation. By implementing a comprehensive management system with integral quality, health, safety and environmental protections, the Company provides quality products and efficient services in a sustainable manner. Its fundamental goal is to inflict zero harm to employees, zero pollution to the environment, and cause zero accidents leading to property losses.

We will follow the Company's development strategy and focus on the following key aspects:

- Effective management commitment with visible leadership;
- Continuous improvement in the Company's quality, health, safety and environmental protection management systems;
- Effective consideration given by all businesses to protecting quality, health, safety, the environment and security;
- Strengthening staff training;
- Instilling a culture of "stopping work" as the employee's personal obligation as well as a Company responsibility;
- Protecting the environment, reducing emissions and pollution;
- Implementing effective management on quality, health, safety, environmental protection and security;
- Continuous improvement in emergency management and reduced accidents and losses;
- Cultivating a culture of safety, and making safety a core staff value;
- Requirement for contractors to manage quality, health, safety and environmental protections in accordance with this policy.

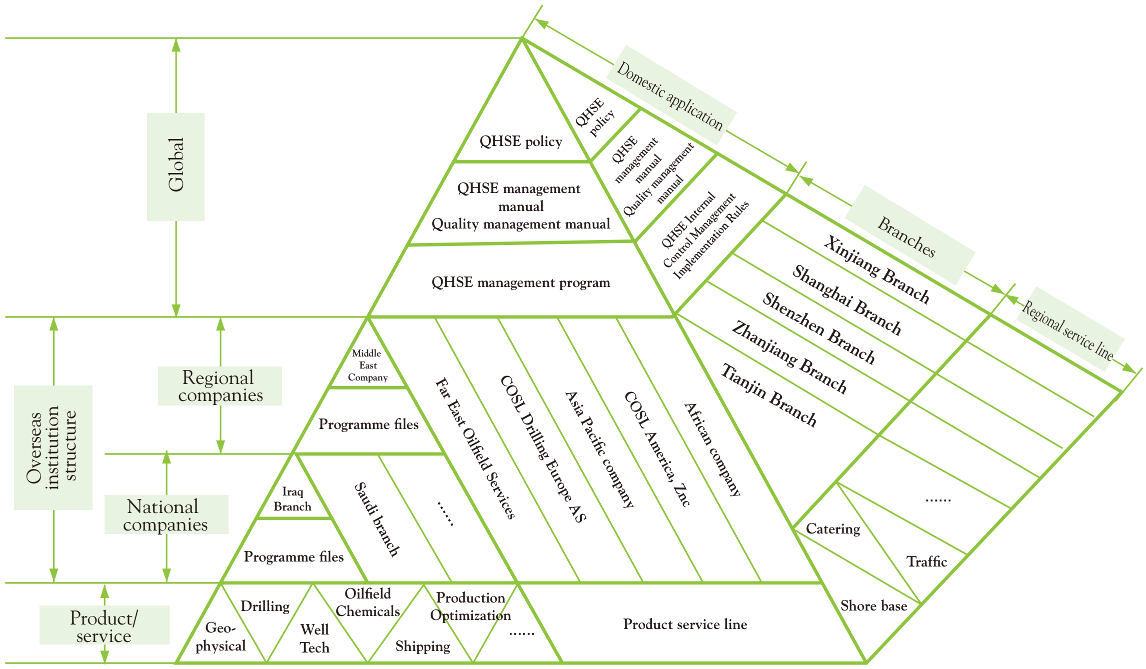
This policy applies to employees, customers, contractors, suppliers, and the public.

QHSE Management

System upgrade

In 2019, in compliance with the internationalisation and industrialisation plans of the Company's QHSE management and pursuant to the three ISO standards, we take thorough consideration of the needs of internationalisation and industrialisation, standardise and optimise the QHSE management requirements and upgrade the existing QHSE internal control and management system, given that we have to abide by the requirements of domestic supervisory units:

- Formulate a quality management manual and a health safety and environment protection management manual, respectively, according to different focuses;
- Strengthen and identify the general requirements of existing management measures and by-laws and incorporate them into the global general programme files of the QHSE management system of the Company, of which there are 36 global general programme files;
- Retain the domestically appropriate provisions of the existing management measures and by-laws and incorporate them into the China programme files, of which there are 23 programme files applied in China.



Establishing security management systems

To put the Company's internationalised development strategies into practice, strengthen its internationalised operational management capability and further improve its security management measures, the Company, based on the existing internal control systems, has set up an global integration and regional differentiation security management mechanism with risk management as it core under the international generally-accepted standardised framework and languages, which regulates and integrates requirements of security risk identification, assessment and control, security information, security training and personnel security risk management, with an aim at avoiding from and reducing the occurrence of security incidents and the impacts thereof caused to personnel, properties and reputation.

- Security management manual
  - Security risk identification, assessment and control
  - Security information
  - Security training
  - Personnel security risk management

Formulations and revisions

The Company prepared a system document revision plan based on QHSE responsibilities interface and comparison and analysis results, and carried out the work of formulations and revisions. Meanwhile, regarding the new management measures and by-laws promulgated by the group companies and in accordance with the duties division and management requirements, the Company has evaluated those requirements, compared the responsibilities set out in the revised/added QHSE internal control systems, appropriately assessed and differentially analyzed the internal control systems under each of the responsibilities and updated such internal control systems according to the assessment and analysis results. In 2019, the Company introduced the Low Carbon Management Implementation Measures and revised a total of 16 documents including the Management System for Health, Safety and Environmental Protection.

Operation Safety Management

Following its policy of "safety first, prevention foremost, and comprehensive control" and the continuous optimisation of the top design of the QHSE system, the Company conducted QHSE substance management and continued to consolidate the foundations for safety management. The Company emphasised a combination of prevention, control and treatment in this respect. Through advancing internationalisation and industrialisation, the Company accordingly engaged in special activities for the safety production responsibility system, international benchmarking improvement and safety culture establishment, implemented the safety production responsibility of enterprises, fostered a company culture of safety, strengthened the inspection and treatment of hidden dangers, and conducted company-wide safety education and training. By these and other means, the Company maintained full management and control of systematic production safety risks and has built an intrinsically safe enterprise.

Production Safety Performance (2017-2019)

Indicator	2019	2018	2017
Number of production safety accidents	37	21	9
Number of recordable injury incidents	33	21	12
OSHA ratio	0.11	0.08	0.06
Accumulated lost working days ratio	1.24	1.6	1.08
Number of employee deaths	1	0	0
Number of contractor deaths	0	2	0

Note: OSHA ratio = Recordable incidents × 200,000/Total working hours
Accumulated lost working days ratio = Lost working days × 200,000/Total working hours

A Safe Production Responsibility System for All Staff

Under the guidance of the "Notice on Comprehensively Strengthening Safety Production Responsibility System for All Staff Members" (Work Safety Commission [2017] No. 29) issued by the Office of the Work Safety Commission of the State Council, and with "strengthening the safe production responsibility of all staff "as the theme of 2019, the Company organised a series of enhancement work to improve weakness in the operation last year, formulated a safe production responsibility list for the party committee members of the Company and carried out face-to-face introduction of the safe production responsibility system for all party committee members to enable them to learn their responsibilities and better perform their duties. In addition, the Company conducted inspection on and conversation with all staff from all departments, divisions and subsidiaries regarding the establishment and implementation of the safe production responsibility system, so as to ensure the safe production responsibility, scope of responsibility and inspection criteria of all staff including key management staff and frontline staff, striving for "one duty list for one division" in the workplace.

Significant Improvement in QHSE Management

The Company carries out benchmarking with international oil companies, service companies and other organisations to help it identify gaps and develop plans to improve its safety management practices.

Using an "onion peeling" method and starting with the key elements of "people, machine, materials, rules and environment", the Company focuses on solving management problems at their weakest points. It identifies and develops annual improvement measures on a layer-by-layer basis, strengthening its basic management progressively and systematically.

Strengthened Risk Management and Control

The Company continued to strengthen safety and risk management controls and fully implemented the "double prevention" mechanism. Safety and risk controls already implemented including those utilised on a daily, monthly and annual basis. It implemented a safe production risk announcement system and encouraged the dynamic management of risks with the participation of all employees.

Annual Risk Control	Monthly Risk Control	Daily Risk Control
At the beginning of the year, the Company developed risk identification and evaluation methods which led it to subsequently identify annual unacceptable risks and develop appropriate management and control measures and key points of control.	Monthly safety risk analysis meetings enabled front-line units to combine production and operational plans, analyse operation risks for the coming month, and formulate appropriate control measures.	Through application of job safety analysis (JSA), Company units identified their potential operational risks and established appropriate control measures, with all employees participating.

Identifying and Addressing Hidden Dangers

The Company further promoted the identification and addressing of hidden dangers, carried out reporting and analysis thereof, investigated their causes, conducted a year-on-year and quarter-on-quarter analyses to reveal associated trends, and adopted targeted management measures to eliminate and control hidden dangers. It implemented the management network application for hidden dangers, conducted big data management, and further implemented network monitoring on the scheduled rectification of hidden dangers in the interest of retaining control of their management. The Company conducted supervisory inspection to enhance the identification of hidden dangers. It established temporary management and control measures for the identified hidden dangers and rectified them in a specific time period and reviewed the rectification results regularly. Through implementing the Company's supervisory and inspection system, we can fully perform our management functions regarding the basic units, core operating management functions, subsidiaries' supervisory and management functions and guidance and the Company's inspection function. Therefore, the Company can integrate our four functions to identify and address the hidden dangers. It investigated hidden dangers that had not been rectified as scheduled and held responsible persons accountable, and implemented a mechanism for treating major risks and hidden dangers as accidents, so as to ensure the comprehensive operational safety.

Safety knowledge competition launched by the Shenzhen subsidiary

HYSY721 being the national idol of teenagers for safe production

Strengthening Safety Education and Training

The Company has created a philosophy of "insufficient training causes significant impacts to safety". By conducting interviews, investigation and meetings with basis units regarding the problems, weakness, disadvantages and revision of the safety training, the Group and the staff have worked together to tackle several problems such as training resources, so as to support our training for all units. All divisions have organised 19,654 sessions of safety training according to the early work schedule in 2019 and there were 226,787 participants in total.

Leveraging the advantages of online resources, the Company continued to conduct QHSE training projects by "remote safety education platform", which enabled all staff to learn the safety knowledge and skills. A total of 12,987 employees learned online, with 100% learning efficiency and 100% examination passing rate.

Safety Emergency Management

The Company continued to optimise its emergency management system, including general and special emergency plans and on-site emergency procedures. It established an emergency group composed of experts from various fields to enhance its response to emergency situations. Furthermore, the Company built and ran detailed simulations of the most high-risk operational emergency scenarios. These led to several improvements in the Company's preparations for major accidents.

In 2019, the Company carried out a total of 18,085 ship-shore joint exercises and on-site exercises involving rigs, ships and shore facilities. These included 6,683 general exercises and 11,402 special exercises with a total of 406,824 participants.

Occupational Health

Health Management

The Company's commitment to the occupational health of its employees was manifested in the continued improvement of management rules such as the "Occupational Health Management Approach". The Company comprehensively integrated health education and promotion, formulated and implemented health improvement and occupational health management plans and hearing protection plans for all staff. It launched a series of occupational health management programmes as planned. At the same time, the Company worked to make continuous improvements to employee working conditions, with reference to relevant laws, regulations and standards, to provide a safer and more comfortable work environment

In 2019, 100% of our staff working in offshore workplaces and fields passed the body check, 100% of our staff exposed to occupational harmful environment passed the health check and 99.55% of our staff working in the land workplace conducted body check.

Medical Equipment in the Workplace

The Company maintains infirmaries on and assigns general practitioners to rigs, vessels and field operation bases with staff/crews of more than 25 persons. For vessels to which no medical practitioner is assigned, the Company provides medicines, blood pressure monitors and part-time health workers to manage and record their distribution and monitor the health of staff. At all operational bases, the Company provides first-aid kits in designated locations which are supervised by specific persons.

Public Epidemic Prevention Measures

In response to international and domestic contagious diseases and public health events, the Company assessed relevant information and specified prevention and control measures and uploaded the relevant information to the Company's website and delivered it to all units. The Company also organised all units to conduct public epidemic prevention measures.

Employee Food Safety

The Company established a safety management system to prevent food poisoning accidents. The canteen management division and the catering company work together to promote staff nutrition.

Occupational Health Management

In accordance with national laws and regulations on occupational disease prevention and control, the Company carried out occupational health examinations, detection of factors leading to occupational diseases in the workplace, occupational health training and other occupational health management tasks.

Normalization of the monitoring of occupational hazards

In 2019, each operational unit of the Company continued to enhance the daily monitoring work on occupational hazards in the workplaces. As for the geophysical department, the noise level of each vessel at different working places is monitored by the turbine and seismic department. Such monitoring record is signed by a specific personnel and reported to each operational safety department regularly. This daily monitoring work can promptly reflect whether the noise level meets the standard. The Company takes into account the annual inspection results by third parties and adjusts the proposals for those workplaces which did not fulfil the standard so as to maintain appropriate noise level.

Health Checks for Chinese Employees (2017-2019)

Indicator	2019	2018	2017
Coverage of all staff health check and health records	97.55	99.23	98.73
Number of persons attending occupational health checks	4,709	5,047	5,155
Completion rate of occupational health checks	99.98	100	99.92
Proportion of completion in inspection of occupational hazard factors	99.34	100	100

Note: Number of persons attending occupational health checks is the number of persons in contact with occupational hazard factors.

Health Examinations of Employees Exposed to Occupational Hazards (2019)

Health examination types	Actual examination person-time (Unit: person-time)	Completion rate of examination (Unit: %)
Pre-employment occupational health examination	370	100
On-the-job occupational health examination	4,086	100
Post-employment occupational health examination	253	100

Health Training

The Company comprehensively enforced occupational disease prevention laws, regulations and rules, aided employees in understanding occupational hazards, and promoted knowledge of prevention and control of occupational diseases. A major element of these efforts consisted of expert-led seminars on health and first aid. They were complemented by the posting of health promotion posters, issue of electronic health magazines, and by health blogs on the Company website. In 2019, 1,595 staff attended the pre-employment occupational health training, 4,229 staff attended on-the-job occupational health training, 127 staff attended the key persons-in-charge and occupational health management training and 153 staff attended specific occupational health training for those working in the workplaces with serious occupational hazards, with a completion rate of 100% in total.

All leaders of the COSL Drilling conducted discussions with on-site staff through internal audits, visiting lower-level units and assisting backward units, to understand their current work, life and other needs, and considered comprehensively the issues raised by on-site staff and required the relevant responsible persons of the business departments to solve the problems.

Mental Health Counselling

There are higher risks and more complicated procedures in the offshore operational workplaces, which involve extremely special operations. Under such a complicated working environment, the mental health of our staff becomes an important condition to the offshore safe production. The Company has placed high attention to their mental health and therefore considered their mental health as a key element in its daily occupational health monitoring work. It also strengthened the promotion of mental health education and organised various mental health counsellings to protect our staff's mental health.

Environmental Protection

Environmental Management

Building an Environmentally Friendly System

Environment protection has become one of the national strategies. The Company operates in full compliance with the Environmental Protection Law of the PRC and with laws, regulations and regulatory documents relating to the atmosphere and water. It has established and implemented rules such as "Management Measures for Environmental Protection", and "Implementation Rules for Environmental Protection Management", and strengthened environmental protections in its production and operations. The Company manages and regulates pollution to minimise its impact on the ecology and preserve natural resources. The Company benchmarks, revises and updates its environmental management system on an ongoing basis to ensure its lawful compliance and effectiveness, which becomes a dynamic environment management and control mechanism.

Environmental Impact Assessment

In the course of its production and operating activities, the Company carries out environmental impact assessments in compliance with requirements of the "Law of the PRC on Environmental Impact Assessment" and the "Administrative Regulations on Environmental Protection for Construction Projects". It analyses, predicts and evaluates the environmental impacts it may possibly cause, and formulates strategies and measures to prevent or alleviate adverse environmental impacts. The Company continuously tracks the effectiveness of its measures in order to avoid or alleviate impacts on the environment.

Environmental Protection Education and Training

The Company launched promotional training for employees and continued to improve staff awareness of environmental protection laws. Combining production and operational characteristics, each working base focused on training on the requirements of the latest laws and regulations, rubbish sorting, and the use of anti-pollution facilities and oil leakage emergency equipment. It further enhanced field employees' awareness of environmental protection and improved their environmental work skills. The Company launched the "Ten persisting proposals on green and low-carbon life with full participation" and adhered to promote the environmental protection work in multi-dimensions including systems, implementation and awareness. It procures the integration of ecological civilization and its production and operation and strives for harmonious development, in the pursuit of creating a green development brand with its corporate culture.

Environmental Protection

Water Resource Management

To maintain full compliance with national laws, regulations and regulatory documents relating to water, the Company strengthened its water management throughout the production process, implemented plans and objectives for water savings, improving water utilisation rates and reduced consumption of fresh water. During 2019, the Company achieved a water saving volume of 21,117 tonnes. It also strictly controlled the emission of wastewater and minimised the impacts its operation caused to the environment.

Use of water resource

The Company installed desalination plants in its drilling rigs and vessels to generate water and reduced the use of fresh water through the daily reasonable treatment of seawater and rain.

Emission of wastewater

The Company has provided environmental protection equipment and facilities such as water and oil separators and domestic sewage treatment plants at its operational sites to treat and discharge industrial wastewater and domestic sewage in accordance with standards including the "Effluent Limitations for Pollutants from Offshore Petroleum Exploration and Production", "Discharge Standard for Water Pollutants from Ships", the relevant emissions standards of countries in which it operates, and international treaties. It maintains environmental protection equipment and facilities in accordance with the requirements of the PMS/AMOS maintenance system and executes regular industrial wastewater and domestic sewage discharges that meet relevant standards. Pollutants which do not meet emissions requirements are transported from the working base to qualified third parties who have signed agreements with the Company for appropriate recycling and treatment.

Managing Discharged Gas

The Company complies with all national laws, regulations and regulatory documents relating to the atmosphere. Air Pollution Prevention Certificates issued by the China Classification Society (CCS) have been obtained for all Company vessels, and International Air Pollution Prevention Certificates for Diesel Engines have been obtained for newly built vessels and platforms equipped with advanced diesel engines. For the day-to-day operation of vessels and platforms, qualified and low sulphur green fuels meeting the requirements of the countries in which they are located are used to minimise exhaust of such materials as nitrogen oxides and sulphur oxides.

Waste Management

The Company effectively processed all types of solid waste generated in production and operation activities to reduce pollution, in accordance with the laws and regulations of the countries in which it operates and the international treaties.

The Company entered into cooperation agreements with qualified companies to recycle and process industrial waste, solid waste, domestic waste, hazardous waste, sewage oil and other waste. Offshore production sites allowed the waste to be discharged after processing at recycling facilities in accordance with the regulations. Waste that does not meet the discharge requirements shall be transported back to qualified third parties for recycling and processing.

Discharged Volume by the Company in Chinese Waters (2017-2019)

Types of discharges	Unit	2019	2018	2017
Qualified discharge of oil polluted water	Cubic metres	370.93	216.637	421.45
Discharge of crushed domestic waste	Tonnes	345.615	253.321	283.44
Qualified discharge of drilling slurry	Tonnes	58,757.14	47,216.45	33,711.38

Huizhou Base of Shenzhen Subsidiary Upgraded the Hazardous Waste Disposal Management Model

To carry out comprehensive and efficient management of hazardous wastes in accordance with the laws and regulations, the Huizhou Operations Management Centre of the Shenzhen Branch has upgraded its disposal management model to give full play to the supervision, and implemented effective hazardous waste disposal to ensure that the requirements for production, identification, temporary storage, transportation, and disposal of hazardous waste meet the requirements of laws and regulations.

The Huizhou Operation Management Centre timely measured the amount of hazardous waste at the centre and coordinated the disposal of hazardous waste, which not only improved the efficiency of disposal, but also reduced the cost of vehicle transportation; there are workers dedicated to track the "dangerous waste electronic order" throughout the process, forming a closed-loop management that starts from hazardous waste transportation to disposal. In addition, the Huizhou Operation Management Centre has communicated and coordinated with environmental protection companies many times; the environmental protection companies have provided dedicated hazardous waste containers for the centre to ensure proper disposal of hazardous waste.

Besides, the Huizhou Operation Management Centre formed a joint supervision force through a "safety technology team" composed of many safety managers in the area and the safety person in charge. Through supervision and inspection and management of hidden dangers, the force conducted comprehensive environmental protection inspection on the Huizhou base, from the warehouses and vehicles to the storage yards, to make the management of hazardous wastes more institutionalised, standardised and regular.

Create a new prospect: "Green" Bohai exploration and development

In the Bohai EPS operation, a total of 7,025 cubic metres of waste drilling fluid and 9,062 tonnes of drilling cuttings were processed throughout the year, which reduced the land terminal processing of about 12,000 tonnes for oil companies; through the liquid phase reuse technology, the filtrate was repeatedly configured with the drilling fluid, which reduces the emission and offshore application and created a new prospect for oil companies: "green" Bohai exploration and development. Throughout the year, BIODRILL A's reusable mud system has been used in more than 30 wells in the Bohai Sea.

Ecological Protection

The Company maintains strict compliance with rules and requirements for environmental protection in the countries and regions in which it operates, and views ecological protection as a matter of serious importance. The waste generated from operations is strictly managed and discharged, and the discharge of harmful and pollutant waste into the sea is avoided and oil leakage and underground water pollution are prevented. The Company has made contributions to protecting biological diversity and maintaining ecological balance.

Prevention of Oil Leakage

In response to oil leakages which may occur in the course of production and operation, the Company has developed strong and effective measures and procedures for preventing oil leakage, which combine practical operational procedures set up based on the actual operating conditions for environment protection. Such management system is recognised by a third party. In 2019, no oil leakage occurred.

Drilling Rigs

"Operational Management Procedures for Fuel Refilling at Drilling Rigs", "Regulations on the Use of Oil-based Mud and the Transfer of Oil-based Mud/Based Oil/Brine" have been devised for Company drilling rigs.

Marine Support Services

All Company vessels have obtained International Oil Pollution Prevention Certificates issued by the China Classification Society (CCS). The Company has also devised comprehensive guides such as the "Guide on Pollution Prevention Management of Vessels", the "Guide on Loading and Unloading Operation and Management of Oil Tankers" and the "Guide on Offshore Oil Export Operation of Oil Tankers" to reduce the incidence of accidental leakage.

The Company has also established practical oil spill contingency plans for a variety of oil spills, sea environments and resource statuses. Each working base is equipped with oil spill contingency supplies such as oil removers, oil fences and oil spill buckets. For emergent situations involving pollution caused by oil spills, on-site contingency solutions and on-board oil pollution contingency plans shall be drafted and reported to related national departments for the record. If an oil spill occurs during the operation of an individual vessel, all working bases immediately initiate emergent treatment according to the contingency plan. If an oil spill occurs during the provision of drilling and well work-over services as an operator, all operational units follow the unified command of the operator and work closely to carry out emergent treatment.

Total participants in 2019:

6,097

Person-times

The units of drilling rigs department have formulated the "On-site Oil Leakage Contingency Solutions" and the "On-board Oil Pollution Contingency Plans" and organised oil leakage drills and practices quarterly with over 6,097 participants in total in 2019.

Prevention of Groundwater Pollution

The Company protects groundwater resources with consistent investment into research and development of new technologies and new techniques for pollution-reducing on-site operations.

Conservation of biological diversity

The Company abides by animal protection laws around the world, values the conservation of biodiversity, carefully analyses the possible impact of its work on marine organisms, and takes preventive measures to reduce their effect, and eliminates or greatly reduces its negative impacts on biodiversity and ecosystems and preserves healthy environments for marine organisms wherever possible.

When conducting offshore exploration operations, the Company always insists that we are both the developer and the guardian of the ocean. During the geophysical process, the Company actively protects marine mammals, effectively observes them, and records their occurrence time and location. For seismic surveys, the operation will start only under the condition that the marine mammals are within the safe zone. Once a marine mammal is found in the operation area, the operation will stop immediately.

On 26 February 2019, the fleet "HYSY760" which was performing a seismic survey in the waters of Gabon, West Africa, rescued two sea turtles entangled by fishing nets and released them after a careful check.

The vessel “HYSY720” reduces its impacts on marine life in Brazilian waters

In 2019, while the Company’s vessel “HYSY720” carried out three-dimensional seismic exploration and survey operations in Brazilian waters, mammals such as dolphins, sea whales, and sea turtles were active in the work area. In order to protect these marine animals and coexist in harmony with them, two PAM (Passive Acoustic Monitoring Systems) personnel and two MMO (Marine Mammal Observers) conducted 24-hour observation and monitoring during the operation to reduce the impacts on marine life. Before operation, it will first observe the ocean, then carry out the soft start procedure, and gradually increase the seismic power. The operation will stop immediately when sea turtle is found in the operation; the operation will restart only after the sea turtle gets to the safe zone.

Tackling Climate Change

Saving Energy and Reducing Emissions

The Company follows an established policy of environmental protection and energy conservation entitled "Care for Environment, Energy Saving and Efficiency Boosting, Green Development". It also acts in compliance with the energy saving and emissions control requirements of the countries and regions in which it operates. Besides, the Company established an energy management internal control system, strengthened energy management and revised and updated the system. To reduce energy consumption, the Company invests a great amount of money in the purchase, renewal and modification of equipment for energy saving and emission reduction every year.

In addition, the Company promotes "green office" and "green operation" concepts by strictly controlling the consumption of office supplies and exploiting automation. The widespread use of videoconferencing has sharply reduced the costs incurred by attending conferences in person. Also, the Company enforces water and electricity saving measures and advocates energy-saving habits among employees; the Company manages the use of official vehicles to minimise the cost of business trips. The Company continues to promote green development methods and lifestyles among employees and enterprises.

In 2019, the Company invested RMB4.137 million in energy saving and emissions reduction measures. The Company's total energy consumption was 490,935 tonnes of standard coal, representing savings of 1,843.7 tonnes. The Company consumed just 0.3779 tonnes of standard coal per RMB10,000 of production output.

The Company invested

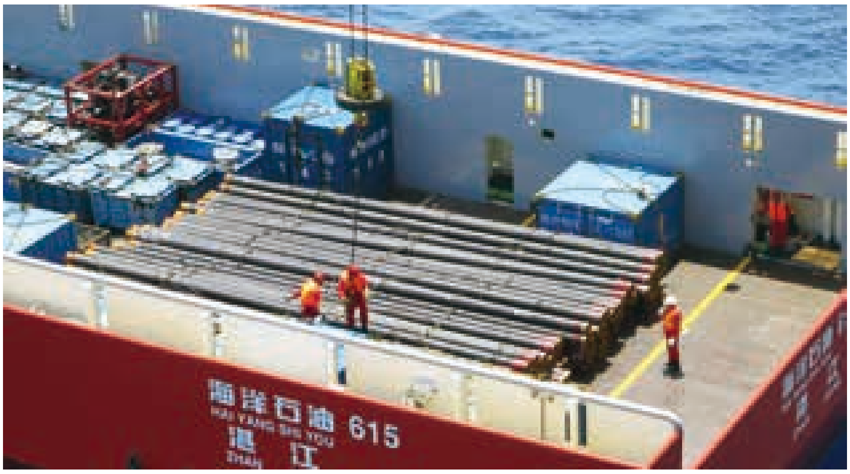
RMB **4.137** million

in energy saving and emissions reduction measures

Saving

1,843.7 tonnes of standard coal

realizing energy saving



Reducing energy consumption with multiple measures

In the shipping business, the Company adopts different power modes to reduce the overall fuel consumption according to the various power modes of vessels, sea conditions and working hours; at the same time, the Company promotes the mooring buoy fuel saving mode of the vessels, and the fuel saving of the vessels operation increases. The drill pad can reduce power consumption through the application of energy-saving lamps; the Company uses reactive power compensation devices to reduce system consumption and reduce the use of diesel engines.

Energy and Water Consumption (2017-2019)

Indicator	Unit	2019	2018	2017
Electricity	10,000 kWh	2,151.42	2,114.09	1,702.85
Diesel fuel	Tonnes	333,433.76	288,732.29	272,430.94
Natural gas	Carbon metres	377,268.00	377,315.00	284,690.00
Oil fuel	Tonnes	0	795.22	782.15
Gasoline	Tonnes	333.87	461.88	466.96
Engine oil	Tonnes	1,352.34	1,023.91	1,049.33
Water	Tonnes	1,044,900.61	923,776.18	884,765.00

Management on greenhouse gas emissions

The Company accelerates the application of clean energy in the shipping business to reduce greenhouse gas emissions. In May 2019, the Company started the construction of 12 new LNG power guard supply ships, which will greatly increase the Company's clean energy usage and reduce the impact on the environment when they are available for operation.

The Company started the construction of 12 new LNG power guard supply vessels

The Company started the construction of 12 LNG dual-fuel power guard supply vessels, being the first of its kind researched and developed domestically

In order to implement the concept of green and low-carbon development and adapt to the trend of low-carbon development in the global energy industry, COSL officially started the construction of 12 LNG dual-fuel power guard supply vessels in 2019, of which 8 are 4,000 horsepower and 4 are 5,000 horsepower; this is also the first domestic application of LNG clean fuel to supply guard vessels for the oilfield. The dual fuel main generator uses LNG as the main fuel, and the emissions under the gas mode meet IMO Tier III; it is also granted with the EIAPP certificate and related documents issued by CCS, making it a real green vessel.

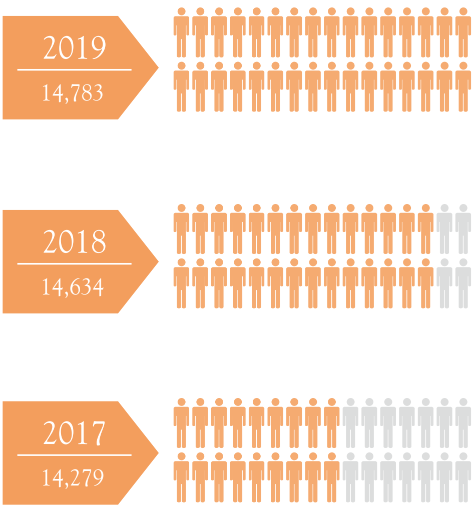
Type of discharges	Unit	2019	2018	2017
Carbon dioxide emissions	Tonnes	1,036,502.54	900,675.68	849,890.00
Carbon dioxide emissions for an output value of RMB ten thousand	Tonnes/ RMB10,000	0.41	0.51	0.68

Staff Caring

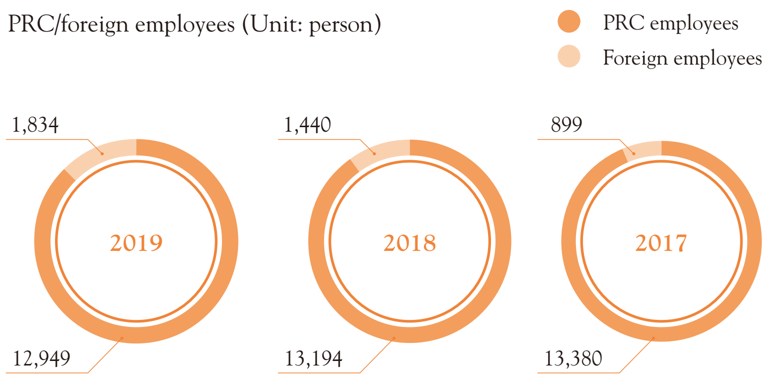
for Creating a Joyful Homeland

- Employee Rights
- Staff Development
- Localisation and Diversification
- Employee Care

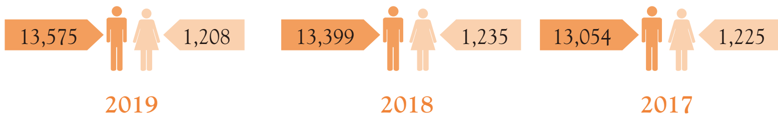
Number of employees (Unit: person)



PRC/foreign employees (Unit: person)



Male/female employees (Unit: person)



Indicator	2019	2018	2017
Number of new employees during the reporting period (Person)	137	390	55
Percentage of female employees (%)	8.0	8.2	8.1
Social insurance coverage (%)	100	100	100
Percentage of labour contracts signed (%)	100	100	100

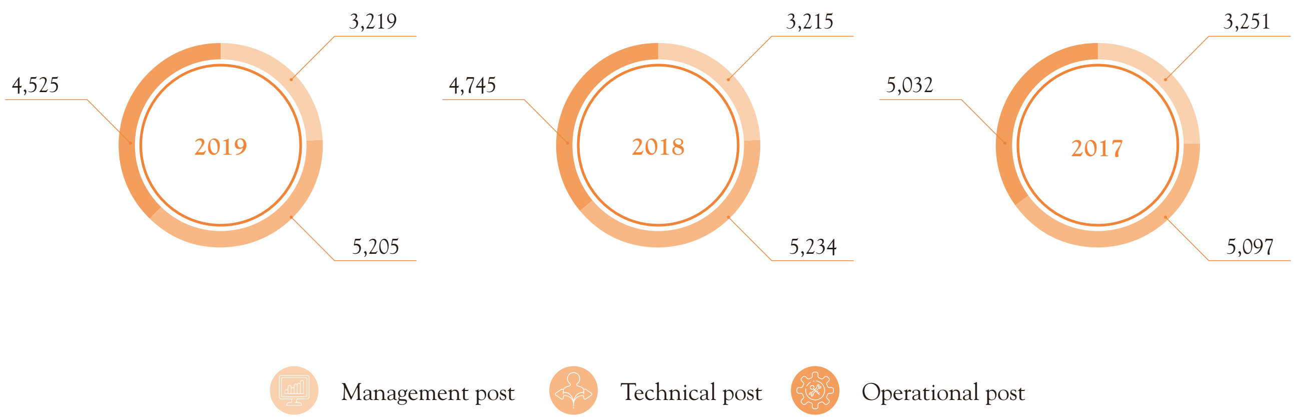
PRC Employees by Qualification (2017-2019) (Unit: person)

Academic qualification	2019	2018	2017
Doctor	35	37	36
Master	725	674	630
Bachelor	5,920	6,017	6,062
Below	6,269	6,466	6,652

PRC Employees by Age (2017-2019) (Unit: person)

Age	2019	2018	2017
30 or under	2,043	2,520	3,323
31-40	6,623	6,557	6,130
41-50	2,664	2,617	2,465
Over 51	1,619	1,500	1,462

PRC Employees Categorised by Position (2017-2019) (Unit: person)



Employees Turnover Rate by Gender (2017-2019) (Unit: %)

Gender	2019	2018	2017
Male	97.6	96.2	96.2
Female	2.4	3.8	3.8

Employees Turnover Rate by Age (2017-2019) (Unit: %)

Age	2019	2018	2017
30 or under	49.5	67.5	77.5
31-40	45.3	26.6	18.8
41-50	2.8	3.6	3.1
Over 51	2.4	2.4	0.7

PRC Employees Turnover Rate by Qualification (2017-2019) (Unit: %)

Academic qualification	2019	2018	2017
Doctor	0.9	0.3	1.4
Master	4.3	4.7	5.4
Bachelor	66	64.7	77.5
Below	28.8	30.3	15.7

Employee Rights

Employment Policy

The Company is a "people-oriented, staff caring" organisation which values and cares for its talent, provides fair employment opportunities, protects the rights and interests of employees, and respects diversity. The Company pays attention to the actual needs of employees during the different stages of their development, helping to improve their career paths by optimising the mechanism for talent development and utilisation. Our goal is to grow hand-in-hand with our employees.

The Company adheres to the equal employment principle and strictly abides by the "Labour Law of the PRC", the "Labour Contract Law of the PRC", and all relevant laws, rules and regulations of countries related to the Company's business. The Company's labour contracts are founded on the principles of "Legality, Equality, Voluntary, Consensus, Honesty and Trust". We treat all employees fairly and equally, regardless of nationality, race, gender, religion and cultural background. Child labour is completely prohibited, as are all forms of forced and compulsory labour. We also implement the national "Special Labour Protection Regulations for Female Workers". During periods of pregnancy, childbirth and breast-feeding, female employees' wages will not be reduced, nor will they be dismissed or terminated from employment during such periods.

Compensation and Welfare

The Company strictly complies with domestic and local laws and policies on employee compensation. To this end, a competitive remuneration system and performance appraisal system are in operation.

The Company implements an enterprise annuity system and a supplementary medical insurance system, and provides personal accident insurance and corporate supplemental pension insurance.

The Company pays a basic social insurance and housing fund for employees.

The Company furthermore provids various welfare measures including health checks, paid vacations, assistance to those with difficulties or major diseases, offering reliable and comprehensive protection to its staff.

Employee Involvement

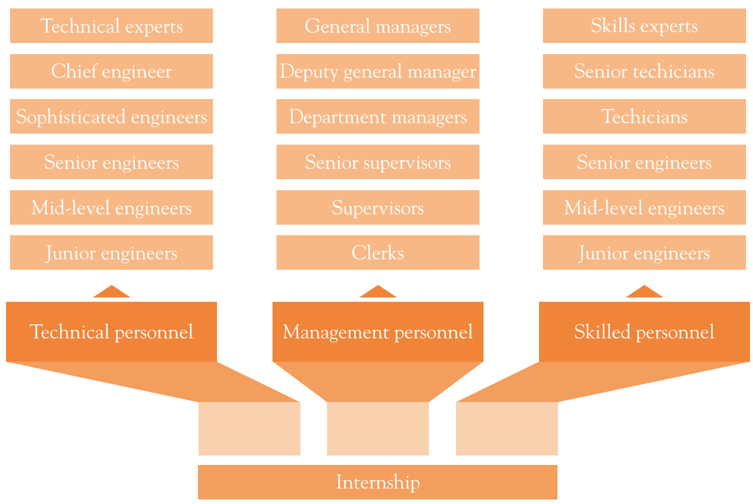
Employee engagement is highly important to the Company. Through labour union membership, employees can participate in negotiations and communications with the Company, help the Company to protect their benefits and rights, and participate in decisions regarding corporate development. The Company strives to explain its policies in detail and responds as far as reasonably possible to employees' opinions and queries.

Staff Development

Broadening the Channels of Development

The Company values and respects talents, and is committed to realising shareholder value while focusing on the Company's strategic development; it focuses on the main business with human resources planning, provides smooth promotion channels for employees, and establishes a demand-oriented training model with different layers and differentiation. It focuses on building four teams of technology, skills, management and internationalisation, and constantly improves the promotion system so that all outstanding employees can fully enjoy the Company's development results.

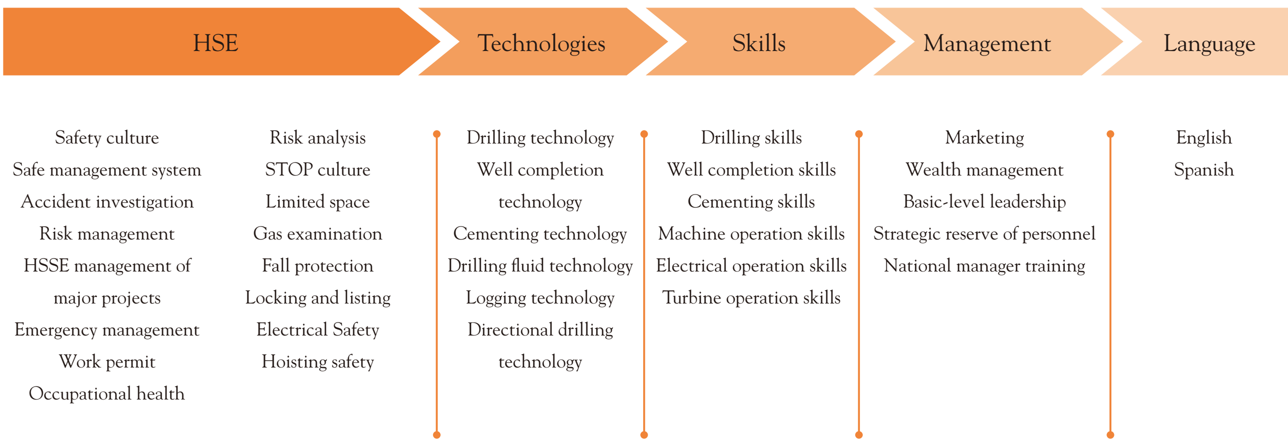
In 2019, over 1,400 production and research and development staff and 583 management staff were promoted in position or rank. The Company vigorously promoted internationalisation and enhanced its talent pool system by focusing on the training and career paths of young officers. In 2019, the average age of a Company's reserve cadre member was 37, and the team and structure of reserve cadres continued to be optimised.



Vocational training

In 2019, the Company was committed to transforming employees' competency from meeting domestic standards to international standards; it also transformed the concept of employee training from planning tasks to capacity assurance systems, the training methods from passive acceptance to active training, and the evaluation method from single project evaluation to systematic post evaluation. The Company continued to increase investment in staff training and employee development. We also carried out vocational training with content based on staff requirements. As well as continuously improving the talent training mechanism, these initiatives encouraged employees to learn, improve their skills and grow with our business through promotion. In 2019, the Company trained 8,079 person-times management personnel, 16,462 person-times professional and technical personnel, and 17,988 person-times operationally skilled personnel.

Vocational training of COSL



Further education and training for strategic reserve talent

The Company has launched nine training courses for strategic reserve talents. The ninth session of the strategic reserve talents training program has 60 people, and two classes (A and B) are set up for rotary training. In addition to management courses, the training also established temporary party branches based on classes, carried out many meaningful activities, and constantly improved students' awareness and knowledge of party, so that party building work and training are highly integrated. The training is closely integrated with Xi Jinping's notions on the socialism with Chinese characteristics in the new era, "Belt and Road" development research, big data, sharing economy models, etc., providing feasible and practical know-how for second ventures. As of 2019, the strategy class has trained a total of 464 people, and 273 people have been promoted, offering new workforce for the Company's second ventures and composite talents for the Company's sustainable development.

Training for overseas company managers

Guided by the "One Cooperation" strategic thinking, COSL actively implements the "Belt and Road" initiative, vigorously implements the international development strategies, and selects national manager candidates every year. It has also formulated systematic development programmes which last at least one year, continuously improves the quality of courses and optimises their allocation. At the same time, it adopts a combination of internal training and overseas training to cultivate and promote international thinking and vision in all aspects. At present, COSL has 21 participants who have gone through the first session of training for overseas managers to undertake the relevant overseas positions. In the future, the second session of participants will also move towards the countries and regions along the "Belt and Road" and participate in the cooperative development of energy in the countries and regions along the route.

Overseas marketing reserve talent training

In order to further meet the urgent needs of overseas marketing talents for the Company's international development, the Company has organised two training sessions for overseas marketing reserve talents each year since 2018. Four sessions have been held in the past two years; a total of 100 employees from the Company's marketing department and other departments, subsidiaries and overseas companies participated in the training, which specifically cultivated overseas marketing talents for the Company.

The training of overseas marketing reserve talents in 2019 focused on the combination of marketing personnel and job abilities; the training content is more precise, emphasising the practical application and strengthening the construction of composite capabilities. Through this course, not only did it effectively improve the participants' ability for customer service, but also improved the overall awareness and strategic thinking of project-based marketing planning, which will be conducive for future overseas technology introduction and market development and will enhance the Company's international image and brand reputation.

The Company obtained international well control certification in 2018. It has independently trained more than 550 people and formed a platform of well control with customers for information exchange. In 2019, 12 employees in the Company are qualified as international well control lecturers.

Localisation and Diversification

The Company's service area covers Chinese waters and six major areas comprising Asia-Pacific, the Middle East, the Americas, Europe, Africa and the Far East, covering more than 40 countries and regions around the globe. In the course of its internationalisation, the Company is promoting the localisation and diversification of staff, adheres to an employment policy of equality and non-discrimination, and respect for different cultures, religions, customs, personal hobbies, etc. In 2019, the Company had 2,620 overseas employees.

Local Employees in Overseas Offices (2017-2019)

Indicator	2019	2018	2017
Number of local employees recruited by the Company (Person)	1,834	1,440	899
Percentage of local employees (%)	70	64	56

Employee Care

Helping employees in financial difficulty

The Company is deeply concerned for the well-being of its employees and their families. To this end, it regularly performs the "three must-visits" as prescribed by the labour union; the Company visits employees in case of sickness and hospitalisation, domestic calamities and festival greetings. The labour union also strives to improve the prospects of employees' families who are experiencing financial difficulties. It does so by carrying out inspections and making thorough investigations, and dynamically managing the records of employees to ensure that the figures are accurate. In 2019, a total of 482 employees in financial difficulties were visited, and financial aid totalling RMB2,550,000 was issued.

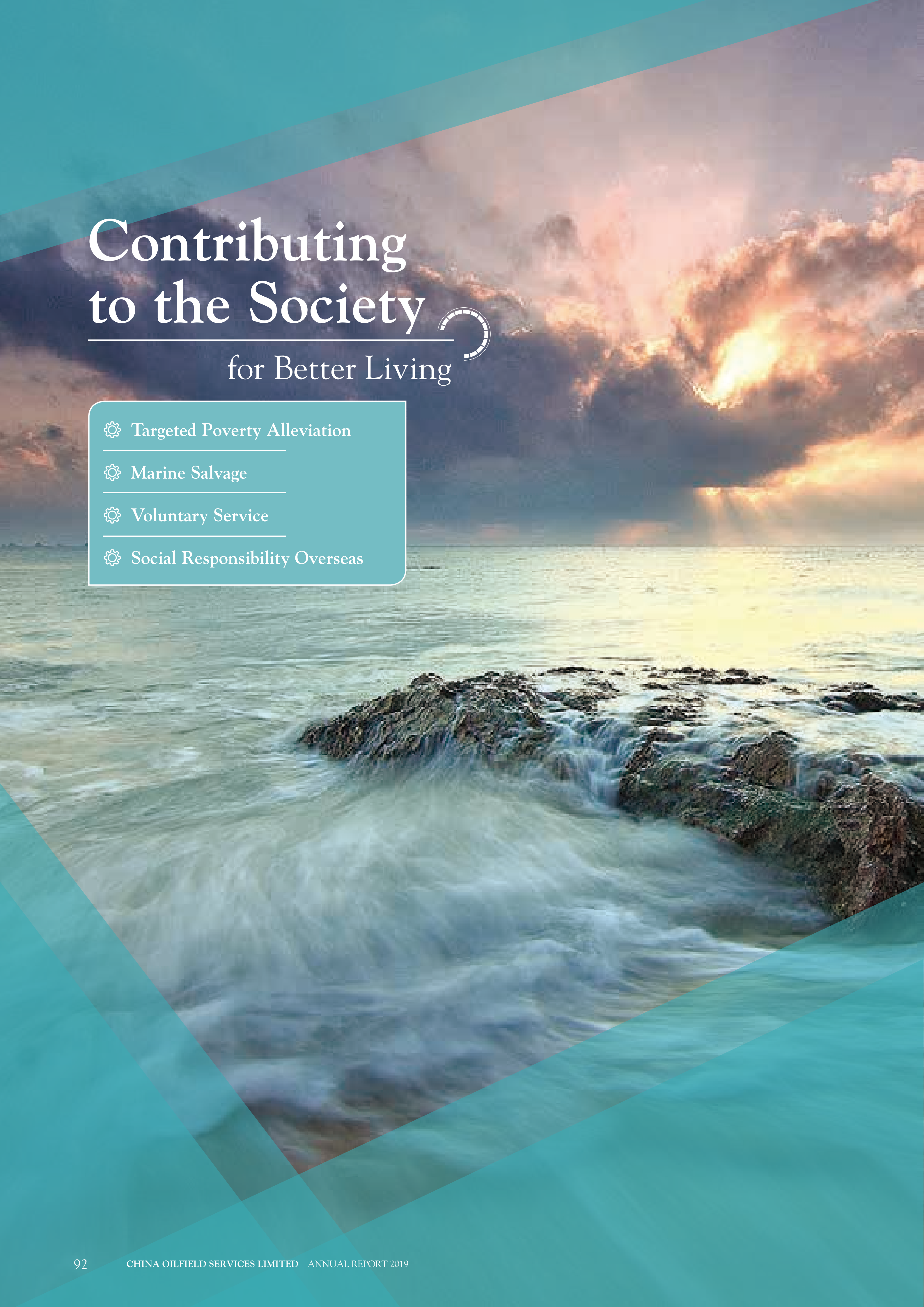
Balancing work and life

The Company recognises the important "bridge and link" function of group organisations, and therefore provides a variety of activities including themed activities for female employees, young people reunions, activities for parent-child bonding and other staff campaigns to enable employees to enhance work-life balance, improve mental health and arouse their sense of happiness and belongings.

Cultural performance show for celebrating the 70th anniversary of the founding of the People's Republic of China

Visiting the Palace Museum on the Women's day

Badminton match



Contributing to the Society

for Better Living

- Targeted Poverty Alleviation
- Marine Salvage
- Voluntary Service
- Social Responsibility Overseas

Targeted Poverty Alleviation

Precise poverty alleviation

The Company has actively adhered to the precision poverty alleviation advocated in the report delivered at the 19th National Congress of the Communist Party of China. It continuously implemented the targeted poverty alleviation work in Leishan County, Guizhou Province, improved the local fundamental facilities by applying the alleviation fund and helped develop the unique rural economy in the locality. In the meantime, it has been active in supporting the poverty alleviation work in Guangdong Province and sent 3 village cadres to Luxi Village, Longtou Town, Zhanjiang Municipality, Guangdong Province to carry out the alleviation work.

Developing unique travel industry of Leishan County with the alleviation fund

Promoting the local culture and boosting up the economy in Leishan County

Village cadres led the poverty alleviation work

In April 2019, COSL Zhanjiang sent 3 village cadres to Luxi Village, Longtou Town to carry out the alleviation work. The committee of Luxi Village, Longtou Town identified 81 targeted poor households comprising 201 citizens in 2019. Such 3 village cadres visited those 81 targeted households in festivals and satisfied their personal demands. We subsidised the education fees of the students from poor households, completed the registration procedures for subsistence allowance and Fire guarantees households, applied medical subsidies and acquired rural basic pension insurance for the poor households, to prevent the citizens from being poor due to suffering from illness and affording education fees for their kids. Furthermore, we started our "two assurances and three guarantees" campaign to build a house for 4 poor households. By stimulating the industries, the local poor households generated approximately RMB320,000. In 2019, 80 households comprising 197 citizens in Luxi Village have escaped poverty, with a poverty alleviation rate of 98.01%.

Poverty alleviation through consumption

The Company has actively responded to the "Guiding Opinions on Deepening the Poverty Alleviation through Consumption and Procuring the Fight against Poverty" issued by the General Office of the State Council. It made full use of its advantages and satisfied the requirements of "poverty alleviation through consumption and participation of all employees" in order to strongly improve the bridging work of the rural products from poor households and encourage its wide range of staff to buy those products from such households to increase their revenues. The fund involved in the poverty alleviation in 2019 reached RMB3.1752 million. We have supported and contributed to the poverty alleviation by action.

At the same time, the Company actively participated in the poverty alleviation through travel campaign "Expecting to Meet You in Gannan" co-organised by the Office of Poverty Alleviation Support Working team of CNOOC and the CNOOC Ocean Environment and Ecology Protection Fund. It encouraged and supported staff to travel and spend in Gannan to help that impoverished region to escape from poverty, so as to fulfill its social responsibility of an enterprise under the central government.

Poverty alleviation by employment

The Company helped to solve the unemployment problem suffered by over 799 citizens in 87 counties from 17 provinces and autonomous regions through various methods according to the list of 485 poor counties released by the state in May 2019. With our help and their own efforts, those people have improved their living standards.

799 people

Number of people from poor counties under employment

87

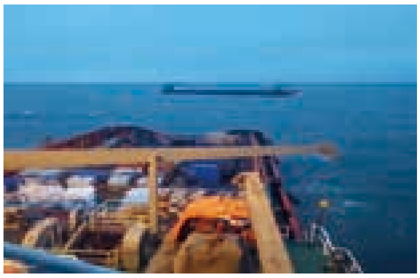
Number of poverty-stricken counties involved

Numbers of people from poor regions under employment

Provinces/autonomous regions	Number of people employed	Number of poor counties
Anhui Province	3	2
Gansu Province	9	4
Guizhou Province	7	6
Hebei Province	633	13
Henan Province	31	9
Heilongjiang Province	9	6
Hubei Province	29	10
Hunan Province	11	7
Jilin Province	14	4
Jiangxi Province	2	2
Inner Mongolia Autonomous Region	12	6
Ningxia Hui Autonomous Region	2	2
Shanxi Province	17	4
Shaanxi Province	1	1
Sichuan Province	11	7
Yunnan Province	1	1
Chongqing Province	7	3
Total	799	87

Marine Salvage

The Company has leveraged its businesses and resource advantage to actively but safely participate in marine salvage. In 2019, the Company dispatched 19 vessels, took part in 16 marine salvage operations, and rescued 18 persons from 6 vessels in distress during the course of such activities.



Person rescued passed a flag to COSL

Voluntary Service

Adhering to the young volunteers' spirits of "contributing, being friendly, helping each other and making progress", the Company encourages employees to actively participate in the "Blue Power Volunteering Activity" and "Lei Feng Day Activity" to support the development of education, environment and health sectors, which makes contribution to the society development.

Voluntary services of our various units

Tianjin

- Actively organising "Lei Feng Learning" voluntary service, trees planting and environment protection events along seaside to promote caring for the elderly and arouse awareness of environment protection;
- Holding "Fire Prevention in Winter" for youngsters together with the street community to promote fire prevention knowledge and community building;
- Launching "COSL Safety Culture Enters Campus" volunteer activity to deliver resources and conveying safety messages to the students in Mancheng Xunkou Hope Primary School, Baoding, Hebei Province so as to strengthen their awareness of safe production.

Shenzhen

- Launching "Blue Power Volunteering Activity" for four years to encourage people to protect our ocean and the Earth, with more than 400 participants joining the ocean protection series of event;
- Organising the "I Have a Little Desk" charity event to encourage the society to be caring to the poor households, especially the children;
- Visiting an elderly nursing home in Pingtan Town, Huizhou to combat the loneliness among seniors.

Zhanjiang

- Visiting 4 COSL Hope primary schools in Hainan and donating teaching books and sports facilities;
- Actively organizing "Lei Feng Learning" voluntary service to provide printing and overmolding services to the residents in mining areas, which improved the communication between enterprises and citizens, being highly recognised.

Xinjiang

- Launching caring events in children nursing home with 8 volunteers visiting the Bazhou Children Welfare Centre, showing love and caring to the kids.

Visit of nursing homes

“I Have a Little Desk” charity event

“COSL Safety Culture Enters Campus” volunteer activity

Volunteer activity of the Bazhou Children Welfare Centre

A gift to the 70th anniversary of the motherland: Blue Power in action

Volunteer service is an important indicator for social progress. From 24 October to 29 October 2019, COSL’s “Blue Power” in Zhanjiang region actively responded to the message from General Secretary Xi Jinping to the Second Congress of China Volunteer Service Federation, and organised volunteers to carry out volunteer service in the community and schools.

“Blue Power in Action—— Lucid Waters and Lush Mountains are Invaluable Assets”

On 24 October, the Zhanjiang branch of COSL’s Oil-generating division carried out a volunteer service activity, “Blue Power in Action—Lucid Waters and Lush Mountains are Invaluable Assets”. Through arranging members to participate in the Olympic Sports Centre to clean the beach, sort out the garbage on the beach, and holding environmental protection competitions, the Company enhanced the members’ awareness on environmental protection and waste classification.

“Spread environment awareness in schools”

On 29 October, the COSL’s Zhanjiang Branch organised volunteers to go to kindergartens to carry out the volunteer activity “Spread environment awareness in schools”, facilitating the construction of a harmonious and civilised community. Through the explanation of waste classification, educational toys interaction, waste classification competition, etc., children were educated with environmental protection knowledge, which raised their environmental protection awareness. At the same time, COSL’s clean energy concept and Blue Power’s volunteer service concept are displayed in the activities, demonstrating the Company’s positive corporate image.

“Improve students’ awareness of self-protection”

On 29 October, the COSL Shipping Zhanjiang Operation Company organised young employees to go to the 16th Xiaoxinpo Campus of Zhanjiang City to carry out the volunteer activity “Improve students’ awareness of self-protection”, which popularized the knowledge of safety and self-protection among primary school students and improved their awareness of self-protection. In addition, the Zhanjiang Operation Company donated a batch of books to the students and established a “Love Book Corner” for the school’s education development.

Since the 19th National Congress of the CCP, COSL’s Blue Power has demonstrated and practiced the socialist core values with actions, which took care of the others and contributed to society.

Social Responsibility Overseas

The Company promises to "serve society and fulfil social responsibilities" everywhere it operates and actively performs its social responsibilities. It respects others' local religions and customs, promotes integration of multi-racial culture and strives for building a harmonious community. Besides, it organises various public welfare campaigns to make contributions to the society, enhances communication between the government authorities and social communities and boosts up the local development, which therefore builds up its reputation as a global citizen.

Our subsidiary in Mexico visited the elderly nursing homes and schools and launched the "caring for elderly" and "improving school campus" activities, which drew high attention of the local media such as newspapers and radios, and thus were highly recognised and appreciated by different sectors.

The Indonesia subsidiary actively practicing social responsibility overseas

Our subsidiary in Indonesia was active in taking part in local donation and salvage events by using our internal and external resources, helping people who suffered from financial difficulties improve their living environment and improving the local social and economical sustainable development.

Our Indonesia, PT.STS of the marine support department made effort in performing social responsibilities. It donated books and learning materials to the orphanages, which not only gave caring to the children, but also contributed to the development of local basic education.

Making donations to the orphanages for five years to give children a better life

In May 2019 near Eid al-fitr, a local festival, the subsidiary of Indonesia donated goods amounting to Rp23,600,000 (approximately RMB12,000) to Afwaja, a orphanage in Indonesia, giving cares and loves to the kids and wishing them a healthy childhood. Since 2015, our staff in Indonesia have donated money at Eid al-fitr to the local orphanages and other welfare organizations for 5 years, with an accumulated amount of Rp86,969,100 (approximately RMB44,200).

Lighting up poor households in Indonesia by installing the electrical supply

In October 2019, our subsidiary in Indonesia participated in the lighting up campaign organised by SKK Migas to help install electric supply for the poor and donated RMB100,000. It did take actions to improve the living environment of the poverty households.

Prospects

Adhering to Sustainable Development

We will continue to improve its corporate governance, strengthen our communication with stakeholders, strive for compliance operation, enhance internal control and risk management and further achieve the organic confusion of sustainable development governance and corporate operation management to increase its operating competitiveness and create higher values for the society.

Adhering to Technical Innovation

We will increase investment in scientific research, explore the "green technology" development of oilfields, accelerate the processes of core technological research and development and optimise the top management of scientific development for safeguarding oil and gas energy production and storage, serving the sustainable energy supply for society and ensuring the safe production of energy for the nation.

Adhering to Green and Low Carbon Environment

We will continue to improve our management of the environment, optimise the environmental protection systems, enhance the education and training of environmental protection, promote safe and clean production, protect the eco-environment and maintain biodiversity. Also, we will actively adapt to the changing weather, save energy and reduce emissions, reinforce the management of greenhouse gas emission and protect our green homeland.

Adhering to serving the Society

We will continue to give care to our staff, employ local and foreign personnels, promote career development, strengthen the accountable supply chain, promote integration of local and foriegn development, enhance strategic cooperation and take part in social welfare activities such as supporting the development of education, environment and healthcare sectors to contributing to society.

Adhering to performing social responsibilities overseas

We will continue to follow the "Belt and Road" strategy, explore oversea markets and provide high-quality and professional services to the oversea markets, strengthen our communication with our key markets and core customers, proactively perform social responsibility in oversea regions, promote harmonious development and build up our reputation as a global citizen.

Directors, Supervisors, Senior Management and Employees

1. CHANGE IN SHAREHOLDING AND REMUNERATIONS OF CURRENT AND RESIGNED DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

Unit: Shares

Name	Position (Note)	Sex	Age	Commencement date of term	Expiry date of term	Number shareholding at the beginning of the year	Number shareholding at the end of the year	Change of shareholding during the year	Reason of change	Total remuneration before tax received from the Company during the reporting period (RMB10,000)	Whether received remuneration from the connected party of the Company
Qi Meisheng	Chairman Executive director	Male	51	2018-3-28 2016-7-22	 2022-5-29					152.14	No
Cao Shujie	Executive director CEO and President	Male	55	2018-5-30 2018-3-28	2021-5-29					151.58	No
Liu Yifeng	Deputy party secretary, Chairman of Labour Union	Male	55	2017-8						130.13	No
Zheng Yonggang	CFO	Male	46	2018-2-28		5,200	5,200	0	Nil	132.30	No
Yu Feng	Vice president	Male	55	2017-1						125.32	No
Yu Guimin	Vice president	Male	50	2017-1						130.33	No
Meng Jun	Non-executive director	Male	59	2017-12-13	2020-12-12					–	Yes
Zhang Wukui	Non-executive director	Male	60	2018-5-30	2021-5-29					–	Yes
Law Hong Ping, Lawrence	Independent non-executive director	Male	65	2014-5-23	2020-5-31					40.00	No
Fong Chung, Mark	Independent non-executive director	Male	68	2015-6-2	2021-5-29					40.00	No
Wong Kwai Huen, Albert	Independent non-executive director	Male	68	2016-5-31	2022-5-29					40.00	No
Wu Hanming	Chairman of Supervisory Committee	Male	60	2018-5-30	2021-5-29					–	Yes
Cheng Xinsheng	Independent Supervisor	Male	56	2015-6-2	2021-5-29					8.00	No
Zhao Bi	Employee Supervisor	Male	38	2019-7-30	2022-7-29					36.29	No
Wu Yanyan	Secretary of the Company	Female	40	2019-8-22						36.91	No
Li Zhi	Original Employee Supervisor	Male	55	2013-5-16	2019-7-30					73.19	No
Jiang Ping	Original Secretary of the Company	Female	44	2017-3-22	2019-8-22					–	Yes
Total	/	/	/	/	/	5,200	5,200	0	/	1,096.19	/

Note: 1. The total remuneration of the above directors, supervisors and senior management was the remuneration before tax of the directors, supervisors and senior management of the Company obtained from the Company during the reporting period.

2. Details of the changes is set out in "Changes Of Directors, Supervisors And Senior Management" of Chapter "Directors, Supervisors, Senior Management and Employees" of the annual report.

BOARD OF DIRECTORS:

Qi Meisheng

Mr. Qi Meisheng, Chinese, born in 1968, the Chairman of the Board and an Executive Director of COSL. He graduated from China University of Petroleum (East China) with bachelor degree of drilling engineering and was granted EMBA of CEIBS in 2013. He served variety positions such as Roustabout, Floorman, Derrickman, Assistant Driller, Driller, Toolpusher and Senior Toolpusher in Nanhai West Drilling Company and China Offshore Oil Southern Drilling Company from July 1991 to August 2000. From August 2000 to January 2002, he served as Acting Rig Manager of NH2. From January 2002 to December 2004, he served as Rig Manager of NH6 of COSL Drilling. From December 2004 to March 2006, he served as Safety Director of COSL Drilling. From March 2006 to July 2006, he served as Assistant of GM of COSL Drilling. From July 2006 to September 2008, he served as Vice GM of COSL Drilling. From September 2008 to May 2009, he served as Vice GM of COSL Drilling and President Assistant of CDE. From May 2009 to June 2010, he served as Vice GM of COSL Drilling and CEO of CDE. From June 2010 to December 2013, he served as GM of COSL Drilling. He served as Vice President of COSL from December 2013 to June 2016. From June 2016 to July 2016, he served as CEO and President of COSL. From July 2016 to March 2018, Mr. Qi served as an Executive Director, Chief Executive Officer and President of China Oilfield Services Limited. Since March 2018, Mr. Qi has served as Chairman and an Executive Director of COSL. Mr. Qi has over 28 years of experience in the oil and natural gas industry.

Cao Shujie

Mr. Cao Shujie, Chinese, born in 1964, the CEO and President and an Executive Director of COSL. He graduated from the East China Petroleum Institute in 1987 and received his MBA and EMBA degree from Tianjin University and China Europe International Business School respectively. He has been the drilling team leader, Deputy Superintendent, Vice Rig Manager and Rig Manager in Bohai Oil Drilling Corporation and China Offshore Oil Northern Drilling Company during the period from July 1987 to November 2001. From November 2001 to April 2006, he was the Deputy General Manager of COSL Drilling. Between April 2006 and March 2010, he was the General Manager of COSL Drilling. He was appointed as Vice President of COSL from March 2010 to December 2016. Mr. Cao has been Executive Vice President of COSL from January 2017 to March 2018. Since March 2018, he has served as the CEO and President of COSL. Since May 2018, he has served as the CEO and President and an Executive Director of COSL.

Meng Jun

Mr. Meng Jun, Chinese, born in 1960, obtained an EMBA from Sun Yat-sen University and an MBA from the Open University of Hong Kong. He is a Senior Accountant. In April 1978, he joined CNOOC Nanhai West Corporation, served as the Accountant, Leader of the Finance Group, Deputy Section Chief, Section Chief and Chief Accountant of the Finance Department of the Company. In January 1997, he joined CNOOC Chemical Limited ("CNOOC Chemical"), acted as the Manager of the Planning and Finance Department of CNOOC Chemical, the Chief Accountant of CNOOC Fudao Limited. From 2001 to October 2005, he was the CFO of CNOOC Fudao Limited. From October 2005 to April 2006, he was the CFO of CNOOC Chemical. From April 2006 to April 2007, he served as the Vice President of China BlueChemical Ltd., Secretary of the Board of Directors and Secretary of the Company. From April 2007 to December 2011, he served as the Deputy General Manager in the financial management department of CNOOC. From December 2011 to July 2017, he served as the Deputy General Manager in the financial and assets management department of CNOOC. From January 2014, he served as the director of Offshore Oil Engineering Co., Ltd.. From July 2017 to November 2017, he served as the General Manager in the financial and assets department of CNOOC. Since November 2017 to December 2019, he has served as the General Manager in the financial and assets department of China National Offshore Oil Corporation. Since October 2017, he has served as a non-executive director of China BlueChemical Ltd.. Since December 2017, he has served as a non-executive director of the Company.

Zhang Wukui

Mr. Zhang Wukui, Chinese, born in 1959, he obtained a bachelor degree in business administration from Jianghan Petroleum Institute in 1998 and a master's degree in management science and engineering from Southwest Petroleum Institute in 2004. He joined CNOOC in 1982. From January 2005 to June 2008, he served as the General Manager of Oil Production Service Branch of CNOOC Oil Base Group Ltd.. From July 2008 to April 2009, he served as the General Manager of Oil Production Service Branch of CNOOC Energy Technology & Services Ltd.. From April 2009 to April 2012, he served as the General Manager Assistant of CNOOC Energy Technology & Services Ltd. and the General Manager of its Oil Production Service Branch. From April 2012 to December 2016, he served as the Deputy General Manager of CNOOC Energy Technology & Services Ltd.. From April 2012 to December 2012, he served as the General Manager of Oil Production Service Branch of CNOOC Energy Technology & Services Ltd.. Since January 2014, he has served as a director of CNOOC Energy Technology & Services Ltd.. From August 2016 to August 2018, he has served as the deputy secretary of the Party Committee of CNOOC Energy Technology & Services Ltd.. Since April 2018, he has served as the director of Offshore Oil Engineering Co., Ltd.. Since May 2018, he has served as a non-executive director of the Company.

Law Hong Ping, Lawrence

Mr. Law Hong Ping, Lawrence, China (Hong Kong) by nationality, born in 1954, Independent Non-Executive Director of COSL and HKMC Insurance Limited, he has over 30 years of management experience in banking and property leasing. Mr. Law is the founder and chairman of Vincera Consulting Limited. Mr. Law started his career as a planner in China Light and Power Co. Ltd. (now CLP Power Hong Kong Limited) and was involved in tariff and long term planning on electricity power in Hong Kong. He then worked for 23 years with HSBC and held various management positions covering a spectrum of activities of the bank. Mr. Law's last position with HSBC was Head of Banking Services, being the business and products head for key banking products. Mr. Law subsequently joined Bank of China (Hong Kong) Limited as General Manager for Retail Banking and later joined Sino Land Company Limited as an Associate Director for leasing matters. Mr. Law was an external supervisor of Ping An Bank between 2010 and early 2014. Mr. Law graduated from the Middlesex Polytechnic University with a Bachelor's degree in Social Science, major in Economics, and obtained a Master's degree in Econometrics from Queen Mary College of the University of London in 1980. He is also the honorary treasurer and financial adviser of the Hong Kong Girl Guides Association.

BOARD OF DIRECTORS:

Fong Chung, Mark

Mr. Fong Chung, Mark, China (Hong Kong) by nationality, born in 1951, an Independent Non-Executive Director of COSL. He was the former President of the Hong Kong Institute of Certified Public Accountants. Mr. Fong has over 40 years of experience in the accounting profession and is a Fellow of the Institute of Chartered Accountants in England and Wales and a Fellow of the Hong Kong Institute of Certified Public Accountants. He has been the Chairman of the Audit Committee of the Hong Kong Institute of Certified Public Accountants from February 2016 to January 2019 and the council member of the Institute of Chartered Accountants in England and Wales from June 2016 to June 2018. Mr. Fong is currently an Independent Non-Executive Director of Sinopec Kantons Holdings Limited and Macau Legend Development Limited, all are companies listed on the Stock Exchange of Hong Kong Limited, and is also a Non-Executive Director of Worldsec Limited, a company listed on London Stock Exchange.

Wong Kwai Huen, Albert

Mr. Wong Kwai Huen, Albert, China (Hong Kong) by nationality, born in 1951, BBS, JP., an Independent Non-Executive Director of COSL. Mr. Wong holds a bachelor of arts degree from The Chinese University of Hong Kong and a bachelor of laws degree from the University of London. Mr. Wong is currently the Independent Non-Executive Director of Vinda International Holdings Limited, Hua Hong Semiconductor Limited and NWS Holdings Limited. He had been the managing partner of the China region for 15 years in two international law firms. Prior to that, he worked for the Lands Department, Department of Justice and Legislative Council of the Hong Kong SAR Government for 10 years in total. Mr. Wong was appointed as committee member of the Hong Kong International Airport Authority, Hospital Authority and the Competition Committee during the period from 2011 to 2018. He was the former chairman of Hong Kong International Arbitration Centre, and is presently one of the deputy chairman of Hong Kong Board of Review (Inland Revenue Ordinance), chairman of Hong Kong Copyright Tribunal, the Director of The Hong Kong Mortgage Corporation Limited, former president of the Law Society of Hong Kong and Inter-Pacific Bar Association. Mr. Wong holds the posts of honorary lecturer, external examiner and professor in the University of Hong Kong, The Chinese University of Hong Kong, City University of Hong Kong and Hong Kong Shue Yan University.

BOARD OF SUPERVISORS:

Wu Hanming

Mr. Wu Hanming, Chinese, born in December 1959. He obtained a bachelor degree of Accounting at Renmin University of China and obtained a Master degree of EMBA at School of Economics and Management of Tsinghua University in July 2009. He is a senior accountant. He worked at a platform company of CNOOC Bohai Corporation in 1983. From August 1987 to November 2001, he served as the Manager of Planning and Financial Department of China Offshore Oil Northern Shipping Co.. From November 2001 to October 2002, he served as the Manager of Planning and Financial Department of CNOOC Shipping Co., Ltd.. From October 2002 to November 2005, he served as the General Manager of Planning and Accounting Department of China Oilfield Services Limited. From November 2005 to April 2007, he served as the Chief Economist of China Oilfield Services Limited. From April 2007 to July 2012, he served as the Chief Financial Officer of Offshore Oil Engineering Co., Ltd.. From July 2012 to March 2014, he was the Deputy General Manager of CNOOC Finance Corporation Limited. From March 2014 to April 2014, he was the president of CNOOC International Financial Leasing Limited and the Deputy General Manager of CNOOC Finance Corporation Limited. From April 2014 to February 2016, he was the president of CNOOC International Financial Leasing Limited. From February 2016 to July 2017, he was the president of CNOOC International Financial Leasing Limited and the General Manager of CNOOC Investment Holding Co., Ltd.. From July 2017 to March 2018, he has been the deputy leader of the inspection team of the Party group of CNOOC. He has been the Chairman of Supervisory Committee of Offshore Oil Engineering Co., Ltd. since April 2018. He has been the Chairman of Supervisory Committee of the Company since May 2018.

Cheng Xinsheng

Mr. Cheng Xinsheng, Chinese, born in 1963, an Independent Supervisor of COSL. Mr. Cheng obtained his Bachelor degree and Master degree from the School of Economics of Nankai University and Doctoral degree from Tianjin University of Finance and Economics in Management, and he holds the independent director qualification of China. Mr. Cheng was a lecturer and an associate professor of the Accounting Department of Nankai University in March 1993, and passed the PRC Certified Public Accountants examination in 1994 and became a member of The Chinese Institute of Certified Public Accountants. He promoted to the Head of the Audit Teaching and Research Offices of the Accounting Department of Nankai University from September 1995 to August 2001. He engaged in the research on corporate governance when he was stationing in the post-doctoral business administration offices of Nankai University from September 2001. Since September 2002, Mr. Cheng has been acting as the Head of Corporate Governance Evaluation Study Offices of the Research Institute of China Corporate Governance of Nankai University. Since December 2005, Mr. Cheng has been acting as a professor and a doctoral supervisor of Nankai University. Mr. Cheng was an Independent Non-Executive Director of Offshore Oil Engineering Co, Ltd., a company listed on the Shanghai Stock Exchange. Mr. Cheng is an Independent Supervisor of COSL since June 2015.

Zhao Bi

Mr. Zhao Bi, Chinese, born in 1981, graduated from the Jianghan Petroleum Institute with a bachelor degree, administrative officer. From July 2003 to December 2004, he served at the position of internship, Driller and Well Workover Supervisor at COSL IPM Division SZ36-1/QK17-2 project team. From December 2004 to April 2006, he served at the position of salary management of Human Resources department of COSL Product Manufacturing Division. From April 2006 to June 2011, he served at the position of human resource allocation of Human Resources department of COSL Drilling. From June 2011 to January 2014, he served at the position of C&B Officer of Human Resources department of COSL Drilling. From January 2014 to January 2017, he served as the manager of CAIM of COSL Drilling. From January 2017 to November 2017, he temporarily acted as the deputy general manager of Human Resources department of COSL. From November 2017 to August 2019, he served as the deputy general manager of Human Resources department of COSL. Since August 2019, he has served as the manager of Human Resources department of COSL. Since July 2019, he has served as Employee Representative Supervisor of COSL. (Formerly known as: Zhao Baobao).

SENIOR MANAGEMENT:

Qi Meisheng

Mr. Qi Meisheng, please refer to the Section of Board of Directors.

Cao Shujie

Mr. Cao Shujie, please refer to the Section of Board of Directors.

Liu Yifeng

Mr. Liu Yifeng, Chinese, born in 1964, the deputy party secretary and Chairman of Labour Union of COSL. He graduated from Changchun Institute of Geology with a major in Applied Geophysics under the Department of Geophysics. There, he received a bachelor's degree in Engineering. He later received an MBA from Tsinghua University, and a Ph.D in Geophysics in Institute of Geology and Geophysics, Chinese Academy of Sciences. He is a senior engineer at the professor level. From August 1985 to February 1994, he served as the assistant engineer, engineer and deputy project manager of the CNOOC Exploration Research Centre. From February 1994 to February 1995, he was the assistant general manager of the Quartet Geophysical Software Co., Ltd. From February 1995 to October 1999, he served as the deputy manager and manager of the Technology Development Department of Offshore Oil Exploration and Development Research Centre. From October 1999 to July 2006, he served as the deputy manager of the Operation Department of China Oilfield Petroleum Research Centre, the dean of Exploration Research Institute and the production manager and the technical support manager. From July 2006 to June 2008, he served for China Oilfield Petroleum (China) Co., Ltd. as the technical support manager of its Beijing Research Centre. From June 2008 to December 2011, he served as the deputy general manager of the Science and Technology Department of the CNOOC. From December 2011 to July 2017, he served as the deputy general manager of the CNOOC, Ltd.'s Technology Development Department. From December 2017 to May 2018, he served as an Executive Director of the Company. Since August 2017, he is serving as the deputy party secretary and Chairman of Labour Union of COSL.

Zheng Yonggang

Mr. Zheng Yonggang, Chinese, born in 1973, CFO of COSL, graduated from Capital University of Economics and Business in 1996 with a Bachelor's degree in Accounting and graduated from The University of New South Wales in 2001 with a Master's degree in Professional Accounting. From July 1996 to January 1999, he worked as a senior auditor of Deloitte Touche Tohmatsu. From January 1999 to May 2000, he served as a corporate budget manager of China Network Communications Co. From December 2001 to February 2004, he served as an Accouting Manager in GP Accounting Firm. From February 2004 to May 2005, he served as an investment manager of Wanxiang Communications Co. From September 2005 to October 2007, he served as a senior economic analysis director of the assets acquisition division of the finance department of CNOOC Limited. From October 2007 to September 2011, he served as a manager of the overseas financial management division of the financial department of CNOOC Limited. From September 2011 to July 2012, he served as a manager of the financial capital department of CNOOC Iraq Co., Ltd. From July 2012 to October 2016, he served as a chief financial officer of CNOOC Iraq Co., Ltd. From October 2016 to February 2018, he served as a deputy general manager and chief financial officer of CNOOC International Limited. Mr. Zheng was appointed as the CFO of the Company on 28 February 2018.

Yu Feng

Mr. Yu Feng, Chinese, born in 1964, Vice President and safety director of COSL. He graduated from East China Petroleum Institute in 1987 with a bachelor degree in mining geophysics and obtained his MBA from Tsinghua University in 2003. Mr. Yu served as an assistant engineer of the electronic computing centre in Shengli Oilfield from July 1987 to January 1990 and an assistant engineer of Logging Company of CNOOC from January 1990 to May 1991. He served as an engineer of Xinjiang branch of Logging Company of CNOOC from May 1991 to August 1992. He also served as a sales engineer of Xinjiang branch of Logging Company of CNOOC from August 1992 to May 1994 and a marketing engineer of Zhanjiang branch of Logging Company of CNOOC from May 1994 to August 1995. He was a deputy manager of the marketing development department of Logging Company of CNOOC from August 1995 to August 1996 and a manager of the marketing development department of Logging Company of CNOOC from August 1996 to December 2000. Mr. Yu served as a general manager assistant (in charge of the finance and accounting department) of Logging Company of CNOOC from December 2000 to December 2001 and a general manager of the marketing department of China Oilfield Services Limited from December 2001 to September 2002. He also served as a vice general manager of the Well Tech of China Oilfield Services Limited from September 2002 to March 2006 and a general manager of the Well Tech of China Oilfield Services Limited from March 2006 to January 2016. From January 2016 to January 2017, he served as a marketing director of China Oilfield Services Limited. Since January 2017, he has been a Vice President of China Oilfield Services Limited. Since June 2017, he has also served as a safety director of China Oilfield Services Limited.

Yu Guimin

Mr. Yu Guimin, Chinese, born in 1969, Vice President and general legal counsel of COSL. He graduated from Southwest Petroleum Institute in 1992 with a bachelor degree in Mining Machinery and obtained a PhD in Mechanical Design and Theory from Southwest Petroleum University in 2009. Mr. Yu was an intern of Downhole Operating Company of CNOOC Technology Services Company from July 1992 to June 1993. He served as an operation engineer of Downhole Operating Company of CNOOC Technology Services Company from June 1993 to December 1998. He also served as a manager of Downhole Operating Company of CNOOC Technology Services Company in Tanggu base from December 1998 to April 2001 and a manager of Workover Company of CNOOC Technology Services Company from April 2001 to October 2001. He was a deputy general manager of Workover Services Division of China Oilfield Services Limited from October 2001 to September 2002 and a chief engineer of COSL Drilling of China Oilfield Services Limited from September 2002 to November 2005. Mr. Yu served as a deputy general manager of the Production Optimization of China Oilfield Services Limited from November 2005 to September 2009 and a general manager of the Procurement department of China Oilfield Services Limited from September 2009 to May 2012. He served as an executive deputy general manager of the Production Optimization of China Oilfield Services Limited from May 2012 to July 2012 and a general manager of the Production Optimization of China Oilfield Services Limited since July 2012. He has been the Vice President of China Oilfield Services Limited since January 2017. He holds a concurrent position as the general legal counsel since November 2018.

Wu Yanyan

Ms. Wu Yanyan, Chinese, born in 1979, senior economist. She obtained a Bachelor of Arts degree in 2001 and a MBA degree in 2009 from Tianjin Foreign Studies University and Tianjin University respectively. She obtained the Qualification of the Board Secretary of Listed Company from Shanghai Stock Exchange in 2016, and became an affiliate member of the Hong Kong Institute of Chartered Secretaries in 2015. Ms. Wu joined CNOOC in 2001 with a position in the marketing department of CNOOC Northern Drilling Company. In December 2001, she served as the secretary of COSL Administration department (worked as a member of COSL IPO preparation project team on the Hong Kong Stock Exchange); From November 2002 to July 2007, she engaged in public relations and investor relations in Board Secretary Office of COSL. From July 2007 to November 2015, she served as the public relations manager, investor & public relations manager in Board Secretary Office of COSL. Since November 2015 to September 2019, she has served as General Manager of Board Secretary Office of COSL. Since August 2019, she has served as secretary of the Board of COSL.

The directors, supervisors and senior management resigned during 2019 and as at the date of preparation of this report:

Mr. Li Zhi, Chinese, born in 1964, an original Employee Supervisor of COSL. He resigned as Employee Supervisor of COSL on 30 July 2019.

Ms. Jiang Ping, Chinese, born in 1975, an original secretary of the Board of COSL (the secretary of the Company) and authorized representative. She resigned as secretary of the Board of COSL (the secretary of the Company) and authorized representative on 22 August 2019.

2. SHARE OPTION INCENTIVES FOR DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT DURING THE REPORTING PERIOD

☐ Applicable √ Not applicable

3. WORK POSITIONS OF CURRENT AND RESIGNED DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

(1) Work Positions in the Shareholding Company

√ Applicable ☐ Not applicable

Name	Name of shareholder company	Position held	Starting date of term of office	Expiry date of term of office
Meng Jun	CNOOC	General manager of financial assets department	July 2017	December 2019
Wu Hanming	CNOOC	Chairman of the Supervisory Committee	May 2018	Until now

Please refer to the resume for the specific conditions of work positions in the Shareholding Company.

(2) Work Positions in Other Units

√ Applicable ☐ Not applicable

Name	Name of company	Position held	Starting date of term of office	Expiry date of term of office
Law Hong Ping, Lawrence	Vincera Consulting Limited	Chairman of the Board	2012	2017
Fong Chung, Mark	Grant Thornton Hong Kong Limited	Honorary advisor	2014	Until now
Wong Kwai Huen, Albert	Fried, Frank, Harris, Shriver & Jacobson LLP	Principal of Hong Kong branch	2015	Until now
Zhang Wukui	CNOOC Energy Technology & Services Ltd.	Director	January 2014	Until now
Zhang Wukui	Offshore Oil Engineering Co., Ltd.	Director	April 2018	Until now
Meng Jun	Offshore Oil Engineering Co., Ltd	Director	January 2014	Until now
Meng Jun	China BlueChemical Ltd.	Director	October 2017	Until now
Wu Hanming	Offshore Oil Engineering Co., Ltd	Chairman of the Supervisory Committee	April 2018	Until now
Cheng Xinsheng	Nankai University	Professor	December 2005	Until now

Please refer to the resume for the specific conditions of work positions in Other Units.

4. REMUNERATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

√ Applicable ☐ Not applicable

Decision-making procedures of remuneration of Directors, Supervisors and Senior Management	Remuneration of Directors and Supervisors are subject to shareholders' approval at the general meetings. Remuneration of senior management shall be determined by the Board.
Reference for determining remunerations of Directors, Supervisors and Senior Management	Depends mainly on the duties and responsibilities of Directors, Supervisors and Senior Management and the results of the Company.
Actual remuneration payable to Directors, Supervisors and Senior Management	RMB10,961.9 thousand
Total actual remuneration of Directors, Supervisors and Senior Management at the end of the reporting period	RMB10,961.9 thousand

5. CHANGES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Change of Directors

(1) AGM 2018 of the Company was held on 30 May 2019, at which Mr. Qi Meisheng was re-appointed as an executive director of the Company with a term of office for 3 years starting from the date the resolution was passed at the general meeting, and Mr. Qi will continue to serve as the Chairman of the Board and the member of the nomination committee; Mr. Wong Kwai Huen, Albert was re-appointed as an independent non-executive director of the Company with a term of office for 3 years starting from the date the resolution was passed at the general meeting, and Mr. Wong will continue to serve as the member of the audit committee, the member of the nomination committee and the chairman of the remuneration and assessment committee.

2. Change of Supervisors

(1) The Company convened the meeting of the employees representatives on 30 July 2019. Mr. Zhao Bi was elected as the employee supervisor of the Company with effect from 30 July 2019. Mr. Li Zhi has resigned as a supervisor of the Company with effect from 30 July 2019 due to expiry of his term of appointment.

3. Change of Senior Management

(1) On 21 August 2019, the Company convened the third Board meeting in 2019, in which, Ms. Wu Yanyan was elected as the secretary to the Board (company secretary) and authorised representative of the Company, and Ms. Jiang Ping resigned as the secretary to the Board (company secretary) and authorised representative of the Company, with effect from 22 August 2019.

6. EMPLOYEES OF THE COMPANY AND ITS MAJOR SUBSIDIARIES

(1) Employees

Number of in-service employees of the Company	12,891
Number of in-service employees of the major subsidiaries	1,834
Total number of in-service employees	14,725
The number of retired employees whose expenses are borne by the Company and its major subsidiaries	58

Composition of professions

Type of profession	*Number of employees in the profession (Headcount)*
Operation Management	3,473
Technical Expertise	5,554
Skills Operating	5,698
Total	14,725

Educational level

Type of educational level	*Number of employees (Headcount)*
Master degree or above	786
Bachelor degree	6,390
College graduates	3,424
Below college graduates	4,125
Total	14,725

(2) Remuneration Policy

The Company strictly complies with domestic and business operating countries' laws and policies on labour remuneration and established competitive remuneration system and performance appraisal system. The Company pays the basic social insurance and housing fund for employees, implements enterprise annuity system, supplementary medical insurance system, and provides personal accident insurance and corporate supplementary pension insurance and a number of welfare including health check, paid vacation, helping and assisting those with difficulties or major diseases and etc., taking efforts to address the worries of employees, so as to provide reliable and multi-layered protection for employees.

During the reporting period, the Company do not have share option scheme.

(3) Training Programme

Training programme and development of the Company are closely related to the strategy of Employees' career development of the Company. Based on the five-year development plan, the Company established a dimensional demand-oriented training model with layers and differentiation, which enhanced the training capability, highly promoted the internal teaching team's construction, gradually improved the training system, fulfilled the requirement of the Company's business development and built our core competitiveness.

Report of the Directors

The directors present the report and the audited financial statements of the Company and its subsidiaries (hereinafter collectively referred to as "the Group") for the year ended 31 December 2019.

DIRECTOR'S WORK

The particulars of work of the Directors of the Company and their professional committees during the year are set out in the section headed "Corporate Governance Report" of this annual report.

PRINCIPAL ACTIVITIES

The Company is principally engaged in the provision of oilfield services including drilling services, well services, marine support services and geophysical acquisition and surveying services. The principal activities of the subsidiaries comprise provision of drilling, well workover and logging services. There were no significant changes in the nature of the Group's principal activities during the year. The review of the operating result of the Company during the reporting period and the future development outlook of the Company is set out in the section headed "Management Discussion and Analysis" of this annual report.

RISKS AND MEASURES

1 Major Potential Risks

During the production and operation process, the Company will take various measures to try to avoid various operational risks, but it is not possible to completely exclude the occurrence of the following types of risks and uncertain factors in the actual production and operation process.

(1) Market competition risk. Although the tendering and bidding activities in the oilfield service industry may be active with the recovery of international oil prices, the competition pattern of the whole market has not changed significantly. Coupled with the influence of political, economic and other factors, the trend of international oil prices is still uncertain and some countries or regions may protect the local oilfield service industry market, market competition is still fierce, short-term oilfield service industry is still facing greater operating pressure, and market competition risks are still risks that need to be faced by the Company.

(2) Health, safety and environmental risk. As an offshore oilfield service company, the production environment is mainly in the ocean, and the environmental protection requirements of domestic and overseas government agencies are becoming increasingly strict, the Company's environmental protection expenditure may increase accordingly. Meanwhile, the Company's business is vulnerable to natural disasters, bad marine environment and other factors, which is a high-risk industry, and the risk of health, safety and environmental protection is more likely to occur. With the increase of business volume and the continuous increase of operation intensity and operation volume, which will cause a shortage of personnel in key positions in the short-term, thereby increasing the possibility of safety production accidents and accidental injuries.

(3) Domestic and Overseas business expansion and operational risks. The Company operates in different countries and regions and has more exchanges with the local governments, enterprises and personnel. Due to the influence of various geopolitical, economic, religious, humanistic, policy changes, technological change, information network security, legal and regulatory environment, and other factors in the countries where it operates, including political instability, unstable fiscal and tax policies, barriers to entry, contract breach, tax disputes, legal disputes, trade secret dispute or disclosure, technical equipment and information capacity cannot meet the competition demand, etc., may increase the risk of the Company's domestic and overseas business development and operations.

(4) Exchange rate risk. Due to the Company's holding of US dollar debt and conducting business in multiple countries and regions overseas, which involves income and expenditure activities in multiple currencies, fluctuations in the exchange rate of Renminbi against relevant foreign currencies and exchange between currencies will affect the Company's operating costs. The Company's overseas business controls the exchange rate risk by natural hedging, controlling the position of non-US dollar currency and agreeing to use the RMB as the settlement currency in the contract.

(5) Risk of impairment of assets. In the face of industry fluctuations and market changes, the Company may experience various impairment risks including impairment of fixed asssets caused by the recoverable amount of some fixed assets is less than its book value.

(6) Accounts receivable recovery risk. The international oil and gas industry has not yet fully recovered. When the Company develops overseas market businesses, there may be individual customers who fail to fulfill their payment obligations on time, resulting in the risk of recovery of accounts receivable.

(7) Human resource risk. The macro environment, industry development, customer demand and the promotion of the Company's strategy need the Company's human resource structure and ability to make timely adjustments. Due to the uncertainty change of the above factors, it is possible to produce the situation that the human resources such as the quantity of employment, the type of employment, the balance of the employment area and so on cannot be satisfied or matched.

2 **Risk Management Measures**

(1) Improving the organization system of risk management and establishing the long-term mechanism of risk prevention. Establishing internal control compliance and risk management organizations at all levels, clarifying responsibilities and division of labor, strengthening implementation of responsibilities, carrying out risk assessment and control in accordance with the principle of hierarchical classification and control, strengthening information and resource sharing, and continuously promoting role of collaborative risk prevention and control mechanisms.

(2) Strengthening risk identification and helping high-quality development. In-depth identification of risks in the business sector, expansion of external environmental risk assessments, increased coverage of risk assessments, multi-level, multi-departmental, multi-unit collaboration and synergies, comprehensive risk sorting and special inspections, providing support and guarantee for improving profitability and high-quality development.

(3) Preventing and resolving major business risks and improve risk mitigation capabilities. Adherence to the bottom line thinking, always putting prevention and mitigation of major risks in a prominent position, carrying out special inspections for prevention and mitigation of major business risks, comprehensively identifying and investigating major operational risks, developing targeted management strategies and measures for various risks, focusing on the major risks in the key areas to make a head for figures, and comprehensively improving our ability and level of prevention and resolution of major risks.

RESULTS AND DIVIDENDS

The Group's profit prepared under Hong Kong Financial Reporting Standards for the year ended 31 December 2019 and the statement of financial position of the Group at that date are set out in the financial statements of this annual report on pages 138 to 143.

The directors recommend the payment of a final dividend of RMB0.16 (tax inclusive) per ordinary share in respect of the year to shareholders who are entitled to dividends. This recommendation has been incorporated as proposed cash dividends within the retained profits section of the consolidated statement of financial position. The total dividend amounts to approximately RMB763,454,720 (tax inclusive). Further details of this accounting treatment are set out in the Note 16 to financial statements in this annual report.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2019 are set out in Note 23 to the financial statements in this annual report.

GEARING RATIO

The details of gearing ratio of the Group as at 31 December 2019 are set out in Note 48 to the financial statements in this annual report.

SHARE CAPITAL

During the reporting period, there was no changes in the share capital of the Company.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the Company Law of the PRC which would oblige the Company to offer new shares in proportion to the existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTING SECURITIES OF THE COMPANY

Neither the Company nor its subsidiaries purchased, redeemed or sold any of its listing securities during this year.

BONDS

In 2016, the Company successfully issued corporate bonds with an aggregate amount of RMB10 billion by two tranches. The first tranche of the bonds was issued on 26 May 2016, with the actual issue size of RMB5 billion. The first tranche of the corporate bonds comprises two types: corporate bonds type I has a term of 3 years and has an actual issue size of RMB2 billion with final coupon rate of 3.14%; corporate bonds type II has a term of 10 years and has an actual issue size of RMB3 billion with final coupon rate of 4.10%.

The second tranche of the bonds was issued on 21 October 2016, with the actual issue size of RMB5 billion. The second tranche of the corporate bonds comprises two types: corporate bonds type I has an issue size of RMB2.1 billion and has a term of 5 years with an option for the issuer to adjust the coupon rate and the investors' option to sell back at the end of the third year and final coupon rate of 3.08%; corporate bonds type II has an issue size of RMB2.9 billion and has a term of 7 years with an option for the issuer to adjust the coupon rate and the investors' option to sell back at the end of the fifth year and final coupon rate of 3.35%.

The above two tranches of bonds were traded on the SSE on 29 June 2016 and 3 November 2016 respectively. The proceeds from the issuance of bonds would be used according to the agreed use in the prospectus and are proposed to fully repay the Company's debts and replenish working capital after deducting the issuance expenses. As at 31 December 2019, accumulated expenses of two tranches of bonds amounted to RMB9,985,425,000.00. The proceeds were utilized in full.

During the reporting period, the principal and interest of type I of the first tranche of the corporate bonds have been fully paid. On 24 October 2019, part of type I of second tranche of the corporate bonds was sold back, with a resale amount of RMB 1,998.1 million. The resale amount was released on 24 October 2019.

The details of bonds issued by the Company during the reporting period are set out in Note 39 to the financial statements in this annual report.

PLACING OF H SHARES

On 15 January 2014, the Company completed the placing of an aggregate of 276,272,000 H shares, representing approximately 5.79% of the total number of issued shares (as enlarged by the allotment and issue of the placing shares) and approximately 15.25% of the total number of H shares in issue (as enlarged by the allotment and issue of the placing shares). After the placing, the total number of issued shares of the Company increased from 4,495,320,000 shares to 4,771,592,000 shares. The total number of issued H shares increased from 1,534,852,000 H shares to 1,811,124,000 H shares. For further details, please refer to the Company's announcements dated 7 January 2014 and 15 January 2014, respectively. The net proceeds from the placing amounted to approximately HK$5,819,392,302.91 (after deduction of the commissions and estimated expense) and used for general corporate purposes. The proceeds from the placing shares would be used according to the agreed use in the placing agreement. Approximately US$397,785.73 was not yet utilized as at 31 December 2019. The above balance of raised funds will continue to be used for general corporate purposes and in a timely manner.

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results, and the assets and liabilities of the Group for the last five years in accordance with HKFRSs is set out below:

Unit: RMB'000

	2019	2018	2017	2016	2015
Revenue, net of sales surtaxes	31,075,838	21,886,628	17,458,554	15,085,545	23,174,248
Other income	352,136	284,090	324,056	153,207	242,495
Depreciation of property, plant and equipment and amortisation of intangible assets and multiclient library	(4,372,838)	(4,262,776)	(4,488,936)	(4,520,118)	(4,213,421)
Depreciation of right-of-use assets	(589,264)	–	–	–	–
Employee compensation costs	(5,807,994)	(5,026,085)	(4,031,973)	(3,890,143)	(3,792,454)
Repair and maintenance costs	(691,334)	(523,764)	(364,063)	(500,093)	(799,297)
Consumption of supplies, materials, fuel, services and others	(6,933,202)	(4,954,252)	(3,069,432)	(4,116,437)	(4,569,260)
Subcontracting expenses	(5,943,860)	(3,578,949)	(2,367,934)	(2,364,588)	(3,474,789)
Lease expenses	(1,287,702)	(1,126,191)	(594,735)	(1,206,111)	(1,547,610)
Other operating expenses	(1,348,745)	(1,516,863)	(1,309,038)	(2,865,175)	(2,185,096)
Impairment of goodwill	–	–	–	(3,455,378)	(923,154)
Impairment of property, plant and equipment	(241,485)	(122,962)	(4,942)	(3,688,408)	(280,116)
Impairment losses under expected credit loss model, net of reversal	(316,324)	(415,364)	(83,602)	–	–
Total operating expenses	(27,532,748)	(21,527,206)	(16,314,655)	(26,606,451)	(21,785,197)
Profit/(loss) from operations	3,895,226	643,512	1,467,955	(11,367,699)	1,631,546
Exchange gain/(loss), net	111,871	358,647	(388,092)	268,710	87,726
Finance costs	(1,118,797)	(1,082,501)	(1,100,941)	(1,047,667)	(700,259)
Interest income	67,522	107,552	99,575	130,519	105,248
Investment income	218,214	164,730	187,545	191,933	102,345
(Losses)/Gains arising from financial assets at fair value through profit or loss	(38,829)	49,441	–	–	–
Share of profits of joint ventures, net of tax	320,452	184,288	106,867	16,849	169,748
Other gains and losses	16,515	280,660	(30,644)	–	–
Profit/(loss) before tax	3,472,174	706,329	342,265	(11,807,355)	1,396,354
Income tax (expense)/credit	(944,159)	(617,657)	(261,350)	347,899	(287,648)
Profit/(loss) for the year	2,528,015	88,672	80,915	(11,459,456)	1,108,706

ASSETS AND LIABILITIES

Unit: RMB'000

	2019	2018	2017	2016	2015
Total assets	76,101,838	74,687,004	73,941,296	80,544,057	93,525,051
Total liabilities	39,191,561	40,009,598	39,253,811	45,247,679	46,696,381

PROPERTY, PLANT AND EQUIPMENT

The details of the movements in property, plant and equipment of the Group are set out in Note 18 to the financial statements in this annual report.

DIVIDEND

The Company's dividend policy is: Dividend shall be determined by the Board of Directors of the Company according to overall financial condition of the Company, which includes but not limited to factors such as revenue and profits, capital requirements and surplus and expectations for the Company. In ensuring the normal operation of the Company and continuous development, and as long as the profit for the relevant year and accumulated retained profits remain positive, the annual dividend level shall not be lower than 20% of the total net profit for the year. The specific payout amount shall be finally approved by the shareholders in a general meeting.

The formulation and implementation of the Company's dividend policy are in compliance with the Company's Articles of Association and the resolution of the General Meeting. The distribution criterion and proportion are accurate and clear; and the related decision-making procedures and mechanism are thorough and complied. During the process of formulating and implementing the dividend policy, independent directors have fully performed and properly played their role and have fully taken into consideration the minority shareholders' opinions and requirements; and the legal rights of minority shareholders have been fully protected.

In 2019, based on a net profit of RMB2,528,015,269 achieved by the Group (of which net profit attributable to the owners of the Company amounted to RMB2,502,238,023) plus the retained profits of RMB15,028,122,605 as at the beginning of the year and deducted the dividend of 2018 of RMB334,011,440 declared and paid in 2019, the total distributable profit would be RMB17,196,349,188 at the end of 2019. The Group recommended a cash dividend of RMB0.16 per share (tax inclusive) on the basis that the total share capital was 4,771,592,000 shares as at 31 December 2019. The total dividend amounts to RMB763,454,720 and the balance of retained profits of RMB16,432,894,468 will be carried forward to the following years.

According to the Company Law and the Articles of Association of the Company, the accumulated statutory common reserve fund of the Company for 2018 has reached more than 50% of the registered capital of the Company, no further provision of such fund is required for this year.

Such distribution proposal will be proposed at the AGM 2019 of the Company for approval.

As at the year ended 31 December 2019, the Company was not aware of any shareholder had waived or agreed to waive any dividend arrangement.

Dividend of the Group in the recent three years:

Unit: RMB'000

Dividend year	Cash dividend per 10 shares (yuan) (tax inclusive)	Cash dividend (tax inclusive)	Net profit attributable to equity holders of the Company in the consolidated financial statement	Percentage of net profit attributable to equity holders of the Company in the consolidated financial statement (%)
2019	1.60	763,455	2,502,238	30.51
2018	0.70	334,011	70,802	472
2017	0.60	286,296	42,771	669

CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable donations totaling RMB154,000.

MAJOR CUSTOMERS AND SUPPLIERS

During the reporting period, sales to the Group's five largest customers accounted for approximately 86.9% of the total sales for the year and sales to the largest customer included therein accounted for approximately 78.2%. Purchases from the Group's five largest suppliers accounted for approximately 21.2% of the total purchases for the year; and purchases from the Group's largest supplier accounted for approximately 6.1% of the total purchases for the year.

The Group has provided certain oilfield services to and obtained certain services from the companies with the same ultimate holding company of the Company, details of which are set out in the section headed "Connected Transactions" below. Save as aforesaid, none of the directors of the Company or any of their associates, and to the best knowledge of the directors, none of the shareholders who own more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers and five largest suppliers.

RELATIONSHIP WITH EMPLOYEES

As employees are the cornerstone of development, the Group adheres to the "people-oriented" principle in human resources management, regularly reviews employee remuneration policies, strives to address employee concerns by providing multiple benefits to them, and provide employees with reliable, multi-level protection.

RELATIONSHIP WITH CUSTOMERS AND SUPPLIERS

The Group strives to establish and maintain long-term strong relationships with customers, and to improve their satisfaction by fully understanding and satisfying their needs. On the supplier side, the Group's objective is to maintain a mutually beneficial partnership with all suppliers.

ASSETS MEASURED AT FAIR VALUE

The majority of the assets of the Group were measured at historical cost, except for financial assets at fair value through profit or loss and bank acceptances included in notes receivable which have been measured at fair value. Internal control and review procedures have been taken by our audit department on works of finance department. For details of fair value changes in aforesaid financial assets of the Group during the reporting period, please see Note 47 to the financial statements in this annual report.

OUTLOOK OF THE COMPANY

For details, please refer to the Business Outlook of the Company set out in the "Management Discussion and Analysis".

CHARGE ON ASSETS

As at 31 December 2019, the Group had no material charges against its assets.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any contingent liabilities.

DIRECTORS AND SUPERVISORS

The directors and supervisors of the Company during the reporting period and as at the date of this annual report were:

Non-Executive directors	Executive directors	Independent Non-Executive directors	Supervisors
Meng Jun	Qi Meisheng *(Chairman)*	Law Hong Ping, Lawrence *(Note)*	Wu Hanming *(Chairman of Supervisory Committee)*
Zhang Wukui	Cao Shujie	Fong Chung, Mark	Cheng Xinsheng *(Independent Supervisor)*
		Wong Kwai Huen, Albert	Zhao Bi *(Employee Supervisor)*

Pursuant to the Articles of Association of the Company, upon election, all directors and supervisors shall serve a tenure of three years, and may be re-elected upon the expiry of such tenure.

Pursuant to the Rule 3.13 of the Listing Rules of the Hong Kong Stock Exchange, the Company had received annual confirmations of independence from Law Hong Ping, Lawrence, Fong Chung, Mark and Wong Kwai Huen, Albert, and as at the date of this report, still considers them to be independent.

Note: Mr. Law Hong Ping, Lawrence, an independent non-executive Director, will resign from office at the expiry of six years at the 2019 AGM of the Company. For details, please refer to the announcement of the Company dated 25 March 2020.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT BIOGRAPHIES

Biographical details of the directors, supervisors and the senior management of the Company are set out in the section headed "Directors, Supervisors, Senior Management and Employees" of the annual report.

DIRECTOR AND SUPERVISORS' SERVICE CONTRACTS

The newly appointed directors and supervisors are required to enter into a service contract with the Company for a term of three years, renewable upon re-election. Details of the director and supervisors' remunerations for the year 2019 are set out in the section headed "Directors, Supervisors, Senior Management and Employees" of the annual report.

The Company has not entered into service contract which the Company cannot terminate within one year or is required to pay compensation for termination (other than statutory compensation) with Directors, Supervisors who intend to be re-elected at the forthcoming annual general meeting.

PERMITTED INDEMNITY PROVISIONS

The Company renewed Directors' liability insurance in 2019 with an insured amount RMB200 million. These liability insurances included permitted indemnity provisions. Save as disclosed above, the Company did not make any permitted indemnity provisions for the year ended 31 December 2019 and had no valid permitted indemnity provisions at the time of approval of the Report of the Directors.

DIRECTORS' REMUNERATION

The remuneration of Directors and Supervisors are proposed by the Company's board of directors with reference to the duties and responsibilities of the Directors and are subject to shareholder' approval at general meetings after consideration of the remuneration committee's recommendation, and the performance and results of the Group.

The remuneration committee had no objection to the remuneration of Directors, Supervisors and Senior Management disclosed in the annual report.

DIRECTORS' AND SUPERVISORS' INTEREST IN CONTRACTS

During the Reporting Period, the Directors, Supervisors and related entities did not have a direct or indirect significant interest in any important contract, transaction or arrangement that is material to the business of the Group.

SIGNIFICANT CONTRACTS

The Company has entered into several agreements with CNOOC Limited, a related company, and other companies within China National Offshore Oil Corporation ("CNOOC"), other than CNOOC Limited ("CNOOC Group"), for the provision of oilfield services by the Company to CNOOC Limited and CNOOC Group, and for the provision of various services by CNOOC Group to the Company. Further details of the transactions undertaken in connection with these contracts during the year are included in Note 46 to the financial statements in this annual report.

Save as disclosed, no significant contract in relation to the Group's business to which the Company or any of its subsidiaries was a party, and in which the Directors of the Company had a material interest, whether directly or indirectly, subsisted at year end or at any time during the year.

DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S INTERESTS AND SHORT POSITIONS IN SHARES

As at 31 December 2019, the interests and short positions of the directors, supervisors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Name of Shareholder	Capacity	Class of Shares	Number of Equity Shares (Shares)	Approximate Percentage attributable to COSL Equity (A) (%)
Zheng Yonggang	Directly Beneficial Owner	A Shares	5,200	0.0002

Save as disclosed above, none of the Directors, supervisors, or chief executives of the Company or their respective associates had any other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

DIRECTORS', SUPERVISORS', SENIOR MANAGEMENT'S AND OTHER PERSONS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of acquisition of shares in or debentures of the Company granted to any directors, supervisors, chief executive and other persons or their respective spouses or minor children, or were any such rights exercised by them; nor was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors, supervisors, senior management and other persons to acquire such rights in any other body corporate.

INTERESTS AND SHORT POSITIONS OF SUBSTANTIAL SHAREHOLDERS IN SHARES

So far as is known to any Director or chief executive of the Company, as at 31 December 2019, other than the Directors or the chief executive of the Company as disclosed above, the following persons have interests or short positions in the H Shares or underlying H Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept under Section 336 of the SFO or were otherwise notified to the Company and the Hong Kong Stock Exchange:

Name of shareholder	Shares held	Number of shares interest (share)	Approximate percentage of the interests (H) in COSL (%)
Citigroup Inc.	Interest in controlled corporation	275,089,507(L) 172,000(S) 263,332,289(P)	15.18(L) 0.00(S) 14.53(P)
GIC Private Limited	Interest in controlled corporation	197,624,000(L)	10.91(L)
BlackRock, Inc.	Interest in controlled corporation	161,556,286(L) 6,564,000(S)	8.92(L) 0.36(S)
JPMorgan Chase & Co	Interest in controlled corporation	131,715,369(L) 18,408,597(S) 75,567,319(P)	7.27(L) 1.01(S) 4.17(P)
Allianz SE	Interest in controlled corporation	108,337,000(L)	5.98(L)

Notes:

(a) "L" means long position.

(b) "S" means short position.

(c) "P" means lending pool.

Save as disclosed above, the directors are not aware of any other person who had an interest in the shares of the Company which would fall to be disclosed to the Company pursuant to Section 336 of the SFO.

CONNECTED TRANSACTIONS

Under the Listing Rules, connected transactions of the Company must be fully disclosed and are subject to the independent shareholders' approval, if the transaction is over a certain amount. The Company has applied to the Hong Kong Stock Exchange at the time of listing on the Hong Kong Stock Exchange for a waiver from strict compliance with the reporting, announcement and independent shareholders' approval requirements in respect of the continuing connected transactions of the Company and the Hong Kong Stock Exchange has granted a waiver in respect of such requirements for a period of three years, subject to the approval from independent shareholders with compliance to the requirements of the Listing Rules in respect of the continuing connected transactions of the Company upon expiry. During the year ended 31 December 2019, the Group had the following continuing connected transactions:

1. Master Services Framework Agreement

The Company entered into a Master Services Framework Agreement with China National Offshore Oil Corporation ("CNOOC") on 4 November 2016. Pursuant to the Master Services Framework Agreement, the Group has agreed to continue to provide the Oilfield Services to the CNOOC and its subsidiaries, and the CNOOC and its subsidiaries has agreed to continue to provide the Machinery Leasing, Equipment, Material and Utilities Services as well as the Property Services to the Group. Upon approval at the general meeting, the new Master Services Framework Agreement took effect from 1 January 2017 for a term of three years and expired on 31 December 2019. For details, please refer to the announcements of the Company dated 6 November 2016 and 15 December 2016 respectively.

CNOOC holds 50.53% of the shares in the Company, and is the controlling shareholder of the Company. As such, CNOOC is a connected person of the Company under the Hong Kong Listing Rules.

Pursuant to the Master Services Framework Agreement, the annual caps of the continuing connected transactions of the Group under the Master Services Framework Agreement for the three years ended 31 December 2017, 2018 and 2019 are as follows:

	For the year ended 31 December 2017 (RMB million)	For the year ended 31 December 2018 (RMB million)	**For the year ended 31 December 2019 (RMB million)**
Annual caps			
— Provision by the Group of oilfield services to CNOOC and its subsidiaries	14,322	17,695	**23,095 *(Note)***
— Provision by CNOOC and its subsidiaries of machinery leasing, equipment, material and utilities services to the Group	2,118	2,827	**3,918**
— Provision by CNOOC and its subsidiaries of property services to the Group	340	460	**638**

Note: Due to increased transaction volume brought by favorable domestic and overseas market condition accompanied by the reviving oil price during 2018 and 2019, in order to ensure production and operation and protect the interests of the Company and its shareholders, the Company and CNOOC entered into a Supplemental Service Agreement to increase the annual cap of the oilfield services for the year ending 31 December 2019 to RMB25,917 million. The Supplemental Service Agreement and the revised annual cap were approved by independent shareholders of the Company at the extraordinary general meeting held on 18 December 2019. For details, please refer to the announcements of the Company dated 30 October 2019 and 18 December 2019.

In 2019, the Company renewed connected transactions expired at the end of 2019.

The Company entered into a new Master Services Framework Agreement with CNOOC on 30 October 2019. Pursuant to the Master Services Framework Agreement, the Group has agreed to continue to provide the Oilfield Services to the CNOOC and its subsidiaries, and the CNOOC and its subsidiaries have agreed to continue to provide the Machinery Leasing, Equipment, Material and Utilities Services as well as the Property Services to the Group. The resolution in respect of the continuing connected transactions for the three years from 1 January 2020 to 31 December 2022 was approved by the independent shareholders of the Company at the extraordinary general meeting held on 18 December 2019. For details, please refer to the announcements of the Company dated 30 October 2019 and 18 December 2019.

2. Deposit and Settlement Agreement

The Company entered into a new Deposit and Settlement Agreement with CNOOC Finance Corporation Ltd. ("CNOOC Finance") on 8 May 2017. Pursuant to the Deposit and Settlement Agreement, CNOOC Finance has agreed to continue to provide the Cash Depository Services as well as the Settlement Services to the Group. The Deposit and Settlement Agreement takes effect from 8 May 2017 for a term of three years and will expire on 7 May 2020.

CNOOC Finance is a non-bank financial institution which is wholly-owned by CNOOC and its associates. As such, CNOOC Finance is a connected person of the Company under the Hong Kong Listing Rules.

Pursuant to the Deposit and Settlement Agreement, the maximum daily deposit amount of the continuing connected transactions of the Group under the Deposit and Settlement Agreement for the period from 8 May 2017 to 7 May 2020 all are RMB1,500 million respectively.

During the year ended 31 December 2019, actual transaction amounts of the above-mentioned connected transactions of the Group are as follows:

a. Included in revenue

	2019 RMB'000	2018 RMB'000
i CNOOC Limited Group		
– Provision of drilling services	6,303,361	4,124,740
– Provision of well services	13,652,619	8,901,508
– Provision of marine support services	2,743,376	2,461,746
– Provision of geophysical acquisition and surveying services	1,657,321	1,168,780
	24,356,677	16,656,774
ii CNOOC Group		
– Provision of drilling services	102,834	117,782
– Provision of well services	228,125	107,426
– Provision of marine support services	41,719	42,582
– Provision of geophysical acquisition and surveying services	91,441	24,567
	464,119	292,357
iii An associate invested by CNOOC		
– Provision of drilling services	3,813	511
– Provision of well services	131,138	12,228
– Provision of marine support services	18,162	16,255
	153,113	28,994

b. Included in operating expenses

	2019 RMB'000	2018 RMB'000
i CNOOC Limited Group		
Materials, utilities and other ancillary services	79,268	103,921
Transportation services	383	–
Leasing of equipment	257	–
	79,908	103,921
Property services	6,207	4,904
	86,115	108,825
ii CNOOC Group		
Materials, utilities and other ancillary services	1,076,401	930,512
Leasing of equipment	162,242	184,517
Transportation services	48,437	52,311
Management services	32,896	9,755
Repair and maintenance services	21,733	6,121
Labour services	60	–
	1,341,769	1,183,216
Property services	145,168	170,286
	1,486,937	1,353,502
iii An associate invested by CNOOC		
– Materials, utilities and other ancillary services	19,862	–
– Management services	1,207	–
	21,069	–

c. Included in interest income

	2019 RMB'000	2018 RMB'000
CNOOC Finance (a subsidiary of CNOOC)		
Interest income	15,326	25,248

Deposits in CNOOC Finance carry interests at the applicable interest rate which is determined with reference to the prevailing bank rates published by the People's Bank of China.

d. Dividend income from joint ventures

	2019 RMB'000	2018 RMB'000
Dividend income from joint ventures	124,569	96,258

e. Included in finance costs

During the current year, the finance costs on the loan from a related party are US$9,535,000 (2018: US$8,671,000), which is equivalent to approximately RMB65,775,000 (2018: RMB57,382,000).

During the current year, the finance costs on the lease liabilities due to related party are RMB4,680,000.

f. Deposits

	31 December 2019 RMB'000	31 December 2018 RMB'000
Deposits placed with CNOOC Finance	1,498,717	1,472,356

g. During the current year, the other income from CNOOC Limited Group in respect of compensation for equipment dropping into wells when rendering services are RMB38,708,000 (2018: Nil).

h. Right-of-use assets

During the current year, the Group entered into certain lease agreements with related parties and recognized right-of-use assets and lease liabilities on lease commencement. The following is addition of right-of-use assets from related parties in current year:

	2019 RMB'000
CNOOC Group	16,522
Joint ventures	5,728
	22,250

The independent shareholders of the Company have approved the connected transactions set out in items (a) and (b) above on 15 December 2016 and 18 December 2019. For items (c) to (h) above, the transactions were exempted from the independent shareholders' approval requirement of the Listing Rules and was approved by the Independent Directors.

The independent non-executive directors have reviewed the above transactions and have confirmed that:

1. the transactions were entered into between the Group and the connected persons or their respective associates (where applicable) in the ordinary and usual course of business of the Group;

2. the transactions were entered into on normal commercial terms or better;

3. the transactions were executed in accordance with the relevant agreements governing such transactions, on terms that are fair and reasonable and in the interests of the shareholders as a whole; and

4. the above transactions were entered into with the annual aggregate value within the relevant annual cap or revised annual cap of each category.

The auditors of the Company have reviewed the above connected transactions and issued a letter to the Company indicating that:

1. the above transactions were approved by the Board;

2. in case the above transactions involved provision of goods or services, they were conducted in accordance with the pricing policy of the Company;

3. the above transactions were conducted in accordance with the terms of the agreement governing such transactions; and

4. the above transactions (where applicable) did not exceed the relevant annual cap or revised annual cap previously disclosed in the announcements of the Company.

The Directors confirmed that the Company has complied with the requirements under Chapter 14A of the Listing Rules in respect of the above connected transactions. Save as disclosed above, other related party transactions disclosed in Note 46 of the auditors' report in this annual report do not constitute the connected transaction or continuing connected transaction under Chapter 14A of the Listing Rules.

There are relatively more connected transactions between the Company and its connected persons such as CNOOC Limited. It is due to the franchise system and development history of exploitation of offshore petroleum resources in cooperation with other enterprises which fulfill the requirements of the industrial policies in China. These connected transactions become the main source for generating business revenues of the Company and are important to the development of the Company. The actual operation situation of the Company since it has been listed is able to prove that connected transactions are indispensable to reaching the development of the Company. The contract prices of connected transactions of the Company are determined according to the public tendering or negotiation, which complies with the principles of fairness, openness and justness and is beneficial to both the development of the Company's main business and the maximization of the shareholders' interests. It is proved that conducting connected transactions is necessary and will be continued.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and to the best knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public at the date of this report.

AUDIT COMMITTEE

Before the field work of the auditors for annual audit, the Audit Committee of the Group reviewed the audit plan and other relevant information submitted by the auditors in accordance with the requirements under the relevant notices from CSRC, and approved the annual audit plan and work schedule formulated by the Company and auditors for annual audit and confirmed effective communications with the auditors for annual audit before and after such field work and suggested related opinion with regard to related work.

The final results of the Group have been reviewed by the Audit Committee of the Board which consists of three independent non-executive directors. The committee has reviewed the accounting principles and practices adopted by the Company, and has also discussed auditing, risk management, internal control and financial reporting matters including the review of audited 2019 annual results with the management.

BUSINESS PLAN

In 2020, the overall competition in the oilfield services market is still fierce. The Company will focus on cost control, and strive to improve the Company's profitability through systematic cost reduction measures such as strengthening QHSE management, institutional reform, management process optimization, and boosting labor productivity. The cash flow of the Company is overall secure in 2020. The Company will continue to strictly follow the practices of prudent capital investment, speeding up the optimization and upgrade of its operation model with the support of capital expenditure, and adhere to the Company's development idea and transformation of business model to asset-light and technology-heavy. It is estimated that the capital expenditure of the Company in 2020 will be approximately RMB4.8 billion, which will be mainly used for construction of production bases, renovation of the facilities, machinery and equipment. As guided under the new development idea, the Company will speed up the research and development and innovation of green and environmental-friendly low-carbon technology; enhance its core competitiveness through technological and industry upgrade; allocate equipment resources flexibly in various ways such as self-owned assets, leases and management to timely respond to the change in the market; and pay attention to shareholders' return and actively safeguard the interests of investors.

CORPORATE GOVERNANCE CODE AND MODEL CODE FOR SECURITIES TRANSACTIONS

For the year under review, the Company's compliance with the Corporate Governance Code is set out in the "Corporate Governance Report" section of this annual report. Upon specific enquiry to each and every director by the Company, the Board of Directors confirms that all members of the Board, for the year under review, have complied with the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules.

AUDITORS

This financial statements has been audited by Deloitte Touche Tohmatsu, who will retire at the forthcoming AGM at which a resolution for re-appointing it as the auditor of the Company will be proposed.

EXECUTION OF THE INSIDER INFORMATION MANAGEMENT SYSTEM

The Company continuously worked on the regular registration of insiders. The Company actively organised trainings, in order to enhance the sense of confidentiality of information insiders, and to prevent insider dealing, the effect is as expected.

All directors and supervisors of the Company confirmed that they had not traded the Company's securities in violation of rules in the reporting period. Furthermore, pursuant to requirements of Provisions for the Establishment of Management Systems for the Registration of Persons Who Have Knowledge of Insider Information by Listed Companies issued by the China Securities Regulatory Commission, the Company also conducted self-assessment on whether there have been share transactions by any insider of the Company other than directors and supervisors during the reporting period, and did not find any insider trading of the Company's securities in violation of rules.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Company adopts the green policy of "protecting the environment, saving energy and increasing efficiency and green development", and unceasingly pursues conservation of resources and protection of the environment. It has put in place environmental management system certified by DNV GL and Maritime Safety Administration of the PRC and established an environmental protection team with dedicated and supporting staff. The capability of environmental protection personnel is constantly enhanced. In its operations, the Company strictly abides by environmental protection requirements of laws, regulations and international conventions, and regularly evaluates the compliance with environmental rules and regulations. Environmental factors involved in the operation process are identified and evaluated and corresponding management and control measures are formulated. Special environmental protection inspections are also carried out to ensure effective management and control of environmental risks. Recycling facilities are installed to recycle and treat pollutants generated from operations so as to meet the approved discharge standard. Environmental emergency plan is formulated and filed with relevant national authorities, which includes on-site emergency response plan in respect of potential emergency such as oil leakage. Special emergency response drillings are organised regularly to enhance the Company's emergency response and employees' on-site handling ability with an aim to prevent causing harm to the environment by the Company's operations.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Company insists to govern the Company according to laws, strictly follows laws and regulations of the countries where it has operation, and implements industry standards, and provides qualified and highly effective professional services to clients in a sustainable way. Through implementation of systematic management, the Company practically complies with the safety production, environmental protection laws and regulations, strives for safety production, environment protection, clean production and energy saving, protects the safety and health of staff, and protect the environment from being harmed, continues to improve the quality, health, safety and environmental management level.

MANAGEMENT CONTRACTS

No contracts concerning management or administration of the whole or any substantial part of the business of the Company were entered into or existed during the reporting period.

EQUITY-LINKED AGREEMENTS

As at 31 December 2019, the Company did not enter into any equity-linked agreement.

BUSINESS COMPETITION WITH CONTROLLING SHAREHOLDERS, DIRECTORS AND SUPERVISORS

There is no substantial competition between the Company and CNOOC (including CNOOC's subsidiaries), the controlling shareholder of the Company. On 27 September 2002, CNOOC and the Company entered into a Non-competition Agreement, pursuant to which CNOOC has undertaken that there is no competition between CNOOC and the Company, and CNOOC will take various measures to avoid new competition.

During the Reporting Period, none of the Directors, Supervisors of the Company and their associates directly or indirectly competed with the business of the Company or had an interest in a business that may constitute competition.

OTHER DISCLOSURE

An analysis of the Company's performance using key financial performance indicators is set out in the section headed "Management Discussion and Analysis" in this annual report; particulars of important events affecting the Company that have occurred since the end of the reporting period can be found in the section headed "Significant Events" in this annual report. In addition, discussions on the Company's environmental policies and performance and permitted indemnity provisions provided by the Company to its Directors are included in the sections headed "Sustainability Report" and "Corporate Governance Report" of the report. These discussions form part of this Directors' Report.

On behalf of the Board
Qi Meisheng
Chairman
25 March 2020

Supervisory Committee Report

The Supervisory Committee of the Company for the year 2019 has diligently performed its responsibilities in accordance with the requirements of the Company Law of the People's Republic of China, Articles of Association and the Rules of Procedure for the Supervisory Committee of the Company, supervised and examined the procedures for decision making, the operating situation according to the law, financial reports disclosure and the construction and operation of the internal control system of the Company, and provided necessary protection for the legal benefits of the shareholders, the Company and the staff.

In 2019, five Supervisory Committee's meetings were convened. Members of the Supervisory Committee attended the general meetings, Board meetings of the Company and the important management meetings of the Company to keep abreast of the issues of the Company daily production and operating activities, so as to further improve the supervision and inspection on compliance and risk control from procedures to content.

During the reporting period, the operation of the Supervisory Committee and its opinions on our supervision and inspection are as follows:

I. CHANGES OF MEMBERS OF THE SUPERVISORY COMMITTEE DURING THE REPORTING PERIOD

At the employee representatives meeting held on 30 July 2019, Mr. Zhao Bi was elected as the employee representative supervisor of the Company's Supervisory Committee, with a term of office commencing from 30 July 2019 to 29 July 2022. Mr. Li Zhi resigned as the employee representative supervisor of the Supervisory Committee of the Company. Mr. Li Zhi has confirmed that he has no disagreement with the Supervisory Committee and there is no matter that needs to be brought to the attention of the shareholders and creditors of the Company regarding his resignation. The Supervisory Committee of the Company wishes to express its appreciation to Mr. Li Zhi for his contribution to the Company during his tenure as a supervisor of the Company.

During the reporting period, Mr. Wu Hanming served as the chairman of the Supervisory Committee and Mr. Cheng Xinsheng served as the independent supervisor.

II. OPERATION OF THE SUPERVISORY COMMITTEE

1) Five Supervisory Committee meetings were held on the same days and sometime after the Board meetings which the Supervisors had attended. The meetings mainly verified the compliance in respect of procedures for calling Board meetings and board resolutions, and also expressed audit opinion in relation to the regular report approved by the Board.

2) Members of the Supervisory Committee also attended meetings of the professional committees under the Board of Directors and listened to a specific report given by the management of the Company in respect of the financial reports and the operation of internal control system and the establishment and the issue about Key Performance Indicators on the management.

3) The Supervisory Committee had given its professional audit advice in respect of the 2018 Annual Report, the first quarterly report for the year 2019, the 2019 Interim Report and the third quarterly report for the year 2019 in compliance with the regulatory requirements of A shares.

4) The Supervisory Committee reviewed the operation of internal control system and risk management by the Company and made certain recommendation for improvement.

5) Supervisor Li Zhi attended the 2019 first Board meeting and was unable to attend the second Board meeting due to business reasons. Supervisor Zhao Bi attended the third, fourth and fifth Board meetings. Supervisors Wu Hanming and Cheng Xinsheng both attended the five Board meetings. Supervisors Wu Hanming, Li Zhi and Cheng Xinsheng attended the AGM, 2019 First A Share Class Meeting and 2019 First H Share Class Meeting. Supervisor Cheng Xinsheng attended the 2019 First EGM.

6) In May, all the supervisors of the Company attended the training on the Directors', Supervisors' and Senior Management's performances and the information disclosure key points in Yanjiao of Hebei Province. In October, representatives of the supervisory committee attended the third seminar of 2019 for chairman of the supervisory committee of listed companies held in Tianjin

III. INDEPENDENT OPINIONS OF THE SUPERVISORY COMMITTEE

(1) The Company's Operating Situation According to the Law

After supervising and examining the performance of duties by the Board of Directors of the Company and the senior management, and the construction and operation of internal control system of the Company, the Supervisory Committee of the Company is of the opinion that the procedures for calling the General Meeting and Board meetings and the relevant resolutions made during the reporting period were in compliance with the requirements of the laws, regulations and the Articles of Association. Directors and the senior management have not been found violating any laws, regulations or the Articles of Association when performing duties of the Company and have not been found behaving in such a way that would damage the interests of the Company and the shareholders.

(2) Financial Situation of the Company

The Supervisory Committee has supervised and examined the financial management system and financial situation of the Company by participating in the Board meetings and the meetings of the Audit Committee under the Board of Directors and has reviewed relevant financial information of the Company. After such examination, the Supervisory Committee is of the opinion that the Company is in strict compliance with the financial laws and regulations and the financial system. The financial management system of the Company is healthy and effective, the accounting treatment are consistent while the financial statements are true and reliable. Based on the China Standards on Auditing, Deloitte Touche Tohmatsu Certified Public Accountants LLP has audited the financial statements of the Company and has issued standard unqualified audit opinions on the financial statements. The Supervisory Committee considered the financial statements were objective and fairly reflected the financial position and the results of operation of the Company.

(3) Connected Transactions

During the reporting period, all the connected transactions entered between the Company and CNOOC and its affiliates had complied with all the relevant requirements of The Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange and those transactions were necessary for the production and operation of the Company and were at fair terms and in the interests of the Company and its shareholders as a whole.

(4) Management Situation and Internal Control of the Company

The Supervisory Committee is of the opinion that during the reporting period and under the effective management and control of the Board and the management, the Company has continuously improved its internal control systems, enhanced the risk management capability to ensured regulated and steady operation of the Company. The Supervisory Committee is of the view that the Assessment Report of Internal Control of the Company was comprehensive, objective and matched the actual situations of the Company.

(5) The Performance of Responsibilities of Directors and Senior Management

The Supervisory Committee is of the view that the Board of Directors, both collectively and individually, have earnestly performed their duties with integrity and diligence, and each Director has earnestly understood the operating situation of the Company and thoroughly discussed the Company's affairs before making decisions. Facing with the harsh and complicated market environment, the management has actively taken challenges and earnestly performed their duties according to their terms of reference and implemented the decisions of the Board in a scientific way.

(6) Execution of the Insiders' Information Management System

During the reporting period, the Supervisory Committee did not recognize any insider trading which prejudice the interests of the Company and shareholders by directors, supervisors and senior management of the Company as well as the related insiders.

(7) External Guarantee

Provision of guarantee by the Company to subsidiaries of the Company is in accordance with the requirements under laws and regulations and the Articles of Association of the Company, which has been under necessary approval procedure and the Company has disclosed related information to comply with the requirements. The accumulated and current provisions of external guarantee by the Company were true.

(8) Other Information

By participating in the annual assessment on the management of the Company, the Supervisory Committee is of the opinion that the annual assessment on the management is conducted by the directors of the Company in strict compliance with the Articles of Association and procedures approved at the general meetings and the Supervisory Committee has no disagreement over the result of the assessment.

IV. WORK PLAN OF THE SUPERVISORY COMMITTEE IN 2020

In 2020, the Supervisory Committee of the Company will continue to strictly abide by the relevant provisions of the Company Law, Articles of Association of the Company and the Rules of Procedures of the Supervisory Committee. In the spirit of being highly responsible to all Shareholders and the Employees of the Company, the Supervisory Committee will diligently perform its supervisory duties. We will continue to exercise effective supervision over the decisions on major matters of the Company by attending Board Meetings of the Company and participating in major meetings of the Company, so as to review various proposals of the Supervisory Committee. Continue to strengthen supervision and inspection, regularly check the Company's financial status and internal control, supervise the performance of Directors and senior executives of the Company, and ensure that the Company's operating activities are in compliance with laws and regulations. Continue to enhance the professional capabilities of the Supervisors Committee by participating in various professional trainings and strengthening the study of relevant laws and regulations, in order to better perform supervisory functions and safeguard the legitimate rights and interests of the Company and Shareholders.

For and on behalf
of the Supervisory Committee
Wu Hanming
Chairman of the Supervisory Committee
25 March 2020

Significant Events

(I) SIGNIFICANT RELATED PARTY TRANSACTIONS

Further details on related party transactions are given in Note 46 to the financial statements of this annual report.

(II) GUARANTEE

Unit: RMB'000

External guarantee provided by the Company (excluding guarantee to subsidiaries)	
Total amount of guarantee occurred during the reporting period (excluding guarantee to subsidiaries)	124,098.64
Total balance of guarantee as at the end of the reporting period (A) (excluding guarantee to subsidiaries)	99,967.80
Guarantee provided by the Company and its subsidiaries to its subsidiaries	
Total amount of guarantee occurred by the Company to its subsidiaries during the reporting period	20,878,491.90
Total balance of guarantee provided by the Company to its subsidiaries at the end of the reporting period (B)	20,054,713.71
Total guarantee provided by the Company (including guarantee to subsidiaries)	
Total amount of guarantee (A+B)	20,154,681.51
Total amount of guarantee as a percentage of the Group's net assets (%)	54.6
Including:	
Amount of guarantee provided to shareholders, the actual controller and its related parties (C)	–
Debt guarantee directly or indirectly provided to parties with gearing ratio over 70% (D)	20,528,913.71
The excess of total amount of guarantee over 50% of the net assets (E)	1,699,542.89
Total amount of the 3 guarantees above (C+D+E)	22,228,456.60
Unexpired guarantee may be jointly and severally liable	N/A

Guarantee provided to third parties by the Company

Guarantor	Relationship between the guarantor and the Company	Guaranteed party	Guaranteed amount	Date of the guarantee (date of execution of the agreement)	Starting date of the guarantee	Expiry date of the guarantee	Type of guarantee	Whether the guarantee is performed or not	Whether the guarantee is overdue	Overdue amount of the guatantee	Whether a counter guarantee is existed or not	Whether it is a guarantee provided to related parties
COSL	Headquarter of the Company	Oceancare Corporation Sdn Bhd	100,370.95	2018-09-18	2018-09-18	2020-06-21	Joint liability guarantee	No	No	0	No	No
COSL	Headquarter of the Company	COSL (MALAYSIA) SDN. BHD	23,727.69	2019-03-19	2019-03-19	2019-08-16	Joint liability guarantee	Yes	No	0	No	No

Guarantee details

(1) Guarantee provided by the Company includes the guarantee to its subsidiaries in favour of US$1 billion bond issued by a subsidiary in 2012 and US$1 billion medium term notes issued by a subsidiary in 2015.

(2) Subject parties with gearing ratio over 70% under debt guarantee are wholly-owned subsidiaries of the Company.

(III) ENGAGEMENT AND DISMISSAL OF AUDITORS OF THE COMPANY

Unit: RMB million

	Currently appointed
Name of domestic audit firm	Deloitte Touche Tohmatsu Certified Public Accountants LLP
Remuneration of domestic audit firm	–
The service period of domestic audit firm	6 years
Name of international audit firm	Deloitte Touche Tohmatsu
Remuneration of international audit firm	–
The service period of international audit firm	6 years
Remuneration of domestic and international audit firm	15.48

	Name	Remuneration
Audit of internal control by certified public accountant	Deloitte Touche Tohmatsu Certified Public Accountants LLP	Note: Remuneration of internal control audit was included in remuneration of domestic and international audit firm

Note: On 30 May 2019, the appointment of Deloitte Touche Tohmatsu Certified Public Accountants LLP and Deloitte Touche Tohmatsu as the domestic and international auditors for 2019 respectively was approved at the AGM 2018

(IV) OTHER MATTERS

On 6 March 2016 and 20 March 2016, the Company disclosed "Status of Two Drilling Contracts" and "Further Status of Two Drilling Contracts" respectively. For details, please refer to relevant announcements published by the Company on the website of Hong Kong Stock Exchange (http://www.hkex.com.hk) and website of the Company (http://www.cosl.com.cn).

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 recently changed its corporate name to Equinor Energy 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 Hong Kong Stock Exchange (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 Hong Kong Stock Exchange (http://www.hkex.com.hk) and website of the Company (http://www.cosl.com.cn).

In January 2020, COM and Equinor have signed a settlement agreement regarding the above matters. Equinor agreed to pay COM an amount of US$188 million. Furthermore, COM and Equinor have agreed, as a means of strengthening their cooperation, to enter into a master frame agreement. COM and Equinor had submitted a joint pleading to the Court to request the cases to be lifted with each party covering its own legal costs. For details, please refer to relevant announcements published by the Company on the website of Hong Kong Stock Exchange (http://www.hkex.com.hk) and website of the Company (http://www.cosl.com.cn). Equinor has paid a settlement sum of US$188 million to COM by the date of this annual report.

Independent Auditor's Report

Deloitte. 德勤

TO THE SHAREHOLDERS OF CHINA OILFIELD SERVICES LIMITED

(Established in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of China Oilfield Services Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 138 to 228, which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (continued)

Key audit matter

Impairment assessment of property, plant and equipment

Referring to note 18 to the consolidated financial statements at 31 December 2019, the carrying amount of property, plant and equipment of the Group, including drilling rigs and vessels, was RMB50,218,143,000, which is material to the consolidated financial statements.

Due to slower recovery of oil price and global oilfield services market, both the services prices and utilisation rates of the Group's drilling rigs and vessels have contributed to thin profit margin. Management has determined that certain drilling rigs and vessels have impairment indications. The recoverable amount of the relevant assets has been determined based on a value in use calculation through discounting the estimated future cash flows generated from the relevant assets to the present value. In estimating the aforesaid recoverable amount, management is required to consider all relevant factors about the future cash flows and discount rate with reasonable and supportable assumptions to make significant accounting estimations. Details of the related estimation uncertainty are set out in note 4 to the consolidated financial statements.

We identified impairment assessment of relevant assets as a key audit matter due to the significance of these assets to the Group's consolidated financial position and the involvement of subjective judgement and management estimates in evaluating the impairment of the Group's property, plant and equipment at the end of the reporting period.

How our audit addressed the key audit matter

Our procedures in relation to impairment assessment of property, plant and equipment, including certain drilling rigs and vessels, included:

- We assessed and tested the design and operating effectiveness of the Group's key internal controls over valuation and determination of asset impairments;
- We understood and evaluated management's assessment of the indicators of impairment on property, plant and equipment with relevant evidence;
- We evaluated the appropriateness and consistency of the methodologies of the impairment test;
- We evaluated how the external valuer's work were relied on by management and we involved our internal valuation specialists to evaluate the appropriateness of management's key assumptions and judgements in the impairment test; and
- We tested the underlying data used by the Group in the impairment test and we tested the mathematical accuracy of the impairment test.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of accounts receivable Referring to note 27 to the consolidated financial statements at 31 December 2019, the Group's net accounts receivable amounting to RMB9,532,260,000 were assessed for expected credit loss individually, which is material to the consolidated financial statements. As disclosed in note 4 to the consolidated financial statements, accounts receivable for significant balances and insignificant balances with specific risks are assessed for expected credit loss individually. The management of the Group estimates the amount of expected credit loss of these accounts receivables based on the historical settlement patterns of the customers, management's judgement about credit risk changes and forward-looking information. We identified individual impairment assessment of accounts receivables as a key audit matter due to the significance of such accounts receivables to the Group's consolidated financial position and the involvement of subjective judgement and management estimates in evaluating the expected credit losses of the Group's accounts receivables at the end of the reporting period.	Our procedures in relation to management's individual impairment assessment of accounts receivable included: • We assessed the design and tested the operating effectiveness of the Group's key internal controls on how the management estimates the expected credit loss; • We tested the integrity of information used by management to develop the Group's expected credit loss model, including the historical settlement patterns of the customers, management's judgement about credit risk changes and forward-looking information; • We challenged management's basis and judgement in determining credit loss allowance on accounts receivables as at 31 December 2019,including their identification of credit impaired accounts receivables, the appropriateness to use external credit rating to assess the credit risk changes of the debtors, and the reasonableness of management's judgments and decisions in estimating the expected credit loss to identify whether indicators of possible management bias exist; • We involved internal valuation specialists to evaluate the appropriateness of management's key assumptions and judgements if applicable; and • We evaluated the disclosures regarding the impairment of accounts receivables in notes 4, 27 and 48 to the consolidated financial statements.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Lung, Wing Hung, David.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

25 March 2020

Consolidated Statement of Profit or Loss

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
REVENUE	*6*	**31,135,150**	21,945,877
Sales surtaxes		**(59,312)**	(59,249)
Revenue, net of sales surtaxes		**31,075,838**	21,886,628
Other income	*7*	**352,136**	284,090
Depreciation of property, plant and equipment and amortisation of intangible assets and multiclient library		**(4,372,838)**	(4,262,776)
Depreciation of right-of-use assets		**(589,264)**	–
Employee compensation costs	*8*	**(5,807,994)**	(5,026,085)
Repair and maintenance costs		**(691,334)**	(523,764)
Consumption of supplies, materials, fuel, services and others		**(6,933,202)**	(4,954,252)
Subcontracting expenses		**(5,943,860)**	(3,578,949)
Lease expenses	*8*	**(1,287,702)**	(1,126,191)
Other operating expenses		**(1,348,745)**	(1,516,863)
Impairment of property, plant and equipment	*18*	**(241,485)**	(122,962)
Impairment losses under expected credit loss model, net of reversal	*10*	**(316,324)**	(415,364)
Total operating expenses		**(27,532,748)**	(21,527,206)
PROFIT FROM OPERATIONS		**3,895,226**	643,512
Exchange gain, net		**111,871**	358,647
Finance costs	*9*	**(1,118,797)**	(1,082,501)
Interest income		**67,522**	107,552
Investment income	*8*	**218,214**	164,730
(Losses)/Gains arising from financial assets at fair value through profit or loss	*8*	**(38,829)**	49,441
Share of profits of joint ventures, net of tax	*24*	**320,452**	184,288
Other gains and losses	*8*	**16,515**	280,660
PROFIT BEFORE TAX	*8*	**3,472,174**	706,329
Income tax expense	*14*	**(944,159)**	(617,657)
PROFIT FOR THE YEAR		**2,528,015**	88,672
Attributable to:			
Owners of the Company		**2,502,238**	70,802
Non-controlling interests		**25,777**	17,870
		2,528,015	88,672
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic (RMB)	*17*	**52.44 cents**	1.48 cents

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	Note	2019 RMB'000	2018 RMB'000
PROFIT FOR THE YEAR		**2,528,015**	88,672
OTHER COMPREHENSIVE INCOME/(EXPENSE)	*15*		
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit pension plan		**(1,768)**	(4,265)
Income tax relating to item that will not be reclassified subsequently to profit or loss		**389**	981
		(1,379)	(3,284)
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**66,203**	185,846
Share of other comprehensive income of joint ventures, net of related income tax		**7,157**	4,564
Income tax (expense)/income relating to item that may be reclassified subsequently to profit or loss		**(27,402)**	11,296
		45,958	201,706
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF INCOME TAX		**44,579**	198,422
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**2,572,594**	287,094
Attributable to:			
Owners of the Company		**2,544,038**	262,492
Non-controlling interests		**28,556**	24,602
		2,572,594	287,094

Consolidated Statement of Financial Position

31 December 2019

	Notes	31 December 2019 RMB'000	31 December 2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	18	**50,218,143**	51,533,128
Right-of-use assets	19	**1,200,640**	–
Goodwill	20	**–**	–
Other intangible assets	21	**62,135**	289,502
MultiClient library	22	**279,726**	139,707
Investments in joint ventures	24	**880,583**	679,162
Financial assets at fair value through profit or loss	29	**–**	–
Contract costs	32	**91,500**	172,893
Other non-current assets	33	**246,988**	97,816
Deferred tax assets	36	**92,468**	65,869
Total non-current assets		**53,072,183**	52,978,077
CURRENT ASSETS			
Inventories	25	**1,424,674**	1,326,755
Prepayments, deposits and other receivables	26	**397,972**	387,571
Accounts receivable	27	**10,305,533**	8,015,313
Notes receivable	28	**44,245**	208,164
Receivables at fair value through other comprehensive income	30	**40,580**	24,740
Financial assets at fair value through profit or loss	29	**4,511,248**	1,749,723
Contract assets	31	**262,594**	–
Contract costs	32	**–**	53,023
Other current assets	33	**2,577,018**	6,601,235
Pledged deposits	34	**102,202**	27,657
Time deposits with maturity of over three months	34	**–**	145,136
Cash and cash equivalents	34	**3,363,589**	3,169,610
Total current assets		**23,029,655**	21,708,927
CURRENT LIABILITIES			
Trade and other payables	35	**10,284,224**	8,895,667
Notes payable		**3,467**	50,266
Salary and bonus payables		**979,229**	909,174
Tax payable		**612,784**	373,566
Loan from a related party	37	**2,443,946**	1,374,823
Interest-bearing bank borrowings	38	**608,906**	599,968
Long term bonds	39	**3,810,175**	4,469,521
Lease liabilities	40	**597,774**	–
Contract liabilities	41	**255,306**	154,410
Other current liabilities	33	**233,010**	183,648
Total current liabilities		**19,828,821**	17,011,043
NET CURRENT ASSETS		**3,200,834**	4,697,884
TOTAL ASSETS LESS CURRENT LIABILITIES		**56,273,017**	57,675,961

Consolidated Statement of Financial Position (Continued)

31 December 2019

	Notes	31 December 2019 RMB'000	31 December 2018 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*36*	**62,655**	286,560
Interest-bearing bank borrowings	*38*	**201,049**	787,631
Long term bonds	*39*	**17,928,478**	21,069,892
Lease liabilities	*40*	**547,572**	–
Contract liabilities	*41*	**192,745**	308,000
Deferred income	*42*	**401,554**	522,839
Employee benefit liabilities		**28,687**	23,633
Total non-current liabilities		**19,362,740**	22,998,555
Net assets		**36,910,277**	34,677,406
EQUITY			
Equity attributable to owners of the Company			
Issued capital	*43*	**4,771,592**	4,771,592
Reserves		**31,962,599**	29,758,284
		36,734,191	34,529,876
Non-controlling interests		**176,086**	147,530
Total equity		**36,910,277**	34,677,406

Qi Meisheng
Director

Cao Shujie
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2019

	Issued capital RMB'000	Capital reserve* RMB'000	Statutory reserve funds* RMB'000	Special reserve RMB'000	Remeasurement of defined benefit pension plan* RMB'000	Exchange fluctuation reserve* RMB'000	Retained profits* RMB'000	Proposed final dividend* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2018	4,771,592	12,371,737	2,508,656	–	(11,539)	(330,632)	14,963,033	286,296	34,559,143	122,928	34,682,071
Profit for the year	–	–	–	–	–	–	70,802	–	70,802	17,870	88,672
Other comprehensive (expense)/income for the year	–	–	–	–	(3,284)	194,974	–	–	191,690	6,732	198,422
Total comprehensive (expense)/income for the year	–	–	–	–	(3,284)	194,974	70,802	–	262,492	24,602	287,094
Deemed contribution by owners	–	39,062	–	–	–	–	–	–	39,062	–	39,062
Business combination under common control	–	(44,525)	–	–	–	–	–	–	(44,525)	–	(44,525)
Appropriation of safety fund	–	–	–	32,013	–	–	–	–	32,013	–	32,013
Utilisation of safety fund	–	–	–	(32,013)	–	–	–	–	(32,013)	–	(32,013)
Final 2017 dividend paid (note 16)	–	–	–	–	–	–	–	(286,296)	(286,296)	–	(286,296)
Proposed final 2018 dividend (note 16)	–	–	–	–	–	–	(334,011)	334,011	–	–	–
At 31 December 2018	4,771,592	12,366,274	2,508,656	–	(14,823)	(135,658)	14,699,824	334,011	34,529,876	147,530	34,677,406
Adjustments (note 2.1)	–	–	–	–	–	–	(5,712)	–	(5,712)	–	(5,712)
At 1 January 2019 (restated)	**4,771,592**	**12,366,274**	**2,508,656**	**–**	**(14,823)**	**(135,658)**	**14,694,112**	**334,011**	**34,524,164**	**147,530**	**34,671,694**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**2,502,238**	**–**	**2,502,238**	**25,777**	**2,528,015**
Other comprehensive (expense)/income for the year	**–**	**–**	**–**	**–**	**(1,379)**	**43,179**	**–**	**–**	**41,800**	**2,779**	**44,579**
Total comprehensive (expense)/income for the year	**–**	**–**	**–**	**–**	**(1,379)**	**43,179**	**2,502,238**	**–**	**2,544,038**	**28,556**	**2,572,594**
Appropriation of safety fund	**–**	**–**	**–**	**29,412**	**–**	**–**	**–**	**–**	**29,412**	**–**	**29,412**
Utilisation of safety fund	**–**	**–**	**–**	**(29,412)**	**–**	**–**	**–**	**–**	**(29,412)**	**–**	**(29,412)**
Final 2018 dividend paid (note 16)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(334,011)**	**(334,011)**	**–**	**(334,011)**
Proposed final 2019 dividend (note 16)	**–**	**–**	**–**	**–**	**–**	**–**	**(763,455)**	**763,455**	**–**	**–**	**–**
At 31 December 2019	**4,771,592**	**12,366,274**	**2,508,656**	**–**	**(16,202)**	**(92,479)**	**16,432,895**	**763,455**	**36,734,191**	**176,086**	**36,910,277**

* These reserve accounts comprise the consolidated reserves of approximately RMB31,962,599,000 (2018: RMB29,758,284,000) in the consolidated statement of financial position as at 31 December 2019.

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	45	**7,913,330**	4,512,629
Taxes refunded/(paid):			
Mainland China corporate income tax refunded		**–**	170,579
Mainland China corporate income tax paid		**(724,849)**	(301,202)
Overseas income taxes paid		**(222,888)**	(231,690)
Net cash flows from operating activities		**6,965,593**	4,150,316
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment and other intangible assets		**(2,699,226)**	(2,406,306)
Payments for right-of-use assets		**(107,522)**	–
Investment in MultiClient library		**(91,818)**	(89,625)
Advance payment received in respect of MultiClient Library		**–**	13,726
Government grant received		**2,748**	22,047
Purchase of floating and fixed rate investments in corporate wealth management products, liquidity funds and treasury bond related investments		**(10,800,000)**	(14,300,000)
Proceeds on disposal/maturity of investments in corporate wealth management products, liquidity funds and treasury bond related investments		**12,257,106**	9,016,169
Proceeds from disposal of property, plant and equipment		**25,703**	407,035
Proceeds from disposal of intangible assets		**–**	157,033
Placement of time deposits with maturity of over three months		**–**	(1,094,367)
Withdrawal of time deposits with maturity of over three months		**141,523**	1,026,832
Decrease in pledged deposits		**–**	13,177
Interest received		**69,414**	123,799
Dividends received from joint ventures		**154,069**	98,758
Deposits paid for acquisition of property, plant and equipment		**(103,729)**	(24,086)
Net cash flows used in investing activities		**(1,151,732)**	(7,035,808)
CASH FLOWS FROM FINANCING ACTIVITIES			
New loan raised from a related party		**1,017,120**	–
Repayment of loan raised from a related party		**–**	(1,032,802)
Repayment of bank loans		**(601,138)**	(692,744)
Repayment of long-term bonds		**(3,998,100)**	–
Repayment of lease liabilities		**(637,808)**	–
Dividends paid		**(334,011)**	(286,296)
Interest paid		**(1,097,825)**	(1,004,122)
Business combination under common control		**–**	(44,525)
Net cash flows used in financing activities		**(5,651,762)**	(3,060,489)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**162,099**	(5,945,981)
Cash and cash equivalents at the beginning of year		**3,169,610**	9,009,074
Effect of foreign exchange rate changes, net		**31,880**	106,517
CASH AND CASH EQUIVALENTS AT END OF YEAR		**3,363,589**	3,169,610
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and balances with banks and financial institutions	34	**3,465,791**	3,342,403
Less: Pledged deposits	34	**(102,202)**	(27,657)
Non-pledged time deposits at banks with maturity of over three months	34	**–**	(145,136)
Cash and cash equivalents as stated in the consolidated statement of cash flows	34	**3,363,589**	3,169,610

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

1. GENERAL

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 Offshore Oil Corporation ("CNOOC") in preparation for the listing of the Company's shares on The Stock Exchange of Hong Kong Limited (the "HKSE") in 2002, and pursuant to an approval document obtained from the relevant government authority dated 26 September 2002, the Company was restructured into a joint stock limited liability company.

The Company and its subsidiaries (hereinafter collectively referred to as the "Group") were principally engaged in the provision of oilfield services including drilling services, well services, marine support 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 ("SOE") incorporated in the PRC. The registration address of CNOOC is No.25 Chaoyangmenbei Dajie, Dongcheng District, Beijing.

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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

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 year has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

2.1 HKFRS 16 *Leases*

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

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.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

2.1 HKFRS 16 *Leases* (continued)

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

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. 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.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. 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	(5,546)
Practical expedient – leases with lease term ending within 12 months from the date of initial application	(5,085)
Lease liabilities as at 1 January 2019	1,801,003
Analysed as	
Current	712,208
Non-current	1,088,795
	1,801,003

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

2.1 HKFRS 16 *Leases* (continued)

As a lessee (continued)

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
Buildings		116,433
Leasehold lands		215,226
Machinery and equipment		73,943
Motor vehicles		168
		1,696,111

(a) Upfront payments for leasehold lands in the PRC and Indonesia for own used properties 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 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 *Revenue from Contracts with Customers* ("HKFRS 15") to allocate consideration in the contract to each lease and non-lease components.

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 year, no sales and leaseback transactions occurred.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

2.1 HKFRS 16 *Leases* (continued)

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 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 RMB'000	Adjustments RMB'000	Carrying amounts under HKFRS 16 at 1 January 2019 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)*	387,571	(58,540)	**329,031**
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**

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

2.1 HKFRS 16 *Leases* (continued)

(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) The adjustment related 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 year ended 31 December 2019, movements in working capital have been computed based on opening statement of financial position as at 1 January 2019 as disclosed above.

2.2 Impacts and changes in accounting policies of application of other new and amendments to HKFRSs

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 consolidated financial statements.

2.3 New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 17	*Insurance Contracts*[1]
Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[4]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[4]

1 Effective for annual periods beginning on or after 1 January 2021.
2 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for annual periods beginning on or after 1 January 2020.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

2.3 New and amendments to HKFRSs in issue but not yet effective (continued)

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, *the Amendments to References to the Conceptual Framework in HKFRS Standards*, will be effective for annual periods beginning on or after 1 January 2020.

Except for the new and amendments to HKFRSs mentioned below, the Directors anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

Amendments to HKFRS 3 Definition of a Business

The amendments:

- add an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis;
- clarify that to be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs; and
- narrow the definitions of a business and of outputs by focusing on goods and services provided to customers and by removing the reference to an ability to reduce costs.

The amendments are applied prospectively to all business combinations and asset acquisitions for which the acquisition date is on or after the first annual reporting period beginning on or after 1 January 2020, with early application permitted.

The optional concentration test and the amended definition of a business are not expected to have a significant impact to the Group.

Amendments to HKAS 1 and HKAS 8 Definition of Material

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. In particular, the amendments:

- include the concept of "obscuring" material information in which the effect is similar to omitting or misstating the information;
- replace threshold for materiality influencing users from "could influence" to "could reasonably be expected to influence"; and
- include the use of the phrase "primary users" rather than simply referring to "users" which was considered too broad when deciding what information to disclose in the financial statements.

The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on HKSE ("Listing Rules") and by the Hong Kong Companies Ordinance ("CO").

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in the consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are accounted for in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Group. Control is achieved when the Company:

- has power over the investee;

- is exposed, or has rights, to variable returns from its involvement with the investee; and

- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Business combination and goodwill

Business combinations, other than business combination under common control are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to initially measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combination and goodwill (continued)

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December of every year. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purpose and not larger than an operating segment, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

Merger accounting for business combination involving businesses under common control

The consolidated financial statements incorporate the financial statements items of the combining businesses in which the common control combination occurs as if they had been combined from the date when the combining businesses first came under the control of the controlling party.

The net assets of the combining businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income includes the results of each of the combining businesses from the earliest date presented or since the date when the combining businesses first came under the common control, where this is a shorter period.

The comparative amounts in the consolidated financial statements are presented as if the businesses had been combined at the beginning of the previous reporting period or when they first came under common control, whichever is shorter.

Investments in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the joint venture. Changes in net assets of joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in joint ventures (continued)

An investment in a joint venture is accounted for using the equity method from the date on which the investee becomes a joint venture. On acquisition of the investment in a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The Group assesses whether there is an objective evidence that the interest in a joint venture may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with a joint venture of the Group, profits and losses resulting from the transactions with the joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the joint venture that are not related to the Group.

Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Where a group entity undertakes its activities under joint operations, the Group as a joint operator recognised in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9 *Financial Intruments* ("HKFRS 9"). In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis, expect for the allocation of discounts and variable consideration.

The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation using output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depicts most of the Group's performance in transferring control of goods or services detailed in note 6.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (continued)

Variable consideration

For contracts that contain variable consideration, the Group estimates the amount of consideration to which it will be entitled using either (a) the expected value method or (b) the most likely amount, depending on which method better predicts the amount of consideration to which the Group will be entitled.

The estimated amount of variable consideration is included in the transaction price only to the extent that it is highly probable that such an inclusion will not result in a significant revenue reversal in the future when the uncertainty associated with the variable consideration is subsequently resolved.

At the end of each reporting period, the Group updates the estimated transaction price (including updating its assessment of whether an estimate of variable consideration is constrained) to represent faithfully the circumstances present at the end of the reporting period and the changes in circumstances during the reporting period.

Existence of significant financing component

In determining the transaction price, the Group adjusts the promised amount of consideration for the effects of the time value of money if the timing of payments agreed (either explicitly or implicitly) provides the customer or the Group with a significant benefit of financing the transfer of goods or services to the customer. In those circumstances, the contract contains a significant financing component. A significant financing component may exist regardless of whether the promise of financing is explicitly stated in the contract or implied by the payment terms agreed to by the parties to the contract. As almost all of the Group's contracts provide for less than one year credit period after transfer of the associated goods or services, the Group applies the practical expedient of not adjusting the transaction price for any significant financing component.

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group recognises such costs as an asset if it expects to recover these costs. The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. The asset is subject to impairment review.

Costs to fulfil a contract

The Group incurs costs to fulfil a contract in its drilling services and marine support services. The Group first assesses whether these costs qualify for recognition as an asset in terms of other relevant Standards, failing which it recognises an asset for these costs only if they meet all of the following criteria:

(a) the costs relate directly to a contract or to an anticipated contract that the Group can specifically identify;

(b) the costs generate or enhance resources of the Group that will be used in satisfying (or in continuing to satisfy) performance obligations in the future; and

(c) the costs are expected to be recovered.

The asset so recognised is subsequently amortised to profit or loss on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the assets relate. The asset is subject to impairment review.

Before the Group recognises an impairment loss for assets capitalised as contract costs under HKFRS 15, the Group assesses and recognises any impairment loss on other assets related to the relevant contracts in accordance with applicable standards. Then, impairment loss, if any, for assets capitalised as contract costs is recognised to the extent the carrying amounts exceeds the remaining amount of consideration that the Group expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services that have not been recognised as expenses. The assets capitalised as contract costs are then included in the carrying amount of the cash-generating unit to which they belong for the purpose of evaluating impairment of that cash-generating unit.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 2)

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 or arising from business combinations 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, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

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.

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2)

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 year, no lease of low-value assets occurred.

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 are 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 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) (continued)

Lease liabilities

Except for short-term leases and leases of low-value assets, at the commencement date of a lease, the Group recognises 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, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

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 year 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.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 2) (continued)

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.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified 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.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset, and such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model.

The Group as a lessor (upon application of HKFRS 16 in accordance with transitions in note 2)

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies 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.

Lease (prior to 1 January 2019)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to the profit or loss on the straight-line basis over the lease terms.

Prepaid lease payments for land use rights under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Sale and leaseback transactions (upon application of HKFRs 16 since 1 January 2019)

The Group applies the requirements of HKFRS 15 to assess whether sale and leaseback transaction constitutes a sale by the Group.

The Group as a seller-lessee

For a transfer that does not satisfy the requirements as a sale, the Group as a seller-lessee accounts for the transfer proceeds as borrowings within the scope of HKFRS 9.

For a transfer that satisfies the requirements as a sale, the Group as a seller-lessee measures the right-of-use asset arising from the leaseback at the proportion of the previous carrying amount of the asset and recognises any gain or loss that relates to the rights transferred to the buyer-lessor only.

Sale and leaseback transactions (prior to 1 January 2019)

For sale and leaseback transactions that are accounted for as operating leases, any profit or loss arising from the transactions is recognised immediately when the consideration of the transactions are established at fair value.

Foreign currencies

The consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates of exchange on the last day of the last month of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange prevailing at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the foreign operation.

The functional currencies of certain overseas subsidiaries and joint ventures are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their profit or loss are translated into RMB at the rate that approximates the exchange rates at the dates of the transactions.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income, relating to that particular foreign operation is recognised in the profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the rate that approximates the exchange rates at the dates of the transactions.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Where funds have been borrowed generally, and used for the purpose of obtaining qualifying assets, an appropriate capitalisation rate will be applied to the expenditure on the individual assets.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, it is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

The benefit of a government loan at a below-market rate of interests is treated as a government grant and is measured as the difference between proceeds received and the fair value of the loan based on prevailing market interest rates.

Other employee benefits

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, social insurance premiums, housing accumulation fund etc.) after deducting any amount already paid.

Defined contribution plan

The Group's employees in Mainland China are required to participate in a central pension plan operated by local municipal governments. The Group is required to contribute 14% to 20% (2018: 19% to 22%) of its payroll costs to the central pension plan. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension plan.

Defined benefits plan

For defined benefit pension plan, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in the reserve of "Remeasurement of defined benefit pension plan" and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits (continued)

Defined benefits plan (continued)

Defined benefit costs are categorised as follows:

- service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The Group presents the first two components of defined benefit costs in profit or loss in the line item of employee compensation costs. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

Discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan.

When the formal terms of the plans specify that there will be contributions from employees or third parties, the accounting depends on whether the contributions are linked to service, as follows:

- If the contributions are not linked to services (for example contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), they are reflected in the remeasurement of the net defined benefit liability or assets.
- If contributions are linked to services, they reduces services costs. For the amount of contribution that is dependent on the number of years of service, the entity reduces service cost by attributing the contributions to periods of service using the attribution method for the gross benefits. For the amount of contribution that is independent of the number of years of service, the entity reduces service cost in the period in which the related services is rendered.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Certain of the Group's drilling rigs are owned by the Company's wholly owned Bermuda (for tax purpose, domiciled in Singapore) and Singapore subsidiaries. Due to the changing demands of the offshore drilling markets and the ability to redeploy the Group's offshore units, such units will not reside in a location long enough to give rise to future tax consequences in that location. As a result, no deferred tax asset has been recognised in these circumstances. Should the Group's expectations change regarding the length of time an offshore drilling unit will be used in a given location, and tax laws and regulations in the future operating jurisdictions, the Group would adjust deferred tax accordingly.

Deferred tax assets are generally recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carry forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be used by individual group entities in their 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

Tankers and vessels (including tanker and vessel components)	10 to 20 years
Drilling rigs (including drilling rig components)	5 to 30 years
Machinery and equipment	5 to 10 years
Motor vehicles	5 years
Buildings	20 to 30 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents drilling rigs, vessels and equipment under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets (other than goodwill)

The intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

The intangible assets with finite useful lives are amortised on a straight-line basis over the following periods:

Trademark	10 years
Prepaid land lease payments	50 years
Management system	10 years
Software	3 to 5 years
Contract value	Contract period

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

MultiClient library consist of seismic data surveys which are licensed to customers on a non-exclusive basis. All costs directly incurred in acquiring, processing and otherwise completing seismic surveys are capitalised into the MultiClient library. MultiClient library is amortised on a straight-line basis over 4 years.

Impairment of tangible, intangible assets other than goodwill and contract costs

At the end of each reporting period, the Group reviews the carrying amounts of its assets (other than inventories, financial assets and goodwill) to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. The recoverable amount of tangible and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

In addition, the Group assesses whether there is indication that corporate assets may be impaired. If such indication exists, corporate assets are also allocated to individual cash-generating units, when a reasonable and consistent basis of allocation can be identified, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of tangible, intangible assets other than goodwill and contract costs (continued)

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit or the group of cash-generating units. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit or a group of cash-generating units) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories primarily consist of materials and supplies used for the repairs and maintenance of plant and equipment and daily operations. Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. The materials and supplies are capitalised to plant and equipment when used for renewals or betterments of plant and equipment or recognised as expenses when used for daily operations.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Contingent assets are not recognised, but are disclosed when an inflow of economic benefits is probable. When the realisation of income is virtually certain, the related asset is not a contingent asset and recognised.

Onerous contracts

Present obligation arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligation exceed the economic benefits expected to be received from the contract.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has a significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Dividends

Final and/or interim dividends proposed by the Directors are classified as a separate allocation of retained profits within the equity section of the consolidated statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for accounts receivable arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group's cash and cash equivalents, pledged deposits, time deposits with maturity of over three months, accounts receivable, notes receivable, certain other receivables, other current assets-fixed rate corporate wealth management products, which meet the above conditions are subsequently measured at amortised cost.

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both selling and collecting contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group's bank acceptance notes receivable included in receivables at fair value through other comprehensive income are subsequently measured at FVTOCI.

All other financial assets are subsequently measured at FVTPL.

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and financial assets classified as FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Financial assets classified as at FVTOCI

Subsequent changes in the carrying amounts for financial assets classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognised in profit or loss. All other changes in the carrying amount of these financial assets are recognised in other comprehensive income ("OCI") and accumulated under the heading of FVTOCI reserves. Impairment allowance are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these financial assets. When these financial assets are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss is included in the "Gains/(losses) arising from financial assets at fair value through profit or loss" line item.

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including cash and cash equivalents, pledged deposits, time deposits with maturity of over three months, accounts receivable, notes receivable, receivables at fair value through other comprehensive income, certain other receivables, other current assets-fixed rate corporate wealth management products), lease receivable and contract assets which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for accounts receivable, lease receivable and contract assets. The ECL on these assets are assessed individually for debtors with significant balances and insignificant balances with specific risks, which have sufficient past due data and forward-looking information for the ECL assessment. For the rest assets, the ECL are assessed collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (continued)

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Despite the foregoing, the Group assumes that the credit risk on a financial assets has not increased significantly since initial recognition if the financial assets is determined to have low credit risk at the reporting date. A financial assets is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a financial assets to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (continued)

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (prior to 1 January 2019).

The Group has measured ECL at the individual instrument level for most of its relevant financial assets, lease receivable and contract assets. Besides, there are insignificant balances where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Type of debtors and economic circumstances facing; and
- External credit ratings where available.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (continued)

Measurement and recognition of ECL (continued)

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

The Group recognises an impairment gain or loss in profit or loss for all financial assets through a loss allowance account, except for financial assets at FVTOCI, the loss allowance is recognised in OCI and accumulated in the FVTOCI reserve without reducing the carrying amount of financial assets at FVTOCI. Such amount represents the changes in the FVTOCI reserve in relation to accumulated loss allowance.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in a financial assets classified as at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the FVTOCI reserve is reclassified to profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL. The Group's all financial liabilities including trade and other payables, loan from a related party, interest-bearing bank borrowings and long-term bonds are subsequently measured at amortised cost, using the effective interest method.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Financial guarantee contract liabilities are measured initially at their fair values. It is subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with HKFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Non-substantial modifications of financial liabilities

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss.

Embedded derivatives

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of HKFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured in its entirety as either amortised cost or fair value as appropriate.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of HKFRS 9 are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

Generally, multiple embedded derivatives in a single instrument that are separated from the host contracts are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about those assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the assets or liabilities within the next financial year.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Useful life and impairment of property, plant and equipment

The estimated useful life of property, plant and equipment is based on the historical experience of the actual useful life of property, plant and equipment with similar characteristics and functions. If the useful life of these property, plant and equipment is less than previously estimated, the Group will accelerate the related depreciation or dispose of idle or obsolete property, plant and equipment. This requires management to use past experience in estimating the appropriate useful life.

Where there exists an indication of impairment of an asset, the Group performs the impairment test in relation to the asset (or the cash-generating unit (CGU) to which the asset belongs). An impairment loss is recognised only if the carrying amount of an asset or CGU exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In assessing the impairment loss of property, plant and equipment, the management would consider all relevant factors with reasonable and supportable assumptions as well as the latest development and various relevant factors of certain matter mentioned in note 50 in respect of the underlying drilling rig of the respective drilling service contract to make significant accounting estimations. An asset's recoverable amount is the higher of the asset's value in use and its fair value less costs of disposal. This requires management to make assumptions about the future cash flows and discount rate and hence they are subject to uncertainty.

In 2019, global oil demand recovered slowly, and there is downward pressure on the world economy. Global oil and gas prices were turbulent due to changes in supply as well as geopolitical instabilities throughout the year. Given the slower recovery of oil price and global oilfield services market, both the services prices and utilisation rates of the Group's drilling rigs and vessels have contributed to thin profit margin. Management is of the view that certain impairment indicators exist. The provision for impairment of property, plant and equipment recognised during the current year was RMB241,485,000 (2018: RMB122,962,000). As at 31 December 2019 the carrying amount of property, plant and equipment was RMB50,218,143,000 (2018: RMB51,533,128,000). Further details are given in note 18.

Provision of ECL for accounts receivable

Management determine the credit losses of the accounts receivable based on expected credit loss model. Significant judgements and estimations involved include:

For expected credit losses assessed individually, the recoverable amounts of the accounts receivable are determined by management based on the historical settlement patterns of the customers, management's judgement about credit risk changes and forward-looking information. For expected credit losses assessed using provision matrix, management is required to determine the credit loss rate based on the Group's historical default rates that are representative of the economic condition the accounts receivable are exposed to, which is then duly adjusted by the relevant forward-looking information. These involve estimation uncertainty and significant judgement.

4. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Provision of ECL for accounts receivable (continued)

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's accounts receivable are disclosed in notes 27 and 48.

Deferred tax assets

Deferred tax assets are generally recognised for all unused tax losses and deductible temporary differences to the extent that it is probable that taxable profit will be available against which the losses and deductible temporary differences can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. No deferred tax assets has been recognised on the tax loss of RMB9,611,096,000 (2018: RMB9,277,338,000) and deductible temporary differences of RMB1,727,398,000 at 31 December 2019 (2018: RMB1,701,008,000). Further details are contained in note 36. In case where there are actual future profits or the actual future profits generated are more than expected, or effective tax rate is changed, a material recognition or change of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such recognition or change takes place.

Taxes

Uncertainties exist with respect to the interpretation of complex tax regulations (including those applicable to tax credits) and the amount and timing of future taxable income. Given the wide range of international business relationships and the complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on best estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as the Group's experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective company's domicile.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. Management judgement is required to determine the applicable tax rates in the further periods, based on the various tax laws, regulations, treaties and level of operations in jurisdictions of operation, future tax planning strategies and the forecast made on the Company's continuing compliance with the High-New Technical Enterprise ("HNTE") criteria. In cases where the actual tax rates are less than expected, a material reversal of deferred tax assets may arise, which will be recognised in profit or loss in the period in which such a reversal takes place.

5. 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 four reportable and operating segments are set out 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/(losses), investment income and gains/(losses) arising from financial assets at 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.

5. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2019	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 sales surtaxes	10,824,856	15,030,027	3,052,876	2,168,079	31,075,838
Sales surtaxes	16,703	30,940	6,447	5,222	59,312
Sales to external customers, before net of sales surtaxes	10,841,559	15,060,967	3,059,323	2,173,301	31,135,150
Intersegment sales	136,450	87,749	202,043	148	426,390
Segment revenue	10,978,009	15,148,716	3,261,366	2,173,449	31,561,540
Elimination	(136,450)	(87,749)	(202,043)	(148)	(426,390)
Group revenue	10,841,559	15,060,967	3,059,323	2,173,301	31,135,150
Segment results	509,092	3,157,733	249,669	315,699	4,232,193
Reconciliation:					
Exchange gain, net					111,871
Finance costs					(1,118,797)
Interest income					67,522
Investment income					218,214
Loss arising from financial assets at FVTPL					(38,829)
Profit before tax					3,472,174
Income tax expense					(944,159)
As at 31 December 2019					
Segment assets	43,585,638	10,751,413	7,789,529	5,020,212	67,146,792
Unallocated assets					8,955,046
Total assets					76,101,838
Segment liabilities	4,829,815	6,431,956	1,217,310	1,044,487	13,523,568
Unallocated liabilities					25,667,993
Total liabilities					39,191,561
Other segment information:					
Capital expenditure	912,022	1,180,921	421,125	658,580	3,172,648
Depreciation of property, plant and equipment and amortisation of intangible assets	2,662,410	679,047	664,335	367,046	4,372,838
Depreciation of right-of-use assets	448,844	42,322	67,873	30,225	589,264
Impairment/(reversal) of accounts receivable	316,889	(2,050)	(71)	(172)	314,596
Impairment of other receivables	515	875	199	139	1,728
Impairment of inventories	2,143	2,978	605	430	6,156
Impairment of property, plant and equipment	241,485	–	–	–	241,485
Share of (losses)/profits of joint ventures	(2,445)	264,300	–	58,597	320,452
Investments in joint ventures	–	681,635	–	198,948	880,583

5. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2018	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 sales surtaxes	7,749,875	9,792,596	2,698,148	1,646,009	21,886,628
Sales surtaxes	15,784	29,662	8,343	5,460	59,249
Sales to external customers, before net of sales surtaxes	7,765,659	9,822,258	2,706,491	1,651,469	21,945,877
Intersegment sales	102,271	60,955	202,451	1,654	367,331
Segment revenue	7,867,930	9,883,213	2,908,942	1,653,123	22,313,208
Elimination	(102,271)	(60,955)	(202,451)	(1,654)	(367,331)
Group revenue	7,765,659	9,822,258	2,706,491	1,651,469	21,945,877
Segment results	(1,030,943)	1,765,242	289,324	84,837	1,108,460
Reconciliation:					
Exchange gain, net					358,647
Finance costs					(1,082,501)
Interest income					107,552
Investment income					164,730
Gains arising from financial assets at FVTPL					49,441
Profit before tax					706,329
Income tax expense					(617,657)
As at 31 December 2018					
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
Other segment information:					
Capital expenditure	1,252,427	642,146	200,619	302,766	2,397,958
Depreciation of property, plant and equipment and amortisation of intangible assets	2,549,661	705,041	642,896	365,178	4,262,776
Impairment of accounts receivable	430,895	1,695	384	368	433,342
Reversal of impairment of other receivables	(5,237)	(8,483)	(2,601)	(1,657)	(17,978)
Impairment of inventories	1,651	2,089	575	351	4,666
Impairment of property, plant and equipment	122,962	–	–	–	122,962
Share of (losses)/profits of joint ventures	(3,073)	138,610	–	48,751	184,288
Investments in joint ventures	–	518,243	–	160,919	679,162

5. OPERATING SEGMENT INFORMATION (continued)

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. Information about the Group's non-current assets is presented based on the geographical location of the assets.

The following table presents revenue and non-current assets (excluding goodwill, investments in joint ventures, financial instruments and deferred tax assets) information for the Group's geographical areas for the years ended 31 December 2019 and 2018.

		International		
Year ended/as at 31 December 2019	**Domestic RMB'000**	**North Sea RMB'000**	**Others RMB'000**	**Total RMB'000**
Segment revenue:				
Sales to external customers	**24,219,206**	**1,608,227**	**5,307,717**	**31,135,150**
Less: Sales surtaxes	**(59,312)**	**–**	**–**	**(59,312)**
Sales to external customers, net of sales surtaxes	**24,159,894**	**1,608,227**	**5,307,717**	**31,075,838**
Non-current assets:	**29,304,621**	**9,256,608**	**13,537,903**	**52,099,132**

		International		
Year ended/as at 31 December 2018	**Domestic RMB'000**	**North Sea RMB'000**	**Others RMB'000**	**Total RMB'000**
Segment revenue:				
Sales to external customers	16,284,807	1,446,332	4,214,738	21,945,877
Less: Sales surtaxes	(59,249)	–	–	(59,249)
Sales to external customers, net of sales surtaxes	16,225,558	1,446,332	4,214,738	21,886,628
Non-current assets:	26,946,913	12,469,385	12,816,748	52,233,046

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 78% (2018: 76%) of the total sales of the Group for the year ended 31 December 2019, details of the segments with such revenue are given in note 46(A).

6. REVENUE

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers	31,003,307	21,945,877
Revenue arising from operating leases	131,843	–
	31,135,150	21,945,877

(A) Disaggregation of revenue from contracts with customers, before net of sales surtaxes

(a) For the year ended 31 December 2019

	For the year ended 31 December 2019				
	Drilling services RMB'000	Well services RMB'000	Marine support services RMB'000	Geophysical acquisition and surveying services RMB'000	Total RMB'000
Geographical markets					
Domestic	6,693,191	12,703,323	2,886,711	1,917,341	24,200,566
North Sea	1,596,902	–	–	–	1,596,902
Others	2,419,623	2,357,644	172,612	255,960	5,205,839
Total	10,709,716	15,060,967	3,059,323	2,173,301	31,003,307
Timing of revenue recognition					
At a point of time	–	130,814	–	47,605	178,419
Over time	10,709,716	14,930,153	3,059,323	2,125,696	30,824,888
Total	10,709,716	15,060,967	3,059,323	2,173,301	31,003,307
Type of customer					
CNOOC Limited Group	6,297,501	13,652,619	2,743,376	1,657,321	24,350,817
Others	4,412,215	1,408,348	315,947	515,980	6,652,490
Total	10,709,716	15,060,967	3,059,323	2,173,301	31,003,307

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

	For the year ended 31 December 2019			
	Segment revenue RMB'000	Less: Revenue arising from operating leases RMB'000	Eliminations RMB'000	Revenue from contracts with customers RMB'000
Drilling Services	10,978,009	(131,843)	(136,450)	10,709,716
Well Services	15,148,716	–	(87,749)	15,060,967
Marine Support Services	3,261,366	–	(202,043)	3,059,323
Geophysical Acquisition and Surveying Services	2,173,449	–	(148)	2,173,301
Revenue from contracts with customers	31,561,540	(131,843)	(426,390)	31,003,307

6. REVENUE (continued)

(A) Disaggregation of revenue from contracts with customers, before net of sales surtaxes (continued)

(b) For the year ended 31 December 2018

	For the year ended 31 December 2018				
	Drilling services RMB'000	Well services RMB'000	Marine support services RMB'000	Geophysical acquisition and surveying services RMB'000	Total RMB'000
Geographical markets					
Domestic	4,226,449	8,223,615	2,553,136	1,281,607	16,284,807
North Sea	1,446,332	–	–	–	1,446,332
Others	2,092,878	1,598,643	153,355	369,862	4,214,738
Total	7,765,659	9,822,258	2,706,491	1,651,469	21,945,877
Timing of revenue recognition					
At a point of time	–	53,349	–	88,292	141,641
Over time	7,765,659	9,768,909	2,706,491	1,563,177	21,804,236
Total	7,765,659	9,822,258	2,706,491	1,651,469	21,945,877
Type of customer					
CNOOC Limited Group	4,124,740	8,901,508	2,461,746	1,168,780	16,656,774
Others	3,640,919	920,750	244,745	482,689	5,289,103
Total	7,765,659	9,822,258	2,706,491	1,651,469	21,945,877

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

	For the year ended 31 December 2018		
	Segment revenue RMB'000	Eliminations RMB'000	Revenue from contracts with customers RMB'000
Drilling Services	7,867,930	(102,271)	7,765,659
Well Services	9,883,213	(60,955)	9,822,258
Marine Support Services	2,908,942	(202,451)	2,706,491
Geophysical Acquisition and Surveying Services	1,653,123	(1,654)	1,651,469
Revenue from contracts with customers	22,313,208	(367,331)	21,945,877

6. REVENUE (continued)

(B) Performance obligations for contracts with customers

(i) Drilling Services

The activities that primarily drive the revenue earned in the Group's drilling contracts include (i) mobilizing and demobilizing the rig to and from the drill site, and (ii) performing drilling operation and other activities required for the contract. Consideration received for performing these activities may consist of payment for drilling on a day rate basis, mobilization and demobilization fees, and reimbursement. The Directors consider the activities required under the drilling contracts relating to a single performance obligation satisfied over time as the customer simultaneously receives and consumes benefits provided by the Group's performance as the Group performs.

(ii) Well Services

The activities that primarily drive the revenue earned in the Group's well service contracts include performing logging and downhole services, such as drilling fluids, directional drilling, cementing and well completion and other activities required for the contract. Consideration for the services may consist of payment for logging and downhole services. The Directors identify all distinct performance obligations in the contracts, and recognise revenue over time for most performance obligations as the customer simultaneously receives and consumes benefits provided by the Group's performance as the Group performs. For certain well services contracts for providing relevant materials and equipment to clients, the Directors consider the goods required under the relevant service contracts as a performance obligation satisfied at a point of time, and recognise revenue when control of the goods has transferred.

(iii) Marine Support Services

The activities that primarily drive the revenue earned in the Group's marine support contracts include performing transportation of supplies and personnel to offshore facilities, or moving and positioning drilling structures and other activities required for the contract. Consideration for the services may consist of payment for marine supporting and reimbursement. The Directors identify all distinct performance obligations in the contracts, and recognise revenue over time for each of the performance obligations as the customer simultaneously receives and consumes benefits provided by the Group's performance as the Group performs.

(iv) Geophysical Acquisition and Surveying Services

The activities that primarily drive the revenue earned in the Group's geophysical acquisition and surveying contracts include performing seismic data collection and marine surveying. Consideration for the services may consist of payment for seismic data collection or marine surveying and reimbursement. The Directors identify all distinct performance obligations in the contracts, and recognise revenue over time for most performance obligations as the customer simultaneously receives and consumes benefits provided by the Group's performance as the Group performs. For certain other distinct services required by part of geophysical acquisition and surveying services contracts, the Directors consider the goods and services required under relevant services contract as a performance obligation satisfied at a point of time, and recognise revenue when control of the goods and services has transferred.

6. REVENUE (continued)

(C) Transaction price allocated to the remaining performance obligation for contracts with customers

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2019 and 2018 and the expected timing of recognising revenue are as follows:

	As at 31 December 2019				
	Drilling services RMB'000	Well services RMB'000	Marine support services RMB'000	Geophysical acquisition and surveying services RMB'000	Total RMB'000
Within one year	357,218	707,788	–	93,840	1,158,846
In the second to fifth year, inclusive	478,495	1,322,805	–	2,892	1,804,192
After five years	351	–	–	–	351
Total	836,064	2,030,593	–	96,732	2,963,389

	As at 31 December 2018				
	Drilling services RMB'000	Well services RMB'000	Marine support services RMB'000	Geophysical acquisition and surveying services RMB'000	Total RMB'000
Within one year	117,836	594,884	–	525,060	1,237,780
In the second to fifth year, inclusive	191,953	34,175	–	476	226,604
After five years	1,019	–	–	–	1,019
Total	310,808	629,059	–	525,536	1,465,403

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. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts is not included in the table above.

7. OTHER INCOME

	2019 RMB'000	2018 RMB'000
Insurance claims received	23,370	22,081
Government grants (a)	264,822	191,009
Compensation income on breach of contracts	53,423	–
Compensation income on late delivery of assets	–	61,450
Others	10,521	9,550
Total	352,136	284,090

(a) Government grants include release of deferred income of RMB122,366,000 for the year. (2018: RMB141,372,000) (note 42).

8. PROFIT BEFORE TAX

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

	2019 RMB'000	2018 RMB'000
Employee compensation costs (including directors' and chief executive's remuneration):		
Wages, salaries and bonuses	**4,419,411**	3,686,628
Social security costs	**941,794**	866,469
Retirement benefits and pensions	**446,789**	472,988
	5,807,994	5,026,085
Auditor's remuneration	**16,279**	14,266
Gains arising from lease modifications	**(74,011)**	–
Losses/(gains) on disposal of plant and equipment and other intangible assets, net	**57,496**	(280,660)
Lease expenses in respect of land and buildings, berths and equipment (a)	**1,287,702**	1,126,191
Provision of impairment of inventories	**6,156**	4,666
Income from investments in corporate wealth management products, liquidity funds and treasury bond related investments	**(218,214)**	(164,730)
Losses/(gains) arising from financial assets at FVTPL	**38,829**	(49,441)
Cost of inventories recognised as an expense	**4,316,869**	2,672,589
Research and development costs, included in:	**932,656**	742,103
Depreciation of property, plant and equipment	**97,234**	102,145
Employee compensation costs	**318,017**	263,562
Consumption of supplies, materials, fuel, services and others	**517,405**	376,396

(a) Lease expenses in 2019 represent short-term leases and variable lease payments not included in the measurement of lease liabilities.

9. FINANCE COSTS

An analysis of finance costs is as follows:

	2019 RMB'000	2018 RMB'000
Interest on bank borrowings	**41,308**	60,941
Interest on loan from a related party	**65,775**	57,382
Interest on long term bonds	**901,493**	956,669
Interest on lease liability	**63,298**	–
Total interests	**1,071,874**	1,074,992
Less: Interest capitalised *(note 18)*	**–**	(2,721)
	1,071,874	1,072,271
Other finance cost:		
Others	**46,923**	10,230
	1,118,797	1,082,501

10. IMPAIRMENT LOSSES OF ACCOUNTS RECEIVABLE AND OTHER RECEIVABLES, NET OF REVERSAL

	2019 RMB'000	2018 RMB'000
Impairment losses recognised/(reversed) on:		
Accounts receivable	**314,596**	433,342
Other receivables	**1,728**	(17,978)
	316,324	415,364

Details of impairment assessment for the year ended 31 December 2019 are set out in note 48.

11. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION

Directors', chief executive's and supervisors' remuneration for the year, disclosed pursuant to the Listing Rules and the CO, is as follows:

	2019 RMB'000	2018 RMB'000
Fees	**1,280**	1,280
Other emoluments:		
Basic salaries, allowances and benefits in kind	**1,359**	1,988
Bonuses*	**2,353**	3,119
Pension scheme contributions	**420**	415
	4,132	5,522
	5,412	6,802

* Certain directors and supervisors of the Company are entitled to bonus payments which are determined based on the duties and responsibilities of the directors and supervisors, as well as the operating results of the Group.

(a) Independent non-executive directors and independent supervisors

The fees paid/payable to independent non-executive directors and independent supervisors of the Company during the year are as follows:

	2019 RMB'000	2018 RMB'000
Independent non-executive directors:		
Law Hong Ping, Lawrence	**400**	400
Fong Chung, Mark	**400**	400
Wong Kwai Huen, Albert	**400**	400
	1,200	1,200
Independent supervisors:		
Cheng Xinsheng	**80**	80
	1,280	1,280

The independent non-executive directors' and independent supervisors' emoluments shown above were for their services as directors and supervisors of the Company.

There were no other emoluments payable to the independent non-executive directors and the independent supervisors during the year (2018: Nil).

11. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors, non-executive directors, supervisors and the chief executive

	Salaries, allowances and benefits in kind RMB'000	Bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2019				
Executive director and chairman:				
Qi Meisheng	499	870	152	1,521
Executive director and chief executive:				
Cao Shujie	501	868	147	1,516
Non-executive directors:				
Zhang Wukui*	–	–	–	–
Meng Jun*	–	–	–	–
Supervisors:				
Wu Hanming*	–	–	–	–
Li Zhi [(1)]	252	427	53	732
Zhao Bi [(1)]	107	188	68	363
	359	615	121	1,095
Total	1,359	2,353	420	4,132

11. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors, non-executive directors, supervisors and the chief executive (continued)

	Salaries, allowances and benefits in kind RMB'000	Bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
2018				
Executive director and chairman:				
Qi Meisheng	493	938	100	1,531
Executive director and chief executive:				
Cao Shujie	441	919	97	1,457
Executive directors:				
Liu Yifeng (2)	441	614	94	1,149
Li Feilong (3)	177	34	32	243
	618	648	126	1,392
Non-executive directors:				
Zhang Wukui*	–	–	–	–
Meng Jun*	–	–	–	–
Supervisors:				
Wu Hanming(4)*	–	–	–	–
Li Zhi (1)	436	614	92	1,142
Wei Junchao(4)*	–	–	–	–
	436	614	92	1,142
Total	1,988	3,119	415	5,522

Notes:

(1) Li Zhi resigned as an employee supervisor, and Zhao Bi was appointed as the employee supervisor on 30 July 2019.

(2) Liu Yifeng resigned as executive director on 30 May 2018.

(3) Li Feilong resigned as an executive director, executive vice president and chief financial officer on 28 February 2018.

(4) Wu Hanming was appointed as chairman of the supervisory board and Wei Junchao resigned on 30 May 2018.

The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

There was no arrangement under which a director or a supervisor or the chief executive waived or agreed to waive any remuneration during both years.

* In addition to the directors' remuneration disclosed above, certain Directors and supervisors are not paid directly by the Company but receive remuneration from CNOOC, the ultimate holding company of the Company, in respect of their service to the larger group which includes the Group. No apportionment has been made as the qualifying services provided by these Directors to the Group are incidental to their responsibilities to the larger group.

12. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year do not include any directors, supervisors and the chief executive (2018: Nil), details of whose remuneration are set out in note 11. Details of the remuneration of the five (2018: Five) non-director, non-supervisor, and non-chief executive highest paid employees for the year are as follows:

	2019 RMB'000	2018 RMB'000
Basic salaries, allowances and benefits in kind	**9,756**	10,864
Bonuses	**1,486**	3,444
Pension scheme contributions	**2,882**	481
	14,124	14,789

The number of non-director, non-supervisor, and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees 2019	 2018
HK$2,000,001 to HK$2,500,000	**1**	–
HK$2,500,001 to HK$3,000,000	**–**	1
HK$3,000,001 to HK$3,500,000	**3**	2
HK$3,500,001 to HK$4,000,000	**1**	–
HK$4,000,001 to HK$4,500,000	**–**	2
	5	5

13. PENSIONS AND DEFINED BENEFIT PLAN

All the Group's full-time employees in Mainland China are covered by a government-regulated pension scheme, and are entitled to an annual pension determined by their basic salaries upon their retirement. The PRC government is responsible for the pension liabilities to these retired employees. The Group is required to make annual contributions to the government-regulated pension in the PRC at rates ranging from 14% to 20% (2018:19% to 22%) of the employees' basic salaries. The related pension costs are expensed as incurred.

In addition to its contribution to government-regulated pension schemes abroad for employees working in overseas subsidiaries, the Group also has a defined benefit plan with a life insurance company to provide pension benefits for them.

The retirement expenses of the Group are as follows:

	2019 RMB'000	2018 RMB'000
Contributions to the PRC government-regulated pension scheme	**378,264**	390,777
Contributions to overseas subsidiaries' pension schemes	**51,253**	65,789
Cost under a defined benefit plan for overseas subsidiaries	**17,272**	16,422
	446,789	472,988

At 31 December 2019, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2018: Nil).

14. 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 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.

According to the HNTE certificate renewed by the Group's subsidiary COSL Chemicals (Tianjin), Ltd in October 2017, the CIT rate of COSL Chemicals (Tianjin), Ltd is to be 15% for the period from 2017 to 2019.

According to the HNTE certificate renewed by the Group's subsidiary COSL Deepwater Technology Co. Ltd. in December 2019, the CIT rate of COSL Deepwater Technology Co. Ltd is to be 15% for the period from 2019 to 2021.

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

Countries and regions	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

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

	2019 RMB'000	2018 RMB'000
Hong Kong profits tax	**–**	–
Overseas income taxes:		
Current	**200,482**	198,700
Deferred	**65**	(13,951)
PRC corporate income taxes:		
Current	**925,675**	455,351
Deferred	**(251,134)**	(17,661)
Under/(over) provision in prior years	**69,071**	(4,782)
Total tax charge for the year	**944,159**	617,657

14. INCOME TAX EXPENSE (continued)

A reconciliation of the income tax expense applicable to profit before tax at the statutory rate for Mainland China, where the Company 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:

	2019 RMB'000	2019 %	2018 RMB'000	2018 %
Profit before tax	**3,472,174**		706,329	
Tax at the statutory tax rate of 25% (2018: 25%)	**868,043**	**25.0**	176,582	25.0
Tax effect as an HNTE	**(634,071)**	**(18.3)**	(322,521)	(45.7)
Tax effect of income not subject to tax	**(3,108)**	**(0.1)**	(13,320)	(1.9)
Tax effect of share of profit of joint ventures	**(80,113)**	**(2.3)**	(46,072)	(6.5)
Tax effect of expense not deductible for tax	**64,103**	**1.8**	17,030	2.3
Tax benefit for qualifying research and development expenses	**(118,129)**	**(3.3)**	(82,241)	(11.6)
Effect of non-deductible expenses and different tax rates for overseas subsidiaries	**652,255**	**18.8**	815,555	115.5
Decrease in opening deferred tax liability resulting from a decrease in applicable tax rate	**–**	**–**	(3,295)	(0.5)
Tax effect of tax losses and deductible temporary differences unrecognised	**63,021**	**1.8**	93,641	13.3
Utilisation of tax losses previously not recognised	**(19,639)**	**(0.6)**	(26,417)	(3.7)
Tax effect on translation adjustment (a)	**17,574**	**0.5**	(7,080)	(1.0)
Under/(over) provision in respect of prior years	**69,071**	**2.0**	(4,782)	(0.7)
Others	**65,152**	**1.9**	20,577	2.9
Total tax charge at the Group's effective tax rate	**944,159**	**27.2**	617,657	87.4

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

The share of tax attributable to joint ventures amounting to approximately RMB70,775,000 (2018: RMB34,434,000) is included in "Share of profits of joint ventures" in the consolidated statement of profit or loss.

15. OTHER COMPREHENSIVE INCOME/(EXPENSE)

	2019 RMB'000	2018 RMB'000
Other comprehensive income/(expense) includes:		
Items that will not be reclassified to profit or loss:		
Remeasurement of defined benefit pension plan	**(1,768)**	(4,265)
Income tax relating to item that will not be reclassified subsequently to profit or loss	**389**	981
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**66,203**	185,846
Income tax impact	**(27,402)**	11,296
Share of other comprehensive income of joint ventures, net of related income tax	**7,157**	4,564
Other comprehensive income, net of income tax	**44,579**	198,422

16. DIVIDENDS

	31 December 2019 RMB'000	31 December 2018 RMB'000
Proposed final dividend – RMB0.16 per ordinary share (2018: RMB0.07 per ordinary share)	**763,455**	334,011

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

During the year ended 31 December 2019, the dividend proposed in 2018 and paid to the shareholders of the Company is RMB0.07 per ordinary share, in an aggregate amount of RMB334,011,000 (2018: RMB286,296,000).

Cash dividends to shareholders in Hong Kong will be paid in Hong Kong dollars.

Under the PRC Company Law and the Company's articles of association, net profit after tax as reported in the PRC statutory financial statements can only be distributed as dividends after allowance has been made for the following:

(i) making up prior years' cumulative losses, if any;

(ii) allocations to the statutory common reserve fund of at least 10% of after-tax profit, until the fund aggregates 50% of the Company's registered capital. For the purpose of calculating the transfer to the reserves, the profit after tax shall be the amount determined under the PRC accounting principles and financial regulations in the PRC. Transfer to this reserve must be made before any distribution of dividends to shareholders.

The statutory common reserve can be used to offset previous years' losses, if any, and part of the statutory common reserve can be capitalised as the Company's share capital provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the registered capital of the Company;

(iii) allocations to the discretionary common reserve if approved by the shareholders. The discretionary common reserve can be used to offset prior years' losses, if any, and can be capitalised as the Company's share capital.

In accordance with the articles of association of the Company, the net profit after tax of the Company for the purpose of profit distribution will be deemed to be the lesser of (i) the net profit determined in accordance with the accounting principles generally accepted in the PRC and financial regulations in the PRC and (ii) the net profit determined in accordance with Hong Kong Financial Reporting Standards.

Pursuant to the State Administration of Taxation Circular Guoshuihan [2008] No. 897, the Company is required to withhold a 10% enterprise income tax when it distributes dividends to its non-resident enterprise shareholders out of profit earned in 2008 and beyond. In respect of all shareholders whose names appear on the Company's register of members who are not individuals, which are considered as non-resident enterprise shareholders, the Company will distribute the dividend after deducting enterprise income tax of 10%.

17. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

	2019 RMB'000	2018 RMB'000
Earnings		
Earnings for the purpose of basic earnings per share (profit for the year attributable to owners of the Company)	2,502,238	70,802

	2019	2018
Number of shares		
Number of ordinary shares for the purpose of basic earnings per share	4,771,592,000	4,771,592,000

No diluted earnings per share is presented for the years ended 31 December 2019 and 2018 as the Group had no dilutive potential ordinary shares in issue during those years.

18. PROPERTY, PLANT AND EQUIPMENT

31 December 2019	Tankers and vessels RMB'000	Drilling rigs RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Buildings RMB'000	Construction in progress RMB'000	Total RMB'000
At 31 December 2018 and at 1 January 2019							
Cost	15,929,153	64,581,379	17,690,304	115,815	965,398	1,522,839	100,804,888
Accumulated depreciation and impairment	(6,642,995)	(29,326,513)	(13,073,727)	(99,293)	(129,232)	–	(49,271,760)
Carrying amount	9,286,158	35,254,866	4,616,577	16,522	836,166	1,522,839	51,533,128
Carrying amount							
At 1 January 2019	9,286,158	35,254,866	4,616,577	16,522	836,166	1,522,839	51,533,128
Additions	–	58,813	1,420,895	115	–	1,523,753	3,003,576
Depreciation provided during the year	(851,210)	(1,958,035)	(1,527,503)	(3,380)	(43,199)	–	(4,383,327)
Disposals/write-offs	(6,420)	(5,183)	(69,465)	(1,724)	–	–	(82,792)
Transfers from/(to) construction in progress	17,593	469,965	658,661	4,566	(13,156)	(1,137,629)	–
Impairment provided	–	(241,075)	–	–	–	(410)	(241,485)
Exchange realignment	4,883	354,632	19,377	–	4,961	5,190	389,043
At 31 December 2019	8,451,004	33,933,983	5,118,542	16,099	784,772	1,913,743	50,218,143
At 31 December 2019							
Cost	15,800,921	65,777,334	19,430,432	103,966	958,079	1,914,153	103,984,885
Accumulated depreciation and impairment	(7,349,917)	(31,843,351)	(14,311,890)	(87,867)	(173,307)	(410)	(53,766,742)
Carrying amount	8,451,004	33,933,983	5,118,542	16,099	784,772	1,913,743	50,218,143

18. PROPERTY, PLANT AND EQUIPMENT (continued)

31 December 2018	Tankers and vessels RMB'000	Drilling rigs RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Buildings RMB'000	Construction in progress RMB'000	Total RMB'000
At 31 December 2017 and at 1 January 2018							
Cost	15,566,508	59,321,937	16,700,403	115,595	961,187	4,822,990	97,488,620
Accumulated depreciation and impairment	(6,157,752)	(26,466,684)	(12,037,535)	(95,285)	(99,718)	–	(44,856,974)
Carrying amount	9,408,756	32,855,253	4,662,868	20,310	861,469	4,822,990	52,631,646
Carrying amount							
At 1 January 2018	9,408,756	32,855,253	4,662,868	20,310	861,469	4,822,990	52,631,646
Additions	–	59,160	835,874	1,450	–	1,358,011	2,254,495
Depreciation provided during the year	(869,270)	(1,931,912)	(1,396,065)	(5,145)	(39,546)	–	(4,241,938)
Disposals/write-offs	(27,168)	(77,803)	(58,171)	(93)	(848)	–	(164,083)
Transfers from/(to) construction in progress	758,566	3,394,377	525,880	–	–	(4,678,823)	–
Impairment provided	–	(122,962)	–	–	–	–	(122,962)
Exchange realignment	15,274	1,078,753	46,191	–	15,091	20,661	1,175,970
At 31 December 2018	9,286,158	35,254,866	4,616,577	16,522	836,166	1,522,839	51,533,128
At 31 December 2018							
Cost	15,929,153	64,581,379	17,690,304	115,815	965,398	1,522,839	100,804,888
Accumulated depreciation and impairment	(6,642,995)	(29,326,513)	(13,073,727)	(99,293)	(129,232)	–	(49,271,760)
Carrying amount	9,286,158	35,254,866	4,616,577	16,522	836,166	1,522,839	51,533,128

During the year ended 31 December 2019, no interest was capitalised in property, plant and equipment. Included in the year ended 31 December 2018, there was an amount of approximately RMB2,721,000 (note 9) additions in respect of interest capitalised in property, plant and equipment with a capitalisation rate of 4.64% per annum.

Impairment of property, plant and equipment

During the year ended 31 December 2019, due to the slower recovery of oil price and global oilfield services market, both the services prices and utilisation rates of the Group's drilling rigs and vessels have contributed to thin profit margin. 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 year. Those assets are used in the Group's drilling services segment, marine support services segment and geophysical acquisition and surveying services segment. The review led to the recognition of an impairment loss of RMB241,485,000 (2018: RMB122,962,000) for certain drilling rigs in drilling services segment which has been recognised in profit or loss for the year ended 31 December 2019. The impairment losses have been classified under the drilling services segment.

The recoverable amount of the relevant asset, which was identified as CGU within the respective services segments, 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.

18. PROPERTY, PLANT AND EQUIPMENT (continued)

Impairment of property, plant and equipment (continued)

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 projections are in the range of 7.5%~8.6% (2018: 8.0%~8.9%). 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 based on the past performance of the relevant assets, as well as future industry conditions and operations, including estimated utilisation rates, day rates, cost level and capital requirements.

19. RIGHT-OF-USE ASSETS

	Tankers and vessels RMB'000	Drilling rigs RMB'000	Machinery and equipment RMB'000	Motor vehicles RMB'000	Buildings RMB'000	Leasehold lands RMB'000	Total RMB'000
As at 1 January 2019							
Cost	320,779	969,562	73,943	168	116,433	239,513	1,720,398
Accumulated depreciation and impairment	–	–	–	–	–	(24,287)	(24,287)
Carrying amount	320,779	969,562	73,943	168	116,433	215,226	1,696,111
Carrying amount							
At 1 January 2019	320,779	969,562	73,943	168	116,433	215,226	1,696,111
Additions	–	177,989	288,795	2,053	80,336	–	549,173
Depreciation charge	(67,521)	(404,096)	(71,713)	(691)	(42,187)	(3,056)	(589,264)
Lease modification	–	(459,639)	(137)	(128)	(900)	–	(460,804)
Exchange realignment	–	1,393	1,249	8	1,437	1,337	5,424
At 31 December 2019	253,258	285,209	292,137	1,410	155,119	213,507	1,200,640
As at 31 December 2019							
Cost	320,779	689,916	364,076	2,034	197,349	240,850	1,815,004
Accumulated depreciation and impairment	(67,521)	(404,707)	(71,939)	(624)	(42,230)	(27,343)	(614,364)
Carrying amount	253,258	285,209	292,137	1,410	155,119	213,507	1,200,640

Expense relating to short-term leases and other leases with lease terms end within 12 months of the date of initial application of HKFRS 16	726,689
Variable lease payments not included in the measurement of lease liabilities	561,013
Total cash outflow for leases	1,908,426

For both years, the Group leases various tankers and vessels, drilling rigs, machinery and equipment, buildings and motor vehicles for its operations. Lease contracts are entered into for fixed term of 1 to 30 years, but may have extension and termination options as described below. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

In addition, the Group owns several leasehold lands for operating purpose and has obtained the land use right certifications. The upfront payments for such leasehold lands were classified as right-of-use assets upon application of HKFRS 16, which were classified as prepaid lease payments under other intangible assets as at 31 December 2018.

The Group regularly entered into short-term leases for tankers and vessels, drilling rigs, machinery and equipment, buildings and motor vehicles. As at 31 December 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term lease expense disclosed in note 8.

19. RIGHT-OF-USE ASSETS (continued)

Variable lease payments

The Group entered into several lease contracts associated to certain drilling rigs, tankers and vessels with variable lease payments determined by utilisation days and day rates. The Group recognised these variable lease payments as expense during this current year when they were paid or payable.

Extension and termination options

The Group has extension and/or termination options to maximize operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessors.

The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension options or not to exercise the termination options. In addition, the Group reassesses whether it is reasonably certain to exercise an extension option, or not to exercise a termination option, upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee. During the year ended 31 December 2019, there is no such triggering event.

20. GOODWILL

Goodwill was generated in the acquisition of COSL Holding AS in 2008, which was combined into COSL Norwegian AS by merger during the year ended 31 December 2016 (collectively referred to as the "CNA"). The entire goodwill was fully impaired as at 31 December 2016.

	2019 RMB'000
COST	
At 1 January	4,624,054
Exchange realignment	76,134
At 31 December	4,700,188
IMPAIRMENT	
At 1 January	4,624,054
Exchange realignment	76,134
At 31 December	4,700,188
CARRYING VALUE	
At 31 December	–

21. OTHER INTANGIBLE ASSETS

31 December 2019	Trademark RMB'000	Prepaid land lease payments RMB'000	Management system and software RMB'000	Contract value RMB'000	Total RMB'000
Carrying amount at 31 December 2018	120	215,226	74,156	–	289,502
Adjustments upon application of HKFRS 16	–	(215,226)	–	–	(215,226)
Carrying amount at 1 January 2019	120	–	74,156	–	74,276
Additions	–	–	20,415	–	20,415
Amortisation provided during the year	(41)	–	(32,577)	–	(32,618)
Disposals	–	–	–	–	–
Exchange realignment	–	–	62	–	62
At 31 December 2019	79	–	62,056	–	62,135
At 31 December 2019					
Cost	411	–	603,462	125,544	729,417
Accumulated amortisation	(332)	–	(541,406)	(125,544)	(667,282)
Carrying amount	79	–	62,056	–	62,135

31 December 2018	Trademark RMB'000	Prepaid land lease payments RMB'000	Management system and software RMB'000	Contract value RMB'000	Total RMB'000
Carrying amount at 1 January 2018 (restated)	161	334,625	94,937	–	429,723
Additions	–	–	31,302	–	31,302
Amortisation provided during the year	(41)	(4,394)	(51,947)	–	(56,382)
Disposals	–	(118,896)	(429)	–	(119,325)
Exchange realignment	–	3,891	293	–	4,184
At 31 December 2018	120	215,226	74,156	–	289,502
At 31 December 2018					
Cost	411	239,513	594,817	123,510	958,251
Accumulated amortisation	(291)	(24,287)	(520,661)	(123,510)	(668,749)
Carrying amount	120	215,226	74,156	–	289,502

22. MULTICLIENT LIBRARY

	MultiClient Library RMB'000
Carrying amount at 31 December 2018	139,707
Development cost capitalised in the year	148,657
Amortisation provided during the year	(11,191)
Exchange realignment	2,553
At 31 December 2019	279,726
At 31 December 2019	
Cost	291,675
Accumulated amortisation	(11,949)
Carrying amount	279,726

The Group has entered into cooperation agreements with Spectrum Geo Inc ("Spectrum") to invest in certain multi-client data projects. These agreements are accounted for as joint operations where the parties have joint control over the projects and have rights to the assets and liabilities of the investment. Costs directly incurred in acquiring, processing and completing multi-client data projects are capitalised to the MultiClient library. During the year ended 31 December 2019, except for certain part of multi-client data projects which had been completed, the remaining part was still in progress.

23. PARTICULARS OF SUBSIDIARIES

Details of the Company's principal subsidiaries at the end of the reporting period are set out below:

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 2019	2018	Principal activities
COSL Chemicals (Tianjin), Ltd. (a)	Tianjin, PRC 7 September 1993	PRC	RMB 20,000,000	100%	100%	Provision of drilling fluids services
PT. COSL INDO	Indonesia 1 August 2005	Indonesia	US Dollar ("US$") 400,000	100%	100%	Provision of oil & gas exploration services
COSL-HongKong Limited	Hong Kong 1 December 2005	Hong Kong	Hong Kong Dollar ("HK$") 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
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
CNA	Norway 23 June 2008	Norway	NOK1,541,328,656	100%	100%	Investment holding
COSL Drilling Pan-Pacific (Labuan) Ltd.	Malaysia 4 April 2009	Malaysia	US$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") (b)	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. (a)	Shenzhen, PRC 12 September 2013	PRC	RMB 470,000,000	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
COSL Hainan Ltd. (a)	Haikou, PRC 6 December 2019	PRC	RMB 200,000,000	100%	–	Provision of oil & gas exploration services

23. PARTICULARS OF SUBSIDIARIES (continued)

(a) COSL Chemicals (Tianjin), Ltd, COSL Deepwater Technology Co. Ltd and COSL Hainan Ltd. are established in the PRC as limited liability companies.

(b) 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 consolidated financial statements for the years ended 31 December 2019 and 31 December 2018 respectively.

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 year 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.

The following subsidiaries had outstanding issued long-term bonds amounting to RMB14,106,482,000 at the end of the year:

	Held by third party RMB'000
COSL Finance (BVI) Limited	7,032,189
COSL Singapore Capital Ltd.	7,074,293

24. INVESTMENTS IN JOINT VENTURES

	2019 RMB'000	2018 RMB'000
Cost of investments in joint ventures	**148,926**	148,926
Share of post-acquisition profits and loss, and other comprehensive income, net of dividends received	**731,657**	530,236
End of the year	**880,583**	679,162

Particulars of all joint ventures 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	Ownership interest 2018	Voting rights held 2019	Voting rights held 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 150,000	Malaysia 31 July 2017	**49**	49	**50**	50	Provision of drilling services

24. INVESTMENTS IN JOINT VENTURES (continued)

(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, at least two-thirds of the voting rights are required for decisions on directing the relevant activities of this entity. 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. Accordingly, Magcobar has been accounted for in the Group's consolidated financial statements using the equity method.

(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. Accordingly, PBS-COSL has been accounted for in the Group's consolidated financial statements using the equity method.

(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. Accordingly, COSL Malaysia has been accounted for in the Group's consolidated financial statements using the equity method.

(d) As at 31 December 2019, the Group has not 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 consolidated financial statements.

The aggregate financial information in respect of the Group's joint ventures is set out below since none of the joint ventures is individually material.

	2019 RMB'000	2018 RMB'000
The Group's share of profit	**320,452**	184,288
The Group's share of other comprehensive income	**7,157**	4,564
The Group's share of total comprehensive income	**327,609**	188,852

25. INVENTORIES

	31 December 2019 RMB'000	31 December 2018 RMB'000
Raw materials	**1,195,464**	1,207,916
Work in progress	**73,989**	451
Goods in transit	**73,113**	79,991
Finish goods	**72,937**	33,876
Turnover materials	**8,661**	4,438
Others	**510**	83
	1,424,674	1,326,755

The Group wrote down RMB14,320,000 (2018: RMB6,965,000) and reversed write-down of RMB8,164,000 (2018: RMB2,299,000) during the year, both of which were recorded in other operating expenses.

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	31 December 2019 RMB'000	31 December 2018 RMB'000
Prepayments	**132,788**	127,705
Deposits	**49,790**	41,490
Other receivables	**229,734**	230,988
	412,312	400,183
Less: Provision for impairment of other receivables	**(14,340)**	(12,612)
	397,972	387,571

An analysis of other receivables is as follows:

	31 December 2019 RMB'000	31 December 2018 RMB'000
Prepaid tax	**120,555**	117,851
Compensation receivables	**33,562**	8,658
Insurance claim receivables	**19,313**	16,197
Payments on behalf of suppliers	**19,097**	24,920
Advance to employees	**7,318**	12,252
Dividend receivable	**–**	29,500
Other advance	**–**	4,280
Others	**29,889**	17,330
	229,734	230,988

Prepayments for rental expense and prepaid lease payments were adjusted upon the initial application of HKFRS 16. Details of the adjustments are set out in note 2.1.

27. ACCOUNTS RECEIVABLE

	31 December 2019 RMB'000	31 December 2018 RMB'000
Accounts receivable – goods and services	**13,223,934**	10,579,283
Less: Allowance for credit losses	**(2,918,401)**	(2,563,970)
	10,305,533	8,015,313

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

	31 December 2019 RMB'000	31 December 2018 RMB'000
Within six months	**9,981,405**	7,793,152
Six months to one year	**236,393**	128,266
One to two years	**87,646**	91,835
Over two years	**89**	2,060
	10,305,533	8,015,313

As at 31 December 2019, included in the Group's accounts receivable balance are debtors with aggregate carrying amount of RMB324,128,000 (31 December 2018: RMB222,161,000) which are past due as at the reporting date. Out of the past due balances, RMB210,344,000 (31 December 2018: RMB88,426,000) is not considered as in default based on past experience, the Directors are of the opinion that no further provision for impairment is necessary in respect of these balances which are considered fully recoverable after taking into consideration of the customer's credit quality, historical behavior of payments and prevailing market conditions. The Group does not hold any collateral or other credit enhancements over these past-due balances.

Details of impairment assessment of accounts receivable for the year ended 31 December 2019 are set out in note 48.

28. NOTES RECEIVABLE

	31 December 2019 RMB'000	31 December 2018 RMB'000
Commercial notes receivable at amortised costs	**44,245**	208,164

The commercial notes are received from customers in the Group's ordinary course of business. The Group provided no impairment against the balance after due consideration of the customers' low credit risk.

29. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets mandatorily measured at FVTPL:

	31 December 2019 RMB'000	31 December 2018 RMB'000
Current asset:		
Investments in floating rate corporate wealth management products	**4,511,248**	503,033
Investments in liquidity funds	**–**	1,246,690
Non-current asset:		
Unlisted equity investment	**–**	–
	4,511,248	1,749,723

30. RECEIVABLES AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	31 December 2019 RMB'000	31 December 2018 RMB'000
Bank acceptance notes receivable	**40,580**	24,740

The bank acceptance notes are received from customers in the Group's ordinary course of business. As part of the liquidity management, the Group has endorsed certain bank acceptance notes receivable to banks or suppliers before maturity date. The Group has transferred substantially all the risks and rewards of ownership relating to these bank acceptance notes endorsed, and derecognised the full carrying amounts of the bank acceptance notes receivable. Such bank acceptance notes receivable is held by the Group within a business model whose objective is achieved by both selling and collecting contractual cash flows. Accordingly, these bank acceptance notes receivable are subsequently measured at FVTOCI. Details of fair value of notes receivable at FVTOCI are set out in note 47.

The Group provided no impairment against the balance after due consideration of the banks' low credit risk.

31. CONTRACT ASSETS

	31 December 2019 RMB'000	31 December 2018 RMB'000
Contract assets - current	**262,594**	–

The contract assets relate to the Group's right to consideration for drilling services completed and not billed because the rights are conditioned on customers' acceptance of the work. The contract assets are transferred to accounts receivables when the rights become unconditional. The Directors assessed and provided no impairment against the contract assets after due consideration of the customers' credit quality.

32. CONTRACT COSTS

	31 December 2019 RMB'000	31 December 2018 RMB'000
Mobilisation cost (a)	**89,113**	217,009
Others	**2,387**	8,907
	91,500	225,916
Current	**–**	53,023
Non-current	**91,500**	172,893
	91,500	225,916

(a) Certain direct and incremental costs incurred for initial mobilization are costs of fulfilling a contract and are recoverable. These recoverable costs are capitalised and amortised ratably to contract expense as services are rendered over the initial term of the related contracts.

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

	31 December 2019 RMB'000	31 December 2018 RMB'000
Investments in fixed rate corporate wealth management products	**2,507,314**	6,536,532
Value-added tax recoverable	**45,087**	35,581
Value-added tax to be deducted and prepaid	**24,617**	29,122
Other current assets	**2,577,018**	6,601,235
Output value-added tax to be recognised	**(233,010)**	(183,648)
Other current liabilities	**(233,010)**	(183,648)
Deposits paid for the acquisition of property, plant and equipment	**128,358**	24,086
Value-added tax recoverable	**58,205**	33,294
Deposits paid for the addition of right-of-use assets	**57,522**	–
Tax recoverable	**2,903**	40,436
Other non-current assets	**246,988**	97,816

34. CASH AND CASH EQUIVALENTS, PLEDGED DEPOSITS AND TIME DEPOSITS

	31 December 2019 RMB'000	31 December 2018 RMB'000
Cash and balances with banks	**1,967,074**	1,724,911
Deposits with CNOOC Finance Corporation Ltd. ("CNOOC Finance") (note 46)	**1,498,717**	1,472,356
Time deposits at banks	**–**	145,136
Cash and balances with banks and financial institutions	**3,465,791**	3,342,403
Less:		
Pledged deposits	**(102,202)**	(27,657)
Time deposits with maturity of over three months	**–**	(145,136)
Cash and cash equivalents	**3,363,589**	3,169,610

At the end of the reporting period, the cash and bank balances and time deposits at banks of the Group denominated in RMB amounted to approximately RMB2,043,017,000 (2018: RMB1,734,637,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest based on daily bank deposit rates. Time deposits are made for varying periods of between seven days and one year depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates.

35. TRADE AND OTHER PAYABLES

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

	31 December 2019 RMB'000	31 December 2018 RMB'000
Outstanding balances aged:		
Within one year	**9,462,482**	8,007,466
One to two years	**102,643**	125,212
Two to three years	**41,300**	61,491
Over three years	**83,728**	80,883
	9,690,153	8,275,052

Accrued lease payments were adjusted upon the initial application of HKFRS 16. Details of the adjustments are set out in note 2.1.

36. DEFERRED TAXATION

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	31 December 2019 RMB'000	31 December 2018 RMB'000
Deferred tax assets	**92,468**	65,869
Deferred tax liabilities	**(62,655)**	(286,560)
	29,813	(220,691)

The following are the major deferred tax liabilities and assets recognised and movements thereon during the current and prior years:

	Balance at 1 January 2018 RMB'000	Recognised in profit or loss RMB'000	Exchange realignment RMB'000	Balance at 31 December 2018 RMB'000	Adjustments upon application of HKFRS16 RMB'000	Balance at 1 January 2019 RMB'000 (Restated)	Recognised in profit or loss RMB'000	Exchange realignment RMB'000	Balance at 31 December 2019 RMB'000
Deferred tax assets:									
Provision for staff bonus	88,763	(5,300)	2	83,465	–	83,465	(28,136)	1	55,330
Impairment of assets	56,698	(2,078)	–	54,620	–	54,620	7,703	–	62,323
Accelerated depreciation of property, plant and equipment	–	–	–	–	–	–	8,563	96	8,659
Accrued liabilities	30,764	(11,861)	–	18,903	–	18,903	161,299	–	180,202
Provision for onerous contracts	3,367	(3,367)	–	–	–	–	–	–	–
Deductible tax loss	67,537	(8,059)	3,101	62,579	–	62,579	(8,269)	937	55,247
Right-of use assets and lease liabilities	–	–	–	–	48	48	45,896	(9)	45,935
Others	3,738	(219)	156	3,675	–	3,675	28,579	80	32,334
	250,867	(30,884)	3,259	223,242	48	223,290	215,635	1,105	440,030
Deferred tax liabilities:									
Accelerated depreciation of property, plant and equipment	480,890	(49,301)	2,885	434,474	–	434,474	(42,920)	923	392,477
Fair value adjustment arising from acquisition of a subsidiary	12,765	(12,341)	185	609	–	609	(612)	3	–
The investment of corporate wealth management products	–	–	–	–	–	–	2,627	–	2,627
Right-of use assets and lease liabilities	–	–	–	–	578	578	(579)	1	–
Others	9,270	(854)	434	8,850	–	8,850	6,050	213	15,113
	502,925	(62,496)	3,504	443,933	578	444,511	(35,434)	1,140	410,217
	252,058	(31,612)	245	220,691	530	221,221	(251,069)	35	(29,813)

At the end of the reporting period, the aggregate amount of temporary differences associated with undistributed earnings of Group's joint ventures for which deferred tax liabilities have not been recognised was RMB1,224,680,000 (31 December 2018: RMB954,121,000). No liability has been recognised in respect of these differences as the investment company and those joint ventures are all located in the PRC and the applicable tax rate of those joint ventures was the same as or higher than the applicable tax rate of the investment company.

At 31 December 2019, the aggregate amount of temporary differences associated with undistributed earnings of subsidiaries for which deferred tax liabilities have not been recognised was RMB252,644,000 (2018: RMB220,410,000). No liability have been recognised in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future.

At 31 December 2019, accumulated unrecognised tax losses arising in the Group of approximately RMB9,611,096,000 (2018: RMB9,277,338,000) were available for offsetting against future taxable profits of the companies in which the losses arose.

36. DEFERRED TAXATION (continued)

The unrecognised income tax losses which have fixed expiry date, will be expired in the following years:

	31 December 2019 RMB'000	31 December 2018 RMB'000
31 December 2021	**85,910**	147,061
31 December 2022	**236**	3,601
31 December 2023	**1,632**	6,335
31 December 2024	**737**	–
31 December 2027	**3,365**	–
31 December 2028	**4,703**	–
31 December 2029	**408**	–
31 December 2036	**–**	7,835
31 December 2037	**–**	9,568
	96,991	174,400

At 31 December 2019, the Group had tax losses arising in Norway of RMB9,514,105,000 (2018: RMB9,102,938,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

At 31 December 2019, the Group has deductible temporary differences of RMB1,727,398,000 (2018: RMB1,701,008,000). No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which these deductible temporary differences can be utilised.

37. LOAN FROM A RELATED PARTY

	Contractual interest rate per annum (%)	31 December 2019 RMB'000	31 December 2018 RMB'000
Loan from a related party – unsecured	LIBOR+0.5%	**2,443,946**	1,374,823

During the year ended 31 December 2019, the Group obtained a new 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 (note 46).

38. INTEREST-BEARING BANK BORROWINGS

	Contractual interest rate (%) per annum	Year of maturity	31 December 2019 RMB'000	31 December 2018 RMB'000
Export-Import Bank of China – unsecured (a)	LIBOR+1.70%	2020	**589,928**	1,157,288
China Development Bank (b)	1.08%	2035	**220,027**	230,311
			809,955	1,387,599
Less: Current portion of long term bank loans			**(608,906)**	(599,968)
			201,049	787,631

(a) The Group borrowed a US$800,000,000 loan for the purpose of funding the acquisition of a subsidiary. The repayment started on 2 September 2011 over 19 instalments amounting to US$42,100,000 bi-annually.

38. INTEREST-BEARING BANK BORROWINGS (continued)

(b) The Group borrowed RMB320,000,000 loan from a wholly-owned subsidiary of China Development Bank in December 2015. The loan was initial recognised on fair value measured by discounting future cash flow at prevailing market interest. The repayments start from December 2018 over 36 instalments bi-annually.

For all bank borrowings as stated above, the weighted average effective interest rate for the year ended 31 December 2019 was 3.77% per annum (2018: 3.63% per annum).

	31 December 2019 RMB'000	31 December 2018 RMB'000
Bank borrowings repayable:		
Within one year	**608,906**	599,968
In the second year	**2,610**	578,285
In the third to fifth year, inclusive	**34,814**	33,750
Beyond five years	**163,625**	175,596
	809,955	1,387,599

39. LONG TERM BONDS

	Year of maturity	31 December 2019 RMB'000	31 December 2018 RMB'000
Corporate bonds (a)	2022	**1,542,000**	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	**3,070,763**	3,070,343
(Type I of the Second Tranche Issue as defined below) (b)	2021	**102,493**	2,111,430
(Type II of the Second Tranche Issue as defined below) (b)	2021	**2,916,915**	2,916,132
Senior unsecured USD bonds (c)	2022	**7,032,189**	6,910,254
Guaranteed medium term notes			
First Drawdown Note (d)	2020	**3,537,073**	3,474,852
Second Drawdown Note (d)	2025	**3,537,220**	3,477,285
		21,738,653	25,539,413
Current		**3,810,175**	4,469,521
Non-current		**17,928,478**	21,069,892
		21,738,653	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.

39. LONG TERM BONDS (continued)

(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 year, 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 21 October 2021. The Group has the right to adjust or not to adjust the coupon rate for the fourth and fifth year at the end of the third year on 21 October 2019 by giving a notice to the bondholders. The bondholders have the right 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 whether the Group chose to adjust the coupon rate or not. 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. During the current year, RMB1,998,100,000 principal of Type I of the Second Tranche were redeemed as required by the bondholders. According to the current market environment, the Group chose not to adjust the coupon rate for the fourth and fifth year, that is, the coupon rate will remain at 3.08% in the next two interest-bearing years. The remaining Type I of the Second Tranche Issue of RMB101,900,000 will be held until the maturity date on 21 October 2021.

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 Group, 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 was 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 was 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.

40. LEASE LIABILITIES

	31 December 2019 RMB'000
Lease liabilities payable:	
Within one year	597,774
One to two years	209,520
Two to five years	234,850
Over five years	103,202
	1,145,346
Less: Amount due for settlement with 12 months shown under current liabilities	(597,774)
Amount due for settlement after 12 months shown under non-current liabilities	547,572

Lease obligations that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	USD RMB'000	SGD RMB'000	Other RMB'000
As at 31 December 2019	319,379	74,631	28,386

41. CONTRACT LIABILITIES

	31 December 2019 RMB'000	31 December 2018 RMB'000
Contract liabilities		
Current	255,306	154,410
Non-current	192,745	308,000
	448,051	462,410

The Group's contract liabilities consist of the mobilisation fee, subsidies received from customers related to acquisition of machinery for provision of drilling services (the "Subsidies") and advance from customers relevant to certain operation contracts. The contract liabilities are recognised as revenues on a systematic basis that is consistent with the transfer to the customer of the goods or services to which the liabilities relate.

The following table shows how much of the revenue recognised relates to carried-forward contract liabilities:

	Advance from customers RMB'000	Mobilisation fee RMB'000	Subsidies RMB'000	Total RMB'000
For the year ended 31 December 2019				
Revenue recognised that was included in the contract liability balance at the beginning of the year	145,003	76,346	55,717	277,066

	Advance from customers RMB'000	Mobilisation fee RMB'000	Subsidies RMB'000	Total RMB'000
For the year ended 31 December 2018				
Revenue recognised that was included in the contract liability balance at the beginning of the year	29,698	28,620	53,447	111,765

42. DEFERRED INCOME

Deferred income consists of the contract value acquired in the process of the acquisition of CNA, government grants, and the difference between proceeds received from loans at a below-market rate granted by a wholly-owned subsidiary of a state-owned bank and the fair value of the loans at initial recognition based on the prevailing market interest rate (the "Others"). The deferred income acquired from contract value are amortised according to the related drilling contract periods and are credited to revenues of the Group. The deferred income received from government and the others are recognised according to the depreciable periods of the related assets and the periods in which the related costs incurred, respectively, and are credited to other income of the Group.

	Contract value RMB'000	Government grant related to assets RMB'000	Government grant related to income RMB'000	Others RMB'000	Total RMB'000
At 1 January 2018	239,010	190,476	106,318	122,139	657,943
Additions	–	22,047	97,310	–	119,357
Credited to profit or loss	(80,680)	(18,137)	(123,235)	(41,448)	(263,500)
Exchange realignment	9,039	–	–	–	9,039
At 31 December 2018	167,369	194,386	80,393	80,691	522,839
Additions	**–**	**2,748**	**87,033**	**–**	**89,781**
Credited to profit or loss	**(82,602)**	**(17,301)**	**(105,065)**	**(7,922)**	**(212,890)**
Exchange realignment	**1,824**	**–**	**–**	**–**	**1,824**
At 31 December 2019	**86,591**	**179,833**	**62,361**	**72,769**	**401,554**

43. ISSUED CAPITAL

	31 December 2019 RMB'000	31 December 2018 RMB'000
Registered, issued and fully paid:		
H shares of RMB1.00 each	**1,811,124**	1,811,124
A shares of RMB1.00 each	**2,960,468**	2,960,468
	4,771,592	4,771,592

44. CONTINGENCIES AND COMMITMENTS

(A) Contract performance guarantees

During the current year, the Company has issued a contract performance guarantee in respect of certain obligating service agreements entered by the Group's cooperation partner, Oceancare Corporation Sdn Bhd ("OCSB"), in favor of a customer of OCSB ("the guaranteed party"). The total consideration of the service agreements are US$14,330,000, which is equivalent to approximately RMB99,968,000. Under the guarantee, the Company is required to make good at its own cost all outstanding contractual work for the guaranteed party should OCSB fails to perform under the said service obligations.

The Group has not recognised liabilities for the above guarantee because the Directors consider that the possibility of an outflow of resources embodying economic benefits is remote.

(B) Capital commitments

The Group had the following capital commitments, principally for the construction and purchases of property, plant and equipment at the end of the reporting period:

	31 December 2019 RMB'000	31 December 2018 RMB'000
Contracted, but not provided for	**1,512,276**	392,658

At the end of the reporting period, the Group's share of joint ventures' own capital commitments were insignificant.

45. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of profit before tax to cash generated from operations

	Notes	2019 RMB'000	2018 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**3,472,174**	706,329
Adjustments for:			
Finance costs	*9*	**1,071,874**	1,072,271
Interest income		**(67,522)**	(107,552)
Investment income	*8*	**(218,214)**	(164,730)
Loss/(gain) arising from financial assets at FVTPL	*8*	**38,829**	(49,441)
Share of profits of joint ventures, net of tax	*24*	**(320,452)**	(184,288)
Exchange gain, net		**(105,442)**	(370,813)
Loss/(gain) on disposal of property, plant and equipment, net	*8*	**57,496**	(246,240)
Gain on disposal of other intangible assets	*8*	**–**	(34,420)
Gains arising from lease modifications	*8*	**(74,011)**	–
Depreciation of property, plant and equipment and amortisation of intangible assets		**4,372,838**	4,262,776
Depreciation of right-of-use assets	*19*	**589,264**	–
Impairment losses of accounts receivable and other receivables, net of reversal	*10*	**316,324**	415,364
Provision of impairment of inventories	*8*	**6,156**	4,666
Reversal of provision for onerous contracts		**–**	(22,450)
Impairment of property, plant and equipment		**241,485**	122,962
		9,380,799	5,404,434
Increase in inventories		**(93,534)**	(160,841)
Increase in accounts receivable		**(2,559,986)**	(2,069,956)
Increase in pledged deposits		**(1,701)**	–
Decrease/(increase) in notes receivable		**157,246**	(147,371)
(Increase)/decrease in prepayments, deposits and other receivables		**(93,981)**	93,646
Increase in receivables at fair value through other comprehensive income		**(15,840)**	–
Increase in trade and other payables, net of payables for purchases of property, plant and equipment		**1,382,711**	1,348,035
Increase in notes payables		**3,201**	50,266
Increase in salary and bonus payables		**17,871**	75,944
Decrease in deferred income		**(117,935)**	(124,741)
Increase in contract assets		**(262,594)**	–
(Decrease)/increase in contract liabilities		**(18,105)**	130,691
Decrease/(increase) in contract costs		**135,178**	(87,478)
Cash generated from operations		**7,913,330**	4,512,629

45. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

Reconciliation of liabilities arising from financing activities

			Non-cash changes				
	1 January 2019 (Restated) RMB'000	Financing cash flows (a) RMB'000	Foreign exchange movement RMB'000	Interests expenses and proposed dividends RMB'000	New leases entered and lease modified RMB'000	Other changes (b) RMB'000	31 December 2019 RMB'000
Loan from a related party (note 37)	1,374,823	951,401	51,947	65,775	–	–	2,443,946
Interest-bearing bank borrowings (note 38)	1,387,599	(641,416)	14,542	39,003	–	10,227	809,955
Long term bonds (note 39)	25,539,413	(4,930,667)	228,414	883,437	–	18,056	21,738,653
Lease liabilities (note 2.1)	1,801,003	(697,069)	18,341	63,298	(40,227)	–	1,145,346
Dividend payable (included in trade and other payables)	–	(334,011)	–	334,011	–	–	–
Total	30,102,838	(5,651,762)	313,244	1,385,524	(40,227)	28,283	26,137,900

			Non-cash changes			
	31 December 2017 RMB'000	Financing cash flows (a) RMB'000	Foreign exchange movement RMB'000	Interests expenses and proposed dividends RMB'000	Other changes (b) RMB'000	31 December 2018 RMB'000
Loan from a related party (note 37)	2,288,867	(1,089,897)	118,472	57,381	–	1,374,823
Interest-bearing bank borrowings (note 38)	1,976,953	(749,967)	58,224	57,201	45,188	1,387,599
Long term bonds (note 39)	24,857,494	(889,804)	615,053	938,414	18,256	25,539,413
Dividends payable (included in trade and other payables)	–	(286,296)	–	286,296	–	–
Total	29,123,314	(3,015,964)	791,749	1,339,292	63,444	28,301,835

(a) The cash flows from loan from a related party, interest-bearing bank borrowings and long term bonds represented the net amount of certain proceeds and repayments in the consolidated statement of cash flows.

(b) Other changes mainly represented amortisation of up-front fee of interest-bearing bank borrowings and expenses for issuance of long term bonds.

46. RELATED PARTY TRANSACTIONS

As disclosed in note 1, the Company is a subsidiary of CNOOC, which is a SOE subject to the control of the State Council of the PRC Government.

(A) Related party transactions and outstanding balances with related parties

The Group has extensive transactions and relationships with the members of CNOOC. The transactions were made on terms agreed among the parties.

In addition to the transactions and balances detailed elsewhere in these consolidated financial statements, the following is a summary of significant transactions carried out between the Group and (i) the CNOOC Limited Group; (ii) the CNOOC Group; (iii) the Group's joint ventures; and (iv) an associate invested by CNOOC.

a. Included in revenue-gross revenue earned from provision of services to the following related parties

		2019 RMB'000	2018 RMB'000
i	**CNOOC Limited Group**		
	– Provision of drilling services	**6,303,361**	4,124,740
	– Provision of well services	**13,652,619**	8,901,508
	– Provision of marine support services	**2,743,376**	2,461,746
	– Provision of geophysical acquisition and surveying services	**1,657,321**	1,168,780
		24,356,677	16,656,774
ii	**CNOOC Group**		
	– Provision of drilling services	**102,834**	117,782
	– Provision of well services	**228,125**	107,426
	– Provision of marine support services	**41,719**	42,582
	– Provision of geophysical acquisition and surveying services	**91,441**	24,567
		464,119	292,357
iii	**Joint ventures**		
	– Provision of drilling services	**21,719**	–
	– Provision of well services	**15,445**	16,035
	– Provision of geophysical acquisition and surveying services	**1,285**	–
		38,449	16,035
iv	**An associate invested by CNOOC**		
	– Provision of drilling services	**3,813**	511
	– Provision of well services	**131,138**	12,228
	– Provision of marine support services	**18,162**	16,255
		153,113	28,994

46. RELATED PARTY TRANSACTIONS (continued)

(A) Related party transactions and outstanding balances with related parties (continued)

b. *Included in operating expenses*

		2019 RMB'000	2018 RMB'000
i	**CNOOC Limited Group**		
	Materials, utilities and other ancillary services	**79,268**	103,921
	Transportation services	**383**	–
	Leasing of equipment	**257**	–
		79,908	103,921
	Property services	**6,207**	4,904
		86,115	108,825
ii	**CNOOC Group**		
	Materials, utilities and other ancillary services	**1,076,401**	930,512
	Leasing of equipment	**162,242**	184,517
	Transportation services	**48,437**	52,311
	Management services	**32,896**	9,755
	Repair and maintenance services	**21,733**	6,121
	Labour services	**60**	–
		1,341,769	1,183,216
	Property services	**145,168**	170,286
		1,486,937	1,353,502
iii	**Joint ventures**		
	Materials, utilities and other ancillary services	**319,434**	261,034
	Leasing of equipment	**22,576**	25,372
		342,010	286,406
iv	**An associate invested by CNOOC**		
	Materials, utilities and other ancillary services	**19,862**	–
	Management services	**1,207**	–
		21,069	–

c. *Included in interest income*

	2019 RMB'000	2018 RMB'000
CNOOC Finance (a subsidiary of CNOOC)		
Interest income	**15,326**	25,248

Deposits in CNOOC Finance carry interests at the applicable interest rate which is determined with reference to the prevailing bank rates published by the People's Bank of China.

d. *Dividend income from joint ventures*

	2019 RMB'000	2018 RMB'000
Dividend income from joint ventures	**124,569**	96,258

e. *Included in finance costs*

During the current year, the finance costs on the loan from a related party (note 37) are US$9,535,000 (2018: US$8,671,000), which is equivalent to approximately RMB65,775,000 (2018: RMB57,382,000).

During the current year, the finance costs on the lease liabilities due to related party are RMB4,680,000.

46. RELATED PARTY TRANSACTIONS (continued)

(A) Related party transactions and outstanding balances with related parties (continued)

f. *Deposits*

	31 December 2019 RMB'000	31 December 2018 RMB'000
Deposits placed with CNOOC Finance	**1,498,717**	1,472,356

g. During the current year, the other income from CNOOC Limited Group in respect of compensation for equipment dropping into wells when rendering services are RMB38,708,000 (2018: Nil).

h. *Right-of-use assets*

During the current year, the Group entered into certain lease agreements with related parties and recognised right-of-use assets and lease liabilities on lease commencement. The following is addition of right-of-use assets from related parties in current year:

	2019 RMB'000
CNOOC Group	**16,522**
Joint ventures	**5,728**
	22,250

Except for items in a(iii), b(iii) and d above, the above transactions also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

i. *Contingences and commitments with related parties*

The Group has no capital commitments or lease commitments with related parties as of 31 December 2019 and 2018.

The Group has no guarantees granted to related parties as of 31 December 2019 and 2018.

j. *Outstanding balances with related parties*

Accounts receivable

Included in accounts receivable are amounts due from related parties which arose from the ordinary course of business and are repayable on similar credit terms to those offered to independent third party customers.

	31 December 2019 RMB'000	31 December 2018 RMB'000
Due from CNOOC Limited Group	**7,679,994**	5,669,433
Due from CNOOC Group	**71,236**	40,180
Due from joint ventures	**4,617**	3,306
Due from an associate invested by CNOOC	**11,356**	11,310
	7,767,203	5,724,229

46. RELATED PARTY TRANSACTIONS (continued)

(A) Related party transactions and outstanding balances with related parties (continued)

j. *Outstanding balances with related parties (continued)*

Prepayments, deposits and other receivables

	31 December 2019 RMB'000	31 December 2018 RMB'000
Due from CNOOC Limited Group	**33,663**	8,708
Due from CNOOC Group	**1,697**	500
Due from joint ventures	**15,790**	4,525
	51,150	13,733
Less: Provision for impairment of other receivables	**(500)**	(500)
	50,650	13,233

Dividend receivable

	31 December 2019 RMB'000	31 December 2018 RMB'000
Dividend receivable from joint ventures	**–**	29,500

Notes receivable

	31 December 2019 RMB'000	31 December 2018 RMB'000
Due from CNOOC Limited Group	**–**	204,865

Trade and other payables

	31 December 2019 RMB'000	31 December 2018 RMB'000
Due to CNOOC Limited Group	**35,127**	52,461
Due to CNOOC Group	**652,291**	643,154
Due to joint ventures	**203,692**	313,753
Due to associates invested by CNOOC	**19,065**	–
	910,175	1,009,368

Loan from a related party

	31 December 2019 RMB'000	31 December 2018 RMB'000
An unsecured loan due to CNOOC Group (note 37)	**2,443,946**	1,374,823

46. RELATED PARTY TRANSACTIONS (continued)

(A) Related party transactions and outstanding balances with related parties (continued)

j. *Outstanding balances with related parties (continued)*

Contract liabilities

	31 December 2019 RMB'000	31 December 2018 RMB'000
Due to the CNOOC Limited Group	**3,535**	52,900
Due to the CNOOC Group	**156,915**	–
	160,450	52,900

Lease liabilities

	31 December 2019 RMB'000	31 December 2018 RMB'000
Due to the CNOOC Group	**50,578**	–
Due to joint ventures	**2,770**	–
	53,348	–

The Group and the above related parties are within the CNOOC Group and CNOOC Limited Group and are under common control (except for the joint ventures of the Group) by the same ultimate holding company.

The balances with related parties at 31 December 2019 included in accounts receivable, prepayments, deposits and other receivables, trade and other payables and contract liabilities of the Group are unsecured, interest-free, and have no fixed terms of repayment. Loan from a related party is charged at LIBOR+0.5% per annum and repayable on demand. Lease liabilities have fixed terms of repayment and are measured at the present value of lease payments that are unpaid using the incremental borrowing rate at the lease commencement date.

The Company entered into several agreements with the CNOOC Group and CNOOC Limited Group which govern the employee benefit arrangements, the provision of materials, utilities and ancillary services, the provision of technical services, the leasing of properties and various other commercial arrangements.

The lease expenses relating to agreements with the CNOOC Group and CNOOC Limited Group in respect of variable lease payments determined by utilisation days and day rates as well as short-term leases are disclosed in Note 46(A)b.

The Directors are of the opinion that the above transactions with related parties were conducted in the usual course of business.

46. RELATED PARTY TRANSACTIONS (continued)

(A) Related party transactions and outstanding balances with related parties (continued)

k. Transactions with other SOEs in the PRC

The Group has entered into extensive transactions covering the sales of goods and rendering of services, receipt of construction services of vessels and drilling rigs, purchases of goods, services or property, plant and equipment in the PRC, other than the CNOOC Group and CNOOC Limited Group, in the normal course of business at terms comparable to those with other non-SOEs. None of these transactions are material related party transactions, individually or collectively, that require separate disclosure.

In addition, the Group has certain of its cash and time deposits and outstanding interest-bearing bank borrowings with certain state-owned banks in the PRC as at 31 December 2019, as summarised below:

	31 December 2019 RMB'000	31 December 2018 RMB'000
Cash and cash equivalents	**536,716**	625,590
Time deposits with financial institutions	**–**	74,611
	536,716	700,201
Long-term bank loans (note 38)	**201,049**	787,631
Current portion of long-term bank loans (note 38)	**608,906**	599,968
	809,955	1,387,599

Deposit interest rates and loan interest rates are at the market rates.

	2019 RMB'000	2018 RMB'000
Finance costs	**41,308**	60,941

(B) Compensation of key management personnel of the Group

	2019 RMB'000	2018 RMB'000
Short-term employee benefits	**8,653**	8,452
Post-employment benefits	**1,029**	709
Total compensation paid to key management personnel	**9,682**	9,161

Further details of Directors', supervisors and the chief executive's emoluments are included in note 11.

47. FINANCIAL INSTRUMENTS

(a) Financial instruments by category

The carrying amounts of each of the categories of financial instruments of the Group as at the end of the reporting period are as follows:

Financial assets

	31 December 2019			
	Amortised cost RMB'000	FVTPL RMB'000	FVTOCI RMB'000	Total RMB'000
Financial assets included in deposits and other receivables (note 26)	**137,311**	**–**	**–**	**137,311**
Financial assets at FVTPL (note 29)	**–**	**4,511,248**	**–**	**4,511,248**
Receivables measured at FVTOCI (note 30)	**–**	**–**	**40,580**	**40,580**
Accounts receivable (note 27)	**10,305,533**	**–**	**–**	**10,305,533**
Notes receivable (note 28)	**44,245**	**–**	**–**	**44,245**
Pledged deposits (note 34)	**102,202**	**–**	**–**	**102,202**
Cash and cash equivalents (note 34)	**3,363,589**	**–**	**–**	**3,363,589**
Financial assets included in other current assets (note 33)	**2,507,314**	**–**	**–**	**2,507,314**
Total	**16,460,194**	**4,511,248**	**40,580**	**21,012,022**

	31 December 2018			
	Amortised cost RMB'000	FVTPL RMB'000	FVTOCI RMB'000	Total RMB'000
Financial assets included in deposits and other receivables (note 26)	129,763	–	–	129,763
Financial assets at FVTPL (note 29)	–	1,749,723	–	1,749,723
Receivables measured at FVTOCI (note 30)	–	–	24,740	24,740
Accounts receivable (note 27)	8,015,313	–	–	8,015,313
Notes receivable (note 28)	208,164	–	–	208,164
Pledged deposits (note 34)	27,657	–	–	27,657
Time deposits with maturity of over three months (note 34)	145,136	–	–	145,136
Cash and cash equivalents (note 34)	3,169,610	–	–	3,169,610
Financial assets included in other current assets (note 33)	6,536,532	–	–	6,536,532
Total	18,232,175	1,749,723	24,740	20,006,638

47. FINANCIAL INSTRUMENTS (continued)

(a) Financial instruments by category (continued)

Financial liabilities

	31 December 2019 RMB'000	31 December 2018 RMB'000
At amortised cost:		
Current		
Financial liabilities included in trade and other payables	**9,944,156**	8,482,670
Notes payables	**3,467**	50,266
Interest-bearing bank borrowings – current portion (note 38)	**608,906**	599,968
Long term bonds (note 39)	**3,810,175**	4,469,521
Loan from a related party (note 37)	**2,443,946**	1,374,823
Subtotal	**16,810,650**	14,977,248
Non-current		
Interest-bearing bank borrowings (note 38)	**201,049**	787,631
Long term bonds (note 39)	**17,928,478**	21,069,892
Subtotal	**18,129,527**	21,857,523
Total	**34,940,177**	36,834,771

(b) Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

47. FINANCIAL INSTRUMENTS (continued)

(b) Fair value of the Group's financial assets that are measured at fair value on a recurring basis (continued)

Financial assets	Fair value as at 31/12/2019 RMB'000	Fair value as at 31/12/2018 RMB'000	Fair value hierarchy	Valuation technique(s) and key input(s)
Financial assets at FVTPL – liquidity funds	–	1,246,690	Level 1	Quoted bid prices in an active market
Receivables at FVTOCI – notes receivable	**40,580**	24,740	Level 2	Discounted cash flow at a discount rate that reflects the credit risk of the drawee of notes at the end of the reporting period
Financial assets at FVTPL – floating rate corporate wealth management products	**4,511,248**	503,033	Level 3	Discounted cash flow. Future cash flows estimated based on estimated return

Reconciliation of Level 3 fair value measurements is as follows:

	Financial assets at FVTPL RMB'000
At 31 December 2018	503,033
Purchase	4,500,000
Redemption	(500,000)
Change in fair value	8,215
At 31 December 2019	4,511,248

(c) Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis

Except as detailed in the following table, the Directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate to their fair values.

	Carrying amounts		Fair values	
	31 December 2019 RMB'000	31 December 2018 RMB'000	31 December 2019 RMB'000	31 December 2018 RMB'000
Financial liabilities				
Long term bonds (note 39)	**21,738,653**	25,539,413	**21,956,603**	25,072,753

The fair value of long term bonds issued by the Group, with fair value hierarchy of level 2, are determined by reference to the present value valuation technique under income approach and applying prime rate as adjusted to reflect the credit risk of the issuers as key inputs.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, loan from a related party, long term bonds, cash and short term deposits and investments in corporate wealth management products, liquidity funds and treasury bond related investments. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and other receivables and trade and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency risk, interest rate risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Foreign currency risk

Foreign currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. With the majority of the Group's businesses transacted in RMB and USD, the aforesaid currency is defined as the functional currency of the Company and some subsidiaries respectively. RMB is not freely convertible into foreign currencies and conversion of RMB into foreign currencies is subject to rules and regulations of foreign exchange control promulgated by the PRC government.

The Group has foreign currency sales, purchases, bank borrowings, loan from a related party, long term bonds, pledged deposits, time deposits with maturity of over three months and cash and cash equivalents denominated in foreign currency, which expose the Group to foreign currency risk. The management monitors foreign exchange exposure and will consider hedging other foreign currency exposure should the need arise.

The loans for foreign operations within the Group that form part of the Group's net investment in the foreign operations are denominated in foreign currencies, other than the functional currency of the lender.

The carrying amounts of the Group's foreign currency denominated financial assets and financial liabilities at the end of the reporting period are as follows:

	Financial assets		Financial liabilities	
	31 December 2019 RMB'000	31 December 2018 RMB'000	31 December 2019 RMB'000	31 December 2018 RMB'000
US$	**17,091,550**	16,232,815	**1,308,395**	1,624,501
Others	**565,405**	394,699	**781,059**	539,578

Management has assessed the Group's exposure to foreign currency risk (due to changes in the fair values or future cash flows of monetary assets and liabilities) by using a sensitivity analysis on the change in the foreign exchange rates of the US dollar, from which the Group's foreign currency risk has mainly arisen as at 31 December 2019 and 2018. The sensitivity analysis also includes inter-company balances where the denomination of the loan is in a currency other than the functional currency of the lender or the borrower. The following table details the Group's sensitivity to a 2% (2018: 5%) appreciation or depreciation of US dollars.

	Increase/(decrease) in profit		Increase/(decrease) in other comprehensive income	
	2019 RMB'000	2018 RMB'000	2019 RMB'000	2018 RMB'000
Appreciation of US$	**43,710**	301,306	**224,814**	297,636
Depreciation of US$	**(43,710)**	(301,306)	**(224,814)**	(297,636)

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk

The fair value interest rate risk relates primarily to the Group's fixed-rate long-term bonds (see note 39), fixed-rate bank borrowings (see note 38) and lease liabilities (see note 40). The cash flow interest rate risk of the Group relates primarily to variable-rate loan from a related party (see note 37) and variable-rate bank borrowings (see note 38 for details of these borrowings) and certain cash and cash equivalent (see note 34). The Group currently does not have an interest rate policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise. The fair value interest rate risk on time deposits is insignificant as the fixed deposits are short-term.

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. No sensitivity analysis has been presented for cash and cash equivalent as the Directors consider that the fluctuation in interest rates on cash and cash equivalent is minimal. For variable-rate bank borrowings, the analysis is prepared assuming the amount outstanding at the end of the reporting period was outstanding for the whole year. A 50 basis points (2018: 50 basis points) increase or decrease is used which represents management's assessment of the reasonably possible change in interest rates.

At the end of the reporting period, if interest rates had been increased (decreased) by 50 basis points (2018: 50 basis points) and all other variables were held constant, the Group's post-tax profit would (decrease) increase by approximately RMB14,720,000 for the year ended 31 December 2019 (2018: the Group's post-tax profit would (decrease) increase by RMB RMB11,433,000) without considering the effect of capitalisation of borrowing costs.

Credit risk and impairment assessment

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

The credit risk of the Group's other financial assets, which mainly comprise cash and cash equivalents and investments in corporate wealth management products, liquidity funds and treasury bond related investments, arises from the default of the counterparty, with a maximum exposure equal to the carrying amount of these instruments. The Group manages this credit risk by only dealing with reputable financial institutions.

According to the Group's credit risk management policy, the Group always recognises lifetime ECL for accounts receivable, lease receivable and contract assets. For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. The Group has concentration of credit risk in respect of accounts receivable as the Group's largest accounts receivable and the five largest accounts receivable represent 75% (2018: 71%) and 82% (2018: 80%) of the total accounts receivable respectively.

No other financial assets carry a significant exposure to credit risk.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk and impairment assessment (continued)

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

	Note	12-month or lifetime ECL	31 December 2019 Gross carrying amount RMB'000	31 December 2018 Gross carrying amount RMB'000
Financial assets at amortised costs				
Financial assets included in deposits and other receivables		12-month ECL – assessed individually	**50,416**	13,689
		12-month ECL – provision matrix	**100,735**	128,186
		Lifetime ECL (credit-impaired) – assessed individually	**500**	500
Accounts receivable	*a*	Lifetime ECL (not credit-impaired) – assessed individually	**9,480,886**	7,004,392
		Lifetime ECL (not credit-impaired) – provision matrix	**783,287**	771,523
		Lifetime ECL (credit-impaired) – assessed individually	**2,909,877**	2,803,368
		Lifetime ECL (credit-impaired) – provision matrix	**49,884**	–
Notes receivable at amortised costs		12-month ECL	**44,245**	208,164
Pledged deposits		12-month ECL	**102,202**	27,657
Time deposits with maturity of over three months		12-month ECL	**–**	145,136
Cash and cash equivalents		12-month ECL	**3,363,589**	3,169,610
Financial assets included in other current assets		12-month ECL	**2,507,314**	6,536,532
Financial assets at FVTOCI				
Receivables at FVTOCI		12-month ECL	**40,580**	24,740
Other items				
Contract assets		Lifetime ECL (credit-impaired) – assessed individually	**262,594**	–

Note:

a. For accounts receivable, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. Except for debtors with significant outstanding balances or insignificant balances with specific risks, the Group determines the expected credit losses on these items by using a provision matrix.

The Group has measured ECL at the individual instrument level for most of its relevant financial assets. Besides, there are insignificant balances where ECL is measured on a collective basis.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk and impairment assessment (continued)

The following table shows the movement in lifetime ECL that has been recognised for accounts receivable under the simplified approach.

	Lifetime ECL (not credit-impaired) RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
As at 1 January 2018	57,698	1,979,006	2,036,704
Changes due to financial instruments recognised as at 1 January 2018:			
– Transfer to credit-impaired	(1,197)	1,197	–
– Impairment losses recognised	34,945	458,400	493,345
– Impairment losses reversed	(30,838)	(29,165)	(60,003)
– Write-offs	–	(87)	(87)
Exchange adjustments	153	93,858	94,011
As at 31 December 2018	60,761	2,503,209	2,563,970
Changes due to financial instruments recognised as at 1 January 2019:			
– Transfer to credit-impaired	(48,530)	48,530	–
– Impairment losses recognised	6,899	333,462	340,361
– Impairment losses reversed	(9,164)	(16,601)	(25,765)
Exchange adjustments	48	39,787	39,835
As at 31 December 2019	10,014	2,908,387	2,918,401

Changes in the loss allowance for accounts receivable are mainly due to the default of certain debtors.

The following tables show reconciliation of loss allowances that has been recognised for other receivables:

	12m ECL RMB'000	Lifetime ECL (credit-impaired) RMB'000	Total RMB'000
As at 1 January 2018	30,090	500	30,590
Changes due to financial instruments recognised as at 1 January 2018:			
– Impairment losses recognised	8,570	–	8,570
– Impairment losses reversed	(26,548)	–	(26,548)
As at 31 December 2018	12,112	500	12,612
Changes due to financial instruments recognised as at 1 January 2019:			
– Impairment losses recognised	10,173	–	10,173
– Impairment losses reversed	(8,445)	–	(8,445)
As at 31 December 2019	13,840	500	14,340

Change in the loss allowance for other receivables are mainly due to the settlement of other receivables.

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings, loan from a related party and long term bonds and ensures compliance with loan covenants.

The Group's objective is to maintain a balance between continuity of funding and flexibility through long term bonds and interest-bearing loans. 27% of the Group's borrowings would mature in less than one year as at 31 December 2019 (2018: 23%) based on the carrying value of interest-bearing bank borrowings, loan from a related party and long-term bonds reflected in the financial statements.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities and lease liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	31 December 2019						
	Weighted average interest rate %	On demand or less than 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
Interest-bearing bank borrowings	1.82%-4.90%	633,299	21,165	62,904	230,019	947,387	809,955
Loan from a related party	1.27%-1.99%	2,443,946	–	–	–	2,443,946	2,443,946
Long term bonds	3.13%-4.58%	4,603,429	3,670,497	9,498,370	6,838,031	24,610,327	21,738,653
Lease liabilities	2.79%~4.39%	624,671	226,117	266,528	133,328	1,250,644	1,145,346
Financial liabilities included in trade and other payables	N/A	9,944,156	–	–	–	9,944,156	9,944,156
Notes Payables	N/A	3,467	–	–	–	3,467	3,467
Contract performance guarantee	N/A	99,968	–	–	–	99,968	–
		18,352,936	3,917,779	9,827,802	7,201,378	39,299,895	36,085,523

	31 December 2018						
	Weighted average interest rate %	On demand or less than 1 year RMB'000	1 to 2 years RMB'000	2 to 5 years RMB'000	Over 5 years RMB'000	Total RMB'000	Carrying amount RMB'000
Interest-bearing bank borrowings	1.82%-4.90%	656,444	626,483	63,494	250,774	1,597,195	1,387,599
Loan from a related party	1.27%-1.99%	1,374,823	–	–	–	1,374,823	1,374,823
Long term bonds	3.13%-4.58%	5,383,109	4,216,532	12,773,124	7,109,444	29,482,209	25,539,413
Financial liabilities included in trade and other payables	N/A	8,482,670	–	–	–	8,482,670	8,482,670
Notes Payables	N/A	50,266	–	–	–	50,266	50,266
		15,947,312	4,843,015	12,836,618	7,360,218	40,987,163	36,834,771

48. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 2018.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes interest-bearing bank borrowings, loan from a related party, long term bonds, lease liabilities, trade and other payables, notes payable, salary and bonus payables less cash and cash equivalents (not including pledged deposits). Capital represents equity attributable to owners of the Company and non-controlling interests. The gearing ratios as at the end of the reporting periods were as follows:

	31 December 2019 RMB'000	31 December 2018 RMB'000
Interest-bearing bank borrowings (note 38)	**809,955**	1,387,599
Trade and other payables	**9,944,156**	8,482,670
Notes payable	**3,467**	50,266
Salary and bonus payables	**979,229**	909,174
Loan from a related party (note 37)	**2,443,946**	1,374,823
Long term bonds (note 39)	**21,738,653**	25,539,413
Lease liabilities (note 40)	**1,145,346**	–
Less: Cash and cash equivalents and time deposit with maturity of over three months (note 34)	**(3,363,589)**	(3,314,746)
Net debt	**33,701,163**	34,429,199
Equity attributable to owners of the Company	**36,734,191**	34,529,876
Non-controlling interests	**176,086**	147,530
Total capital	**36,910,277**	34,677,406
Capital and net debt	**70,611,440**	69,106,605
Gearing ratio	**48%**	50%

49. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	31 December 2019 RMB'000	31 December 2018 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**26,374,833**	26,798,411
Right-of-use assets	**805,588**	–
Other intangible assets	**58,065**	162,907
Investments in subsidiaries	**7,843,474**	7,773,474
Investments in joint ventures	**880,583**	679,162
Other long term receivables	**6,893,547**	6,137,644
Other non-current assets	**170,444**	50,284
Deferred tax assets	**30,509**	–
Total non-current assets	**43,057,043**	41,601,882
CURRENT ASSETS		
Inventories	**628,088**	611,307
Prepayments, deposits and other receivables	**930,782**	1,170,878
Accounts receivable	**10,067,949**	7,883,374
Notes receivable	**44,245**	208,165
Receivables at fair value through other comprehensive income	**39,180**	24,661
Financial assets at fair value through profit or loss	**4,511,248**	1,749,723
Contract assets	**140,430**	–
Contract costs	**–**	50,727
Other current assets	**2,518,579**	6,551,300
Pledged deposits	**5,584**	3,845
Time deposits with original maturity over three months	**–**	70,198
Cash and cash equivalents	**1,941,152**	1,993,479
Total current assets	**20,827,237**	20,317,657
CURRENT LIABILITIES		
Trade and other payables	**9,648,313**	8,206,562
Notes payable	**3,467**	50,266
Salary and bonus payables	**832,073**	783,481
Tax payable	**584,520**	335,646
Interest-bearing bank borrowings	**608,906**	599,968
Long term bonds	**134,402**	4,282,356
Lease liabilities	**612,768**	–
Contract liabilities	**203,958**	128,066
Other current liability	**232,771**	177,312
Total current liabilities	**12,861,178**	14,563,657
NET CURRENT ASSETS	**7,966,059**	5,754,000
TOTAL ASSETS LESS CURRENT LIABILITIES	**51,023,102**	47,355,882
NON-CURRENT LIABILITIES		
Deferred tax liabilities	**–**	220,039
Interest-bearing bank borrowings	**201,049**	787,630
Long term bonds	**7,497,770**	7,394,667
Lease liabilities	**286,639**	–
Deferred income	**314,962**	355,471
Total non-current liabilities	**8,300,420**	8,757,807
Net assets	**42,722,682**	38,598,075
EQUITY		
Issued capital	**4,771,592**	4,771,592
Reserves	**37,951,090**	33,826,483
Total equity	**42,722,682**	38,598,075

49. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

Note: The Company has applied HKFRS 16 since 1 January 2019 in accordance with transitional provision stated in Note 2.1. Lease liabilities amounted to RMB1,696,434,000 were recognised on initial application of HKFRS 16, of which RMB1,383,928,000 recognised as right-of-use assets for own use, and the net difference of RMB2,645,000 together with other adjustments of RMB315,151,000 were adjusted to opening retained profits.

Movements in the Company's reserves

	Capital reserve RMB'000	Statutory reserve funds RMB'000 (note (i))	Special reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000
At 1 January 2018	12,371,737	2,508,656	–	14,645	17,267,191	286,296	32,448,525
Profit for the year	–	–	–	–	1,577,474	–	1,577,474
Other comprehensive income for the year	–	–	–	86,872	–	–	86,872
Total comprehensive income for the year	–	–	–	86,872	1,577,474	–	1,664,346
Business Combination under common control	(39,154)	–	–	–	–	–	(39,154)
Deemed contribution by owners	39,062	–	–	–	–	–	39,062
Appropriation of safety fund	–	–	32,013	–	–	–	32,013
Utilisation of safety fund	–	–	(32,013)	–	–	–	(32,013)
Final 2017 dividend paid	–	–	–	–	–	(286,296)	(286,296)
Proposed final 2018 dividend	–	–	–	–	(334,011)	334,011	–
At 31 December 2018 (note (ii))	12,371,645	2,508,656	–	101,517	18,510,654	334,011	33,826,483
Adjustments	–	–	–	–	2,645	–	2,645
At 1 January 2019 (restated)	12,371,645	2,508,656	–	101,517	18,513,299	334,011	33,829,128
Profit for the year	–	–	–	–	4,414,147	–	4,414,147
Other comprehensive income for the year	–	–	–	41,826	–	–	41,826
Total comprehensive income for the year	–	–	–	41,826	4,414,147	–	4,455,973
Appropriation of safety fund	–	–	29,412	–	–	–	29,412
Utilisation of safety fund	–	–	(29,412)	–	–	–	(29,412)
Final 2018 dividend paid	–	–	–	–	–	(334,011)	(334,011)
Proposed final 2019 dividend	–	–	–	–	(763,455)	763,455	–
At 31 December 2019 (note (ii))	12,371,645	2,508,656	–	143,343	22,163,991	763,455	37,951,090

49. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

Movements in the Company's reserves (continued)

Notes:

(i) As detailed in note 16, the Company is required to transfer a minimum percentage of after-tax profit, if any, to the statutory common reserve fund, until the fund aggregates 50% of the Company's registered capital. As the aggregate amount of the statutory reserve funds as at 31 December 2019 and 2018 were in excess of 50% of the Company's registered capital, the Directors are of the view that no further provision of these funds is required for both years.

(ii) As at 31 December 2019, in accordance with the PRC Company Law, an amount of approximately RMB12,371,645,000 (2018: RMB12,371,645,000) standing to the credit of the Company's capital reserve account and an amount of approximately RMB2,508,656,000 (2018: RMB2,508,656,000) standing to the credit of the Company's statutory reserve funds, as determined under the PRC accounting principles and financial regulations in the PRC, were available for distribution by way of a future capitalisation issue. In addition, the Company had retained profits of approximately RMB22,927,446,000 (2018: RMB18,844,665,000) available for distribution as dividends. Save as the aforesaid, the Company did not have any reserves available for distribution to its shareholders at 31 December 2019.

The retained profits of the Company determined under the relevant PRC accounting principles and financial regulations in the PRC amounted to approximately RMB22,927,446,000 as at 31 December 2019 (2018: RMB18,844,665,000).

50. EVENTS AFTER THE DATE OF STATEMENT OF FINANCIAL POSITION

In December 2016 and January 2017, COSL Offshore Management AS ("COM", a subsidiary of the Company) as a plaintiff filed two respective claims against Statoil Petroleum AS (hereinafter "Statoil") with Oslo District Court in Norway, claiming that Statoil's termination of drilling rig contracts for COSLInnovator and COSLPromoter was unlawful and the contracts 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 Energy AS (Statoil's new company name, hereinafter "Equinor") with an award of damages in COM's favor on the COSLInnovator related claim. On 14 June 2018, Equinor appealed and COM filed an independent appeal on the same day. There was no court proceeding over the appeals of COSLInnovator and COSLPromoter in 2019 since the last court award. Therefore, as of 31 December 2019, the Directors have not recognised receivable regarding the award of damages delivered by the court on 15 May 2018.

On 7 January 2020, COM and Equinor reached an out of court settlement after negotiations and signed a formal settlement agreement regarding the legal suit on the drilling rigs COSLInnovator and COSLPromoter. Equinor has paid a settlement sum of US$188 million to COM by the date of this report. The settlement sum is recognised in statement of profit or loss after the reporting period upon receipt. In the meanwhile, in view of the expected day rates and future operating cash flows after the said settlement, COSLInnovator is considered to have impairment indication. The Directors are carrying out impairment assessment for COSLInnovator based on projected future cash flows and discount rate.

51. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 25 March 2020.

Company Information

Legal Name

中海油田服务股份有限公司

English Name

China Oilfield Services Limited

Short Name

中海油服/COSL

Authorised Representative

Mr. Qi Meisheng

The Registration Address

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The Registration Date

26 September 2002

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Newspapers for Disclosure of Information

Shanghai Securities News
Securities Times
Website designated by CSRC on which the Company's annual report is posted:
www.sse.com.cn

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Share Registrar

H Share:
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A Share:
China Securities Depository and Clearing Corporation Limited
Shanghai Branch
China Insurance Building,
166 East Lujiazui Road, Shanghai

Place Where this Annual Report is Available

201 Haiyou Avenue,
Yanjiao Economic & Technological Development Zone, Sanhe City,
Hebei Province

Place of Listing of Shares, Stock Name and Stock Code

Place of Listing of H Share
The Stock Exchange of Hong Kong Limited
H Share abbreviation:
CHINA OILFIELD
Stock Code of H Share: 2883

Place of Listing of A Share
Shanghai Stock Exchange Stock
Name of A Share: COSL
Stock Code of A Share: 601808

Unified Social Credit Code

9112011671092921XD

Name and Office Address of the Company's Auditor

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International: Deloitte Touche Tohmatsu
Address: 35/F One Pacific Place,
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Hong Kong

Documents for Inspection

1. Financial statements signed and sealed by legal representative, the person in charge of accounting work and the person in-charge of accounting department.

2. Original copy of auditors' report (PRC) with seals of audit firm and signed by certified public accountants.

3. Original copy of auditors' report (Hong Kong) signed by certified public accountants.

4. Original copy of all documents of the Company and Announcements disclosed on the newspaper designated by CSRC during the reporting period.

5. 2019 Annual Report published in the Hong Kong Stock Exchange.

China Oilfield Services Limited
Qi Meisheng
Chairman
25 March 2020

Glossary

COSL, the Company or the Group	China Oilfield Services Limited
CNOOC	China National Offshore Oil Corporation
CNOOC Limited	CNOOC Limited
2D	Seismic data collected in two dimensional form, by utilizing a single sound source and one or more collection points; typically 2D is used to map geographical structures for initial analysis
3D	Seismic data collected in three-dimensional form, by utilizing two sound sources and two or more collection points; typically 3D is used to acquire refined seismic data and to raise the probability of successful exploration well drilling
COSL Holding AS	Formerly COSL Drilling Europe AS or CDE, the subsidiary of the Company in Norway
ELIS	Enhanced Logging Imaging System
OSHA	Occupational Safety and Health Administration
QHSE	Quality, health, safety and environment
HTHP	High temperature and high pressure
WTI	West Texas Intermediate crude oil
IPM	Integrated Project Management
LWD	Logging-while-drilling, generally means the measuring of physical parameters of rock formation during the process of drilling, and transmitting the real time measured results by data telemetry system to the ground surface for processing
Cementing	The technique of filling of cement slurries into the ring-shaped space formed between the inner well hole casing and the well wall to cement them together
Well completion	Services and installation of equipment that are necessary to prepare a well for production, including casing and well treatment, such as acidizing and fracking
Well workover	Any work on a completed well designed to maintain, restore or improve production from a currently producing petroleum reservoir, this may include replacement of casing and well treatment, such as sand control, fracking and acidizing
Available day utilization rate	Operating days/(calendar days-days of repairs and maintenance)
Calendar day utilization rate	Operating days/calendar days

Integrated marine surveying vessels	Vessels providing marine surveying, marine geological coring, CPT in-situ testing, marine environment observation/sampling and marine supporting services
Geophysical vessels	Vessels carrying out marine seismic survey. Equipped with seismic survey equipment, streamers towed behind vessel, collecting seismic data by generating and receiving seismic waves during continuous sailing
RSS	Rotary Steerable System
Seismic data	Data recorded in either two dimensional (2D) or three dimensional (3D) form from sound wave reflections off of subsurface geology. This data is used to understand and map geological structures for exploratory purposes to predict the location of undiscovered reserves
Streamers	Clear flexible tubing containing numerous hydrophones used for marine seismic surveys; streamers are towed behind seismic vessels at controlled shallow water depths to collect seismic data
Jack-up rigs	Jack-up rigs are so named because they are self-elevating with three or four movable legs that can be extended ("jacked") above or below the drilling deck. During towing, the legs of a jack-up rig are elevated. When the rig reaches the drill site, the crew jacks the legs downward through the water and into the sea floor (or onto the sea floor with mat supported jack-ups). This anchors the rig and holds the drilling deck well above the waves
Semi-submersibles	Semi-submersibles do not rest on the sea floor as jackup rigs. Instead, the working deck sits atop giant pontoons and hollow columns. These afloat above the water when the rig moves. At the drill site, the crew pumps seawater into the pontoons and columns to partially submerge the rig, hence the name semisubmersible. With much of its bulk below the water's surface, the semi-submersible becomes a stable platform for drilling, moving only slightly with wind and currents. Like jack-ups, most semi-submersibles are towed to the drill site. Because of their exceptional stability, "semis" are well suited for drilling in rough waters. Semisubmersibles can drill in water as deep as 10,000 feet Drillships are specially built seagoing vessels that also drill in water as deep as 10,000 feet
Module rigs	Complete rig installation fixed on offshore jacket which is immovable as a whole
bbl	A barrel, which is equivalent to approximately 158.988 liters or 0.134 tons of oil (at a API gravity of 33 degrees)
foot	Measuring unit of length, which is equivalent to approximately 0.305 meter
Standard coal	The uniform standard of thermal value, China required the thermal value of 1 kg standard coal to be 7,000 kilocalorie
Recordable incidents	Injury incident caused by work or impact of the work environment leading to death or occupational diseases or loss of consciousness, restricted working ability or mobility, or job transfer or injury incident which requires more than a simple medical treatment

CHINA OILFIELD SERVICES LIMITED

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